

*A copy of this amended and restated preliminary prospectus has been filed with the securities regulatory authority in each of the provinces and territories of Canada but has not yet become final for the purpose of the sale of securities. Information contained in this amended and restated preliminary prospectus may not be complete and may have to be amended. The securities may not be sold until a receipt for the prospectus is obtained from the securities regulatory authorities.*

*This prospectus has been filed under the procedures of each of the provinces and territories of Canada that permit certain information about these securities to be determined after the prospectus has become final and that permit the omission of that information from this prospectus. The procedures require the delivery to purchasers of a supplemented PREP prospectus containing the omitted information within a specified period of time after agreeing to purchase any of these securities. All of the information contained in the supplemented PREP prospectus that is not contained in this base PREP prospectus will be incorporated by reference into this base PREP prospectus as of the date of the supplemented PREP prospectus.*

*No securities regulatory authority has expressed an opinion about these securities and it is an offence to claim otherwise. This prospectus constitutes a public offering of these securities only in those jurisdictions where they may be lawfully offered for sale and therein only by persons permitted to sell such securities. These securities have not been, and will not be, registered under the United States Securities Act of 1933, as amended (the "U.S. Securities Act"), or the securities laws of any state of the United States and may not be offered, sold or delivered, directly or indirectly, in the United States (as such term is defined in Regulation S under the U.S. Securities Act) (the "United States" or "U.S."), except pursuant to an exemption from the registration requirements of the U.S. Securities Act and applicable state securities laws. This prospectus does not constitute an offer to sell or a solicitation of an offer to buy any of these securities in the United States. See "Plan of Distribution".*

**AMENDED AND RESTATED PRELIMINARY BASE PREP PROSPECTUS  
(amending and restating the preliminary base PREP prospectus dated September 27, 2017)**

Initial Public Offering

October 20, 2017



The Steel Company of Canada  
**STELCO HOLDINGS INC.**  
**\$200,000,000**  
**( ● Common Shares)**

This prospectus qualifies the distribution to the public (the "Offering") of an aggregate of ● common shares (the "Common Shares") of Stelco Holdings Inc. (the "Issuer"), at a price of \$ ● per Common Share (the "Offering Price"). It is anticipated that the Offering Price will be between \$16.00 and \$18.00 per Common Share. Based on the estimated price range, between 11,111,112 and 12,500,000 Common Shares will be offered pursuant to the Offering.

Prior to closing of the Offering ("Closing"), the Issuer will acquire all of the issued and outstanding shares of Stelco Inc. Stelco Inc. and its subsidiaries are collectively one of Canada's leading steel producers. Stelco Inc. conducts its operations primarily from its two main operating facilities: Lake Erie Works ("LEW") and Hamilton Works ("HW").

All references in this prospectus to the "Issuer" are to Stelco Holdings Inc. All references to the "Company", "Stelco", "we", "us" or "our" (a) prior to Closing refer to Stelco Inc. and its subsidiaries taken together as a whole, unless otherwise noted or the context otherwise requires, and (b) following Closing and the related pre-closing steps described under "Pre-Closing Transactions" refer to the Issuer, Stelco Inc. and their subsidiaries taken together as a whole, unless otherwise noted or the context otherwise requires.

**Price: \$ ● per Common Share**

	<b>Price to the Public</b>	<b>Underwriters' Fee</b>	<b>Net Proceeds to the Issuer<sup>(1)(2)</sup></b>
Per Common Share . . . . .	\$●	\$●	\$●
Total Offering <sup>(3)</sup> . . . . .	\$●	\$●	\$●

**Notes:**

- (1) Before deducting the expenses of the Offering, estimated to be \$ ● million, which, together with the Underwriters' (as defined herein) fee, will be paid from the proceeds of the Offering.
- (2) The Issuer has granted the Underwriters an option (the "Over-Allotment Option"), exercisable in whole or in part at any time for a period of 30 days after Closing, to purchase up to an additional 15% of the aggregate number of Common Shares issued under the Offering on the same terms as set forth above solely to cover over-allocations, if any, and for market stabilization purposes. If the Over-Allotment Option is exercised in full, the total "Price to the Public", "Underwriters' Fee" and "Net Proceeds to the Issuer" will be \$ ●, \$ ● and \$ ●, respectively. This prospectus also qualifies the grant of the Over-Allotment Option and distribution of the Common Shares issuable upon the exercise of the Over-Allotment Option. A purchaser who acquires Common Shares forming part of the Underwriters' over-allocation position acquires such Common Shares under this prospectus, regardless of whether the Underwriters' over-allocation position is ultimately filled through the exercise of the Over-Allotment Option or secondary market purchases. See "Plan of Distribution".
- (3) Assumes no exercise of the Over-Allotment Option.

*(continued on next page)*

STELCO



(continued from cover)

The following table sets out the number of Common Shares that may be sold by the Issuer to the Underwriters pursuant to the Over-Allotment Option:

<u>Underwriters' Position</u>	<u>Maximum Size or Number of Securities Available</u>	<u>Exercise Period</u>	<u>Exercise Price</u>
Over-Allotment Option	Up to an additional 15% of the aggregate number of Common Shares issued under the Offering	For a period of 30 days after Closing	\$● per Common Share

Goldman Sachs Canada Inc. (“**Goldman Sachs**”), BMO Nesbitt Burns Inc. (“**BMO Capital Markets**”), Credit Suisse Securities (Canada), Inc., J.P. Morgan Securities Canada Inc. (“**J.P. Morgan**”), Scotia Capital Inc., TD Securities Inc., National Bank Financial Inc., and Oppenheimer & Co. Inc. (collectively, the “**Underwriters**”), as principals, conditionally offer the Common Shares qualified under this prospectus, subject to prior sale, if, as and when issued by us and accepted by the Underwriters in accordance with the conditions contained in the underwriting agreement between us and the Underwriters referred to under “*Plan of Distribution*” and subject to the approval of certain legal matters on behalf of us by McCarthy Tétrault LLP and on behalf of the Underwriters by Torys LLP.

Oppenheimer & Co. Inc. is not registered to sell securities in any Canadian jurisdiction and, accordingly, will only sell Common Shares outside of Canada.

In connection with this distribution, the Underwriters have been granted the Over-Allotment Option and may, subject to applicable law, over-allocate or effect transactions that stabilize or maintain the market price of the Common Shares at levels other than those that otherwise might prevail on the open market. **The Underwriters may offer the Common Shares at a price lower than that stated above. See “Plan of Distribution”.**

Subscriptions will be received subject to rejection or allocation in whole or in part and the Underwriters reserve the right to close the subscription books at any time without notice. Closing is expected to occur on or about ●, 2017 or such other date as we and the Underwriters may agree, but in any event no later than ●, 2017 (the “**Closing Date**”). The Common Shares offered under this prospectus will be deposited with CDS Clearing and Depository Services Inc. (“**CDS**”) in electronic form on the Closing Date. A purchaser of Common Shares pursuant to the Offering will not receive a share certificate on Closing. See “*Plan of Distribution*”.

We have applied for listing of the Common Shares on the *Toronto Stock Exchange* (“**TSX**”) under the symbol “STLC”. Listing is subject to approval by the TSX of our listing application and the fulfillment by us of all of the initial listing requirements and conditions of the TSX. The TSX has not approved the listing of the Common Shares on the TSX and there is no assurance that the TSX will do so. See “*Plan of Distribution*”.

**There is currently no market through which the Common Shares may be sold and purchasers may not be able to resell the Common Shares purchased under this prospectus. This may affect the pricing of the Common Shares in the secondary market, the transparency and availability of trading prices, the liquidity of the Common Shares, and the extent of issuer regulation. An investment in the Common Shares is subject to a number of risks that should be considered by a prospective purchaser. Investors should carefully consider the risk factors described under “Risk Factors” before purchasing the Common Shares.** Closing of the Offering is conditional on the Common Shares being approved for listing on the TSX. See “*Plan of Distribution*”.

**BMO Capital Markets and J.P. Morgan are affiliates of banks that are part of a syndicate of lenders that has made the ABL Credit Facility (as defined herein) available to Stelco Inc. Consequently, we may be considered a “connected issuer” of each of BMO Capital Markets and J.P. Morgan under applicable Canadian securities laws. See “Plan of Distribution”.**

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## ABOUT THIS PROSPECTUS

An investor should rely only on the information contained in this prospectus and is not entitled to rely on parts of the information contained in this prospectus to the exclusion of others. Neither the Issuer, Stelco Inc. nor the Underwriters has authorized anyone to provide investors with additional or different information. Neither the Issuer nor the Underwriters are offering to sell the Common Shares in any jurisdiction where the offer or sale of such securities is not permitted. The information contained in this prospectus is accurate only as of the date of this prospectus or the date indicated, regardless of the time of delivery of this prospectus or of any sale of the Common Shares.

For investors outside Canada, neither the Issuer nor the Underwriters have done anything that would permit the Offering or possession or distribution of this prospectus in any jurisdiction where action for that purpose is required, other than in Canada. Investors are required to inform themselves about, and to observe any restrictions relating to, the Offering and the possession or distribution of this prospectus.

This prospectus includes a summary description of certain material agreements of the Issuer and Stelco Inc. See “*Material Contracts*”. The summary description discloses all attributes material to an investor in the Common Shares but is not complete and is qualified by reference to the terms of the material agreements, which will be filed with the Canadian securities regulatory authorities and available on SEDAR. Investors are encouraged to read the full text of such material agreements.

Any graphs and tables demonstrating the historical performance of any entity contained in this prospectus are intended only to illustrate past performance of such entities and are not necessarily indicative of future performance of such entities or the Company.

## MEANING OF CERTAIN REFERENCES

Unless otherwise noted or the context otherwise requires, all information contained in this prospectus assumes that: (i) the Over-Allotment Option has not been exercised; (ii) the transactions described under “*Pre-Closing Transactions*” have been completed; and (iii) an Offering Price of \$17.00 per Common Share, the midpoint of the estimated price range set forth on the cover page of this prospectus.

Words importing the singular number include the plural, and *vice versa*, and words importing any gender include all genders.

Certain capitalized terms and phrases used in this prospectus are defined in the “Glossary”.

## CURRENCY PRESENTATION AND EXCHANGE RATE INFORMATION

We present our financial statements in Canadian dollars and disclose certain financial information in this prospectus in Canadian dollars and United States dollars. In this prospectus, references to “\$” are to Canadian dollars and references to “US\$” or “U.S. dollars” are to United States dollars. Amounts are stated in Canadian dollars unless otherwise indicated. Certain totals, subtotals and percentages throughout this prospectus may not reconcile due to rounding.

The following table sets forth, for each period indicated, the low and high exchange rates for United States dollars expressed in Canadian dollars, the exchange rate at the end of such period and the average of such exchange rates for each day during such period, based on the daily average exchange rate as reported by the Bank of Canada for the conversion of United States dollars into Canadian dollars:

	Year Ended December 31,			Six-Months Ended June 30,	
	2016 (\$)	2015 (\$)	2014 (\$)	2017 (\$)	2016 (\$)
Low .....	1.2544	1.1728	1.0614	1.2977	1.2544
High .....	1.4589	1.3990	1.1643	1.3743	1.4589
Period End .....	1.3427	1.3840	1.1601	1.2977	1.3009
Average .....	1.3428	1.2787	1.1045	1.3343	1.3302

On October 19, 2017, the exchange rate for United States dollars expressed in Canadian dollars (as reported by the Bank of Canada) was US\$1.00 = C\$1.2478.

## NON-IFRS MEASURES

This prospectus makes reference to certain non-IFRS measures. These measures are not recognized measures under International Financial Reporting Standards (“IFRS”) and do not have a standardized meaning prescribed by IFRS and are therefore unlikely to be comparable to similar measures presented by other companies. Rather, these measures are provided as additional information to complement 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. We use non-IFRS measures including “Adjusted EBITDA”, “Adjusted EBITDA per net ton”, “EBITDA”, “Selling Price per net ton” and “Shipping Volume”. These non-IFRS measures are used to provide investors with 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 measures. We also believe that securities analysts, investors and other interested parties frequently use non-IFRS measures in the evaluation of issuers. Our management also uses non-IFRS measures in order to facilitate operating performance comparisons from period to period, to prepare annual operating budgets and forecasts and to determine components of management compensation.

“Adjusted EBITDA” is defined as EBITDA adjusted for the impact of certain non-routine, non-recurring, and/or non-cash items. In this prospectus for the periods indicated, the Company adjusted for the following non-routine, non-recurring, and/or non-cash items: (i) gains related to emergence from CCAA (as defined herein), (ii) acquisition related-costs, (iii) provision on pension and other post-employment benefits, (iv) restructuring costs, (v) separation costs related to USS (as defined herein) support services, and (vi) asset impairment. 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 and amortization, 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 provide a more complete understanding of factors and trends impacting our business, 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.

“**Adjusted EBITDA per net ton**” is defined as Adjusted EBITDA divided by Shipping Volume. Management believes it is a key measure of performance during the period. Generally, Adjusted EBITDA per net ton is used by management, investors, and analysts to measure profitability on a per unit basis, while excluding the impacts of finance costs, finance income, income tax expense, depreciation and amortization, as well as the impacts of certain non-routine, non-recurring, and/or non-cash items. Adjusted EBITDA per net ton 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.

“**EBITDA**” is defined as profit or loss for the period before finance costs, finance income, income tax expense, depreciation and amortization. EBITDA is used by management, investors, and analysts to measure operating performance and is a supplement to our consolidated financial statements presented in accordance with IFRS. 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 and amortization, which are non-cash expenses. Management considers it to be a meaningful indicator for assessing the underlying financial performance of the Company.

“**Selling Price per net ton**” is defined as revenue divided by net tons shipped in the period. Selling Price per net ton is used by management, investors, and analysts to measure sales price on a per unit basis. Selling Price per net ton is helpful in isolating a key driver in the generation of revenue, selling price, and helps facilitate comparison of sales performance relative to peers. Selling Price per net ton is also helpful in comparing performance from period to period and understanding factors and trends impacting our business.

“**Shipping Volume**” represents the total volume of steel product shipped in the period measured in net tons. Steel product shipments include hot-rolled, cold-rolled and coated coils as well as other steel products. Other steel product shipments include slab shipments and 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.

See “*Selected Summary Financial Information*” and “*Management’s Discussion and Analysis of Financial Condition and Results of Operations of Stelco Inc. — Selected Annual and Quarterly Financial Information*” for a reconciliation of certain of the foregoing non-IFRS measures to their most directly comparable measures calculated in accordance with IFRS.

## **FORWARD-LOOKING INFORMATION**

This prospectus contains “forward-looking information” within the meaning of applicable securities laws. 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 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.

Discussions containing forward-looking information may be found, among other places, under “*Prospectus Summary*”, “*Our Business*”, “*Our Competitive Strengths*”, “*Management’s Discussion and Analysis of Financial*

*Condition and Results of Operations of Stelco Holdings Inc.*”, “*Management’s Discussion and Analysis of Financial Condition and Results of Operations of Stelco Inc.*” “*Principal Shareholder*”, “*Remuneration of Directors*”, “*Use of Proceeds*”, “*Selected Summary Financial Information*”, “*Dividend Policy*”, “*Directors and Management of our Company*”, “*Executive Compensation*” and “*Risk Factors*”.

This forward-looking information includes, among other things, statements relating to

- the Offering Price and the completion, size, expenses and timing of the Closing of the Offering;
- the Net Proceeds of the Offering (as defined herein) and the Company’s anticipated use of such proceeds;
- the Company’s anticipated margins per nt and ability to maximize profitability;
- the acceptance by the Company’s customers and the marketplace of new technologies and new products;
- the Company’s ability to attract new customers and further develop and maintain existing customers;
- expectations on the growth of our annual shipments by the end of 2022;
- expectations regarding steel prices;
- expectations regarding upgrades to existing facilities and their effect on revenue and costs;
- the Company’s ability to access a wider range of steel markets;
- 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 future director and executive officer compensation levels and plans;
- expectations regarding the sufficiency of cash to meet future operating expenses, capital expenditures and future debt service costs;
- expectations regarding the composition and responsibilities of the Board of Directors;
- expectations regarding the market price of the Common Shares;
- the Company’s ability to maintain the leased land on which its facilities are located;
- the cost challenges presented by unforeseen circumstances, security breaches, the breakdown of business relationships, legal proceedings, environmental compliance, insurance claims, pension requirements, ability to retain key customers, and potential permanent idling of facilities;
- the Company’s ability to attract and retain key employees; and
- expectations regarding increased expenses as a result of being a public company.

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. Certain assumptions in respect of the utilization of and access to our excess capacity; capital expenditures associated with accessing such excess capacity; upgrades to our facilities and equipment; our research and development activities associated with advanced steel grades; our ability to source raw materials and other inputs; our ability to supply to new customers and markets; our ability to effectively manage costs; our ability to attract and retain key personnel and skilled labour; our ability to obtain and maintain existing financing on acceptable terms; currency exchange and interest rates; the impact of competition; changes in laws, rule, and regulations, including international trade regulations; and growth in steel markets and industry trends are material factors made in preparing the forward-looking information and management’s expectations contained in this prospectus.

If various risks or uncertainties materialize, or if the opinions, estimates or assumptions underlying the forward-looking information prove incorrect, actual results or future events might vary materially from those

anticipated in the forward-looking information. The opinions, estimates or assumptions referred to above and described in greater detail in “*Risk Factors*” should be considered carefully by readers.

In addition, we believe that our performance and our ability to achieve our growth in annual shipments by the end of fiscal year 2022 disclosed elsewhere in this prospectus depend on a number of material factors including (i) sustained global demand growth; (ii) continued steel production capacity curtailments in China; and (iii) 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 include the following:

- our ability to utilize and access our excess capacity with limited capital investment including:
  - utilizing LEW’s hot strip mill’s 0.9 mnt excess capacity through purchases of external slab and/or toll-rolling for third parties; and
  - utilizing the excess capacity at HW of 0.8 mnt of cold mill capacity, 0.1 mnt of No. 3 CGL capacity and 0.2 mnt of Z-line capacity through, among other things, improved utilization at LEW;
- the execution of our planned upgrades to our facilities and equipment including:
  - our ability to enhance our capabilities to produce advanced steels through further capital investments in the amount of \$40 to \$50 million;
  - our ability to restart HW’s temper mill and the installation of annealing furnaces at an estimated cost of \$20 to \$25 million to allow us to produce up to 0.2 mnt of cold-rolled fully processed steel;
  - upgrading our LEW dock facility for less than \$10 million within 4-6 months; and
  - upgrading our hot strip mill and Z-line to allow us to process advanced steel products;
- 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);
- steel consumption in North American automobiles will grow to 6.7 mnt by 2025 at the expected rate as estimated by World Steel Dynamics (as defined herein);
- the anticipated growth in the North American market for steel products will grow in-line with expected gross domestic product growth of 2%-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. See “*Our Business — Our Business Strategies*”. 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 prospectus 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 described elsewhere in this prospectus.

The description of our potential growth opportunities 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 prospectus. See above for a description of the assumptions underlying expected growth in annual shipments, and see the section “*Risk Factors*” for a description of the risks and uncertainties that impact our business and that could cause actual results to vary.

Although we have attempted to identify important risk factors that could cause actual results to differ materially from those contained in forward-looking information, there may be other risk factors not presently known to us or that we presently believe are not material that could also cause actual results or future events to differ materially from those expressed in such forward-looking information. There can be no assurance that such information will prove to be accurate, as actual results and future events could differ materially from those anticipated in such information. Accordingly, readers should not place undue reliance on forward-looking information, which speaks only as of the date made. The forward-looking information contained in this prospectus represents our expectations as of the date of this prospectus (or as of the date the relevant statements are otherwise stated to be made), and are 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.

**All of the forward-looking information contained in this prospectus is expressly qualified by the foregoing cautionary statements. Investors should read this entire prospectus and consult their own professional advisors to ascertain and assess the income tax, legal, risk factors and other aspects of their investment in the Common Shares.**

#### MARKET DATA AND INDUSTRY DATA

This prospectus contains statistical data, market research and industry forecasts that were obtained from third-party sources, industry publications, and publicly available information, including: World Steel Dynamics Inc. (“**World Steel Dynamics**”), S&P Global Platts (“**Platts**”), Steelbenchmark, LLC (“**Steelbenchmark**”), China Trade Statistics, World Steel Association, American Iron and Steel Institute and Canacero. World Steel Dynamics is a strategic information service that regularly analyzes and publishes reports on the steel industry and whose clients include major integrated and non-integrated steel companies, steel users, equipment and raw material suppliers, financial institutions, money managers, government agencies, metal traders, steel service centers and trade associations. Platts is an independent provider of information and benchmark prices for the commodities and energy markets. Steelbenchmark is a global steel benchmark pricing system for use by steel industry participants. China Trade Statistics, produced by World Integrated Trade Solution, a Non-Governmental Organization, provides access to trade, tariff and non-tariff data on countries worldwide. World Steel Association is a non-profit organization that represents over 160 steel producers, national and regional steel industry associations, and steel research institutes. American Iron and Steel Institute serves as the voice of the North American steel industry in the public policy arena and advances the case for steel in the marketplace as the preferred material of choice. Canacero has performed as the official spokesman of the Mexican steel industry since 1949. We believe that the market and industry data presented throughout this prospectus is accurate and with respect to data prepared by us or on our behalf, that our estimates and assumptions are reasonable, but there can be no assurance as to the accuracy or completeness thereof. The accuracy and completeness of the market and industry data presented throughout this prospectus are not guaranteed and neither the Company nor the Underwriters make any representation as to the accuracy of such information. Although we believe it to be reliable, neither the Company nor the Underwriters has independently verified any of the data from third-party sources referred to in this prospectus, or analyzed or verified the underlying studies or surveys relied upon or referred to by such sources, or ascertained the underlying economic and other assumptions relied upon by such sources or makes any representation as to the accuracy of such data. Actual outcomes may vary materially from those forecast in such reports or publications, and the prospect for material variation can be expected to increase as the length of the forecast period increases. Market and industry data is subject to variations and cannot be verified due to limits on the availability and reliability of data inputs, the voluntary nature of the data gathering process and other limitations and uncertainties inherent in any statistical survey.

## TRADEMARKS AND TRADE NAMES

This prospectus includes references to certain trademarks, such as “Stelco”, “Hamilton Works” and “Lake Erie Works”, which are protected under applicable intellectual property laws in Canada and are our property. Solely for convenience, our trademarks and trade names may appear in this prospectus without the ® or ™ symbol, but such references are not intended to indicate, in any way, that we will not assert, to the fullest extent under applicable law, our rights to these trademarks and trade names.

## ELIGIBILITY FOR INVESTMENT

Based on the current provisions of the *Income Tax Act* (Canada) and regulations thereunder (the “**Tax Act**”), in the opinion of McCarthy Tétrault LLP, counsel to the Company, and Torys LLP, counsel to the Underwriters, provided that, at all relevant times, the Common Shares are listed on a “designated stock exchange” as defined in the Tax Act (which currently includes the TSX), the Common Shares will be qualified investments under the Tax Act for a trust governed by a registered retirement savings plan (“**RRSP**”), deferred profit sharing plan (“**DPSP**”), registered retirement income fund (“**RRIF**”), registered education savings plan (“**RESP**”), registered disability savings plan (“**RDSP**”), and a tax free savings account (“**TFSA**” and, together with RRSPs, DPSPs, RRIFs, RESPs and RDSPs, “**Deferred Plans**”).

Notwithstanding that the Common Shares may be qualified investments for a trust governed by a TFSA, RRSP or RRIF, the holder of such TFSA or the annuitant under such RRSP or RRIF, as the case may be, will be subject to a penalty tax in respect of the Common Shares if such Common Shares are a “prohibited investment” for the TFSA, RRSP or RRIF for purposes of the Tax Act. The Common Shares will not be a prohibited investment for a TFSA, RRSP or RRIF provided that the holder of the TFSA or annuitant under the RRSP or RRIF, as the case may be, (i) deals at arm’s length with the Company for purposes of the Tax Act and (ii) does not have a “significant interest” (within the meaning of the Tax Act) in the Company. In addition, the Common Shares will not be a prohibited investment if the Common Shares are “excluded property” (as defined in the Tax Act) for trusts governed by a TFSA, RRSP or RRIF.

On March 22, 2017, the Minister of Finance (Canada) announced proposals to amend the Tax Act which are reflected in draft legislation released on September 8, 2017 (“**Tax Proposals**”) to extend the “prohibited investment” rules and corresponding provisions, which are currently applicable to TFSAs, RRSPs and RRIFs and the annuitants or holders thereof, as the case may be, to RESPs and RDSPs and the subscribers or holders thereof, as the case may be. The Tax Proposals are intended to apply to transactions occurring and investments acquired after March 22, 2017, subject to certain transitional rules.

Prospective purchasers who intend to hold Common Shares in Deferred Plans should consult their own tax advisors regarding their particular circumstances.

## PROSPECTUS SUMMARY

*The following is a summary of the principal features of the Offering and certain information contained elsewhere in this prospectus and should be read together with the more detailed information and financial data and statements contained elsewhere in this prospectus (including “Risk Factors”). This summary does not contain all of the information a potential investor should consider before investing in Common Shares. Please refer to the “Glossary” for a list of defined terms used herein, including certain industry terminology.*

### OUR BUSINESS

We believe we own 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, cold-rolled and hot-rolled steel products as well as metallurgical coke. With first-rate gauge, crown, and shape control, as well as reliable uniformity of 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. We believe our total costs per 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: LEW near Nanticoke, Ontario and HW in Hamilton, Ontario. LEW facilities are comprised of a coke battery, a blast furnace, two steelmaking vessels, a twin-strand slab caster, a 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 cold-rolling mill, a Z-Line (“**Z-Line**”) galvaneal and a continuous galvanizing line (“**CGL**”). HW is supplied with hot-rolled pickled steel from LEW and produces high quality cold-rolled and coated steel products as well as coke that is supplied to LEW to fuel its blast furnace and could be 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 (“**Baycoat**”) and D.C. Chrome Limited (“**D.C. Chrome**”) 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 United States 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 (barge, 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. We believe our strategic location is reinforced by long-term customer relationships, a track record of product performance and quality product capabilities that will enable us to re-capture market share. The average length of our relationships with our top 10 customers exceeds 20 years.

Our operations currently have substantial excess capacity and we believe this excess capacity is accessible with limited capital investment. In particular, the LEW hot strip mill has a production capacity of 3.7 mnt versus our total steelmaking capacity of 2.8 mnt. We plan to backfill the LEW hot strip mill with externally sourced slabs to utilize this capacity. We also plan on increasing utilization in the near-term by targeting service centres, pipe and tube and construction customers, especially in the United States, which includes working to expand relationships with existing customers and identifying and targeting new customers. As our production volumes increase, we expect our unit conversion costs to decline thereby contributing to increased margins across our operations. In addition to the LEW hot strip mill, our HW cold mill, HW No. 3 CGL and HW Z-line, which are all designed to supply higher value-added steel for construction and automotive customers has been underutilized. Re-engaging with these customers to increase sales volume of technically advanced steels is an important near-term focus area for the Company. Finally, several of our operations including the HW coke plant and Hamilton water treatment facilities are currently being used exclusively for internal requirements but have excess capacity. We believe that we will be able to identify third parties who would be interested in becoming customers of these facilities.

As noted above, we intend to grow our sales of high-value steel products by leveraging our world-class finishing capabilities. We aim to grow our shipments of galvanized and galvaneal products that are primarily

used for construction and automotive applications. In particular, management is focused on re-establishing commercial and development efforts on producing advanced high-strength steel (“AHSS”) and ultra-high strength steel (“UHSS”) grades. These steels are stronger and lighter than traditional grades of steel and are being increasingly used by automakers to achieve improved fuel economy without compromising safety. We plan to work closely with customers as we expand our product offering to increase the types and quantities of these advanced products. We believe that the customers that demand these specialized grades of steel will be motivated to work with us in order to diversify their supply base.

### ***Lake Erie Works***

We believe LEW is one of the lowest cost steel producers in North America. LEW is located on the shores of Lake Erie (near Nanticoke, Ontario). It is situated on a 2,330 acre parcel of long-term leased property with a 1.2 kilometre dock on Lake Erie. See “*Our Business — Recent Restructuring of Our Business — CCAA Restructuring and Acquisition by Bedrock — Land Arrangements*”. LEW’s 80-inch hot strip mill is able to produce flat-rolled steels that we believe are wider than many steel mills in North America can produce. Additionally, LEW’s steelmaking facilities possess advanced chemistry control, which facilitates the production of high-quality steel. As a result, we believe we are able to produce products with advanced physical properties in wider and lighter gauge high-strength grades than many other North American steel mills. Furthermore, we believe LEW’s location on the Great Lakes provides us with a competitive advantage in sourcing key raw materials, including iron ore from the Mesabi Iron Range and metallurgical coal from Central Appalachia. LEW also benefits from on-site rail infrastructure, access to Ontario’s 400-Series highways that are connected to the U.S. Interstate Highway System, and its 1.2 kilometre dock which has the ability to receive St. Lawrence Seaway dimension ships. Our dock has the capacity to process two vessels per day during the shipping season and, with modest investment, will provide us with the ability to cost-effectively receive third party slab and ship hot-rolled coil to U.S. mid-western markets. We believe that the optionality of several available freight modes allows LEW to negotiate competitive rates amongst competing freight suppliers.

Our LEW facility has a proven track record of producing high-quality products for our customers. We are currently focused on expanding our technical capabilities in order to produce AHSS and UHSS grades. The equipment at LEW is well suited to produce the technically demanding grades of advanced steels that we are targeting as part of our business strategy. For example, our RH-OB vacuum degasser and ladle treatment station enables the complex chemistry control that is necessary to ensure precise regulation of impurities and alloying additives in liquid steel, which is critical for AHSS and UHSS grades. LEW also benefits from significant slab stack cooling capacity between the caster and hot strip mill, which is a requirement for a number of advanced applications. Additionally, our coilbox technology enables iso-thermal processing control at the hot strip mill that enables us to ensure uniformity of mechanical properties throughout the length of each coil.

LEW is the newest greenfield integrated steel facility in North America with well-maintained assets that have benefited from substantial investment. Over \$600 million has been invested on major projects at LEW since 2000. Approximately 65% of this amount was related to the expansion of the LEW hot strip mill, which, among other improvements, increased the facility’s production capacity and enhanced quality capabilities. We expect the hot strip mill will undergo an additional upgrade to enhance its capabilities, which we are targeting to be completed by the end of 2019. These upgrades will increase the product gauge-width envelope of the products that the hot strip mill is capable of producing, which are important for producing next generation products. The remaining 35% of the capital spent over this period was attributable to iron and steelmaking operations of LEW and its pickling operation, including the installation of the LEW ladle trim station which enhances LEW’s ability to produce high quality, customized slabs.

### ***Hamilton Works***

We believe that HW is among the most technologically advanced steel finishing facilities in North America, which provides our Company with a unique and differentiated platform to produce high quality, value add steel products. HW is situated on an approximately 290 acre parcel of long-term leased property located directly on Hamilton Harbour, providing access to the Great Lakes and the St. Lawrence Seaway System. See “*Our Business — Recent Restructuring of Our Business — CCAA Restructuring and Acquisition by Bedrock — Land Arrangements*”. HW is strategically located close to the key steel consuming regions of Southern Ontario and the

mid-western United States. These regions represent the heart of North American automotive manufacturing where numerous automotive original equipment manufacturers (“OEMs”) and Tier 1 component manufacturers are located. HW is located within a three hour drive of most light automotive manufacturing facilities in Canada and well positioned to supply Detroit and other major United States automotive regions.

HW was historically a fully-integrated steel producer, consisting of a coke battery, blast furnace, and finishing lines. However, its steelmaking operations were permanently shut down in 2013 and HW now consists of finishing lines and a coke battery. HW’s finishing lines include a modern and technically advanced cold-rolled line with an annual capacity of 1.3 mnt, a state-of-the-art Z-Line with an annual capacity of 470,000 nt of galvanized steel and a CGL with an annual capacity of 200,000 nt. Our 72-inch Z-Line was constructed to serve the automotive industry and is qualified by a number of automotive manufacturers for the supply of certain grades of AHSS products. We believe the Z-Line has the potential to produce more advanced AHSS products and a portion of the Net Proceeds of the Offering will be used to fund AHSS and UHSS research and enhance our product capabilities.

Similar to LEW, HW has benefited from substantial investment with over \$90 million spent on major projects since 2000. These investments include quality and capacity upgrades at HW’s cold mill and Z-Line. We plan to use a portion of the Net Proceeds of the Offering to restart HW’s temper mill and for the installation of annealing furnaces. This will allow us to produce cold-rolled fully processed steel, which has historically commanded higher prices relative to the cold-rolled products we produce today.

### ***Products***

LEW products can be broken into three broad categories: (i) slabs, which are further processed at LEW; (ii) hot-rolled coil, which is relatively thick sheet steel used for structural, construction, automotive or tubing purposes or for further processing; and (iii) hot-rolled pickle, which is hot-rolled coil that has been further processed when surface quality is important. Hot-rolled pickle is either sent to HW for further processing or sold directly for use in applications including hydroformed tubing, automotive safety hardware and accessories as well as further processing into cold-rolled coil.

HW cold-rolled and coated products can be broken into two broad categories: (i) cold-rolled full hard, which is used in selected applications where the desired thickness is less than the minimum thickness available in hot-rolled form but corrosion resistant coating is not required; and (ii) galvanized and galvaneal sheet steel for automotive, construction, pre-paint and appliance applications where corrosion resistant coating is required. We are in the process of restarting our temper mill and we plan to install batch annealing furnaces at HW, which will allow us to make and sell fully processed cold-rolled coil. Currently, this product is sold at a significant premium to hot-rolled coil and cold-rolled full hard coil.

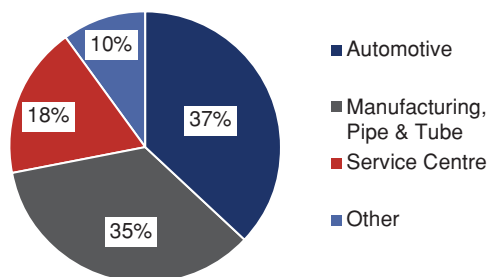
We currently produce certain grades of AHSS and UHSS, and our goal is to expand our product capabilities, including next generation AHSS and UHSS. To accomplish this objective, we plan to increase our focus on developing technically demanding grades of steel, which have historically commanded the most substantial price premiums.

### ***Customers***

Today, the principal customers of our products are steel service centres and pipe and tubular products manufacturers. In the past, we have also been a direct supplier to the automotive industry and our strategy is designed to recapture that market share. The following chart shows our historical breakdown of volume shipments per class of customers in 2006, which we believe is a representative year for our target end market mix, and 2016.

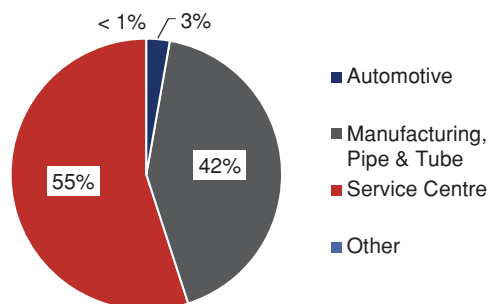
## Consolidated Shipments by End-Market (nt shipped basis)

2006



Total volume: 2.95 mnt

2016



Total volume: 1.97 mnt

As noted above, a significant base of our customers were historically automotive OEMs which accounted for roughly 37% of our sales in 2006. During our ownership by United States Steel Corporation (“USS”), automotive contracts were procured and sourced by USS. Following arrangements entered into with USS in October 2015 to establish operational separation, we assumed responsibility for all of our own sales and marketing activities and have subsequently developed a marketing and sales strategy to grow our business, including once again sourcing business directly from OEMs and Tier 1 component manufacturers. During our recent restructuring proceedings under the *Companies’ Creditors Arrangement Act* (“CCAA”) we focused on rebuilding relationships in the OEM sector, updating OEM on our capabilities, communicating key milestones and events related to the CCAA process, and developing roadmaps to recover our OEM market participation. Additionally, we have spent time analyzing the trends in the automotive market to determine supply needs in order to identify future staffing and resource requirements to service these markets.

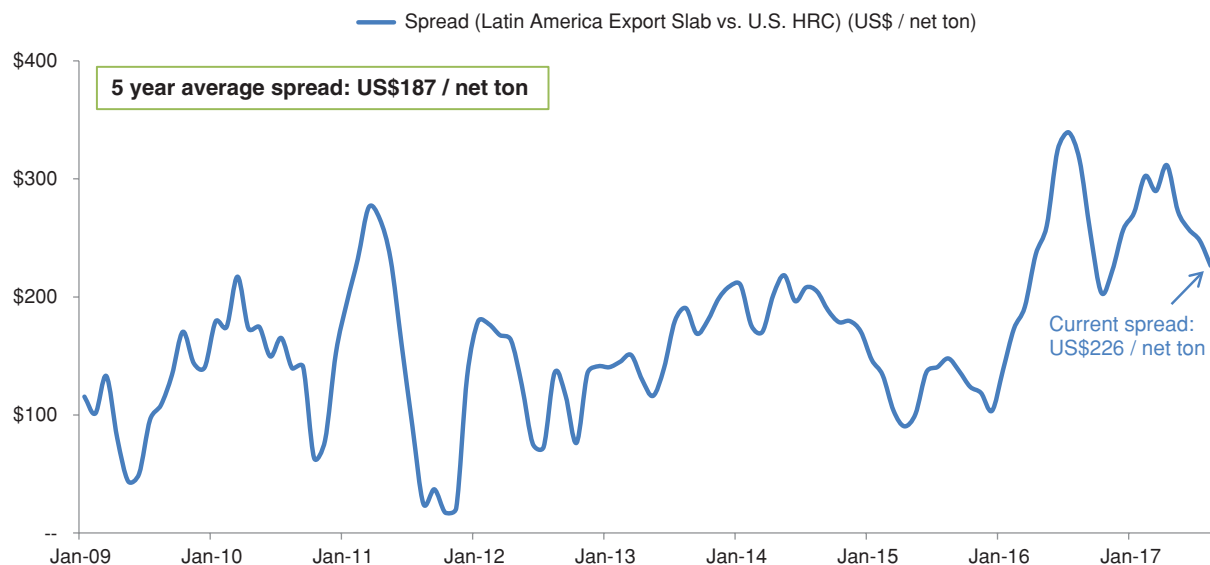
### OUR COMPETITIVE STRENGTHS

#### 1. Multiple Attractive Organic Growth Opportunities Which Require Limited Capital Investment

We plan to take a disciplined approach to all of our future investments with a focus on maximizing shareholder returns. As part of Bedrock Industries L.P.’s (“**Bedrock**”) review of Stelco’s operations, it identified multiple opportunities to increase the value of our assets where limited capital investment is required. These opportunities can be grouped into three categories: (i) asset optimization initiatives; (ii) expansion of our product capabilities; and (iii) co-generation initiatives. We believe we can deliver significant organic growth from these opportunities, which will allow us to generate long-term, sustainable returns for our shareholders.

##### *Asset Optimization*

We have significant excess capacity as a result of our assets being underutilized. We believe we can utilize this excess capacity to grow our revenues and lower our total costs per nt. LEW’s hot strip mill has 0.9 mnt of excess capacity, which can be utilized through purchases of external slab or toll-rolling for third-parties. We are in active discussions with third-parties regarding toll-rolling opportunities and recently demonstrated our ability to successfully toll-roll stainless steel coils. We also have identified several sources of third-party slab and have already purchased approximately 80 knt of slabs for delivery in 2017. As highlighted in the chart below, there is currently an opportunity to earn an attractive margin by processing purchased slabs and selling them as hot-rolled coil. Improved utilization from processing slabs, as well as revenue received from toll-rolling third-party volumes, could lower our total costs per nt and increase our cash flow generation.



Source: Platts, World Steel Dynamics

In order to support increased volumes from improved utilization, we plan to upgrade our LEW dock facility to allow for direct receiving of third-party slabs as well as loading of hot-rolled coils for shipping to customers. We believe this upgrade will provide us the opportunity to access the U.S. markets via low cost barge transportation. The investment required to complete this upgrade is expected to be less than \$10 million in total and can be completed within 4-6 months. Improved utilization at LEW will also benefit HW where in 2016 we had excess capacity at our cold mill (0.8 mnt), No. 3 CGL (0.1 mnt), and Z-Line (0.2 mnt). Lastly, we are in active discussions with third-parties regarding sales of coke from our HW coke battery, which is currently operating at approximately 50% of its design capacity. This could allow us to generate additional revenue and improve our costs as a result of operating leverage.

### ***Expansion of Our Product Capabilities***

We intend to focus our production and sales efforts 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 cold-rolled, fully-processed products. We plan to use a portion of the Net Proceeds of the Offering to restart HW's temper mill and the installation of annealing furnaces, which is estimated to cost \$20 million to \$25 million. This will allow us to produce up to 0.2 mnt of cold-rolled fully processed steel, which has historically commanded higher prices relative to the cold-rolled products we produce today. We currently produce first generation AHSS and UHSS products, but believe we have the capability to produce a much wider range of steels. To that end, we plan to invest in research and development to develop the techniques and know-how to produce a wider spectrum of steel grades. In addition, we plan to upgrade the bearings at our hot strip mill to allow us to process advanced steel products and make similar upgrades at the Z-Line to finish those steels into products that would commonly be used in automotive applications.

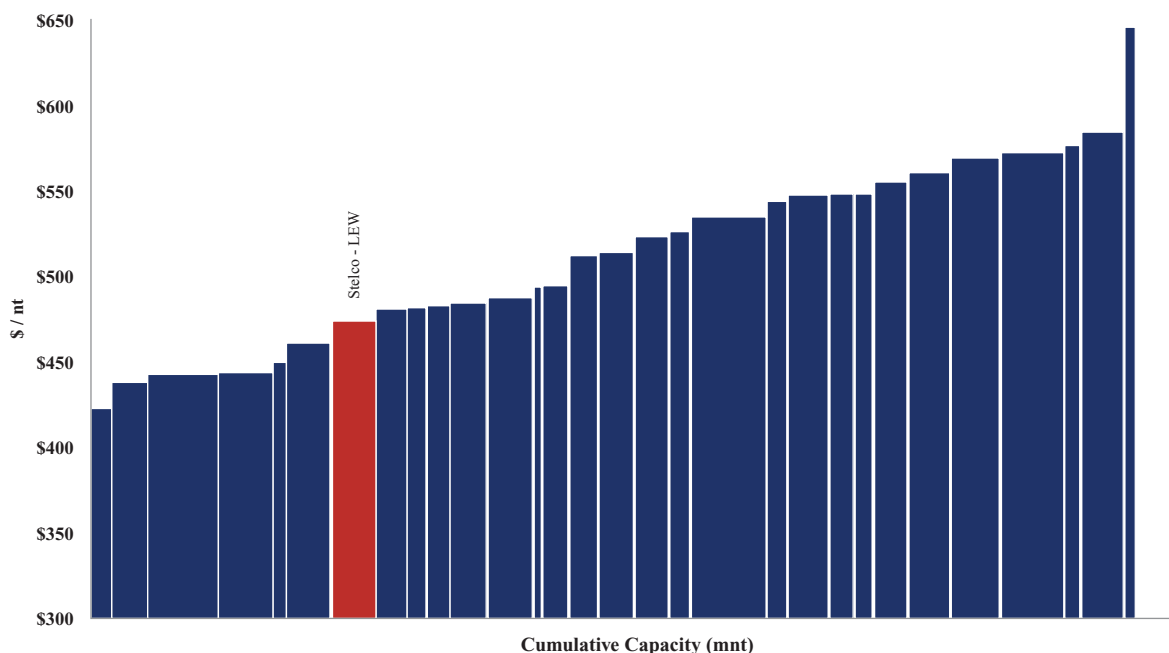
### ***Co-generation***

We believe there is an opportunity to capture the by-product gases from our operations at HW and LEW to produce electricity for our operations. Future on-site co-generation facilities could substantially reduce our reliance on the Ontario power grid, which we believe has among the highest power rates in North America. We are currently exploring opportunities to partner with a utility that would build and operate such a facility. If successful, this initiative could meaningfully reduce our operating costs.

## 2. Low Cost Producer

We believe we are one of the lowest cost steel producers in North America. Following the commencement of the CCAA proceedings in 2014, we have focused on improving productivity as well as various cost reduction initiatives. Our cost position has been enhanced by new long-term contracts for both labour and raw materials that took effect following our emergence from CCAA. Additionally, through the CCAA process, we have significantly reduced our financial costs, including interest expense and costs associated with legacy liabilities. We expect our total costs per mt will continue to improve as we grow our volumes. The following chart illustrates our current position on the North American steel producer cost curve as estimated by World Steel Dynamics.

**North American Hot Rolled Coil Total Costs (US\$)**



Source: World Steel Dynamics

Note: Represents cost curve as of July 2017 for U.S. and Canadian hot-rolled coil (incl. SG&A, interest expense, and pension and other post-employment benefits (“OPEB”) costs).

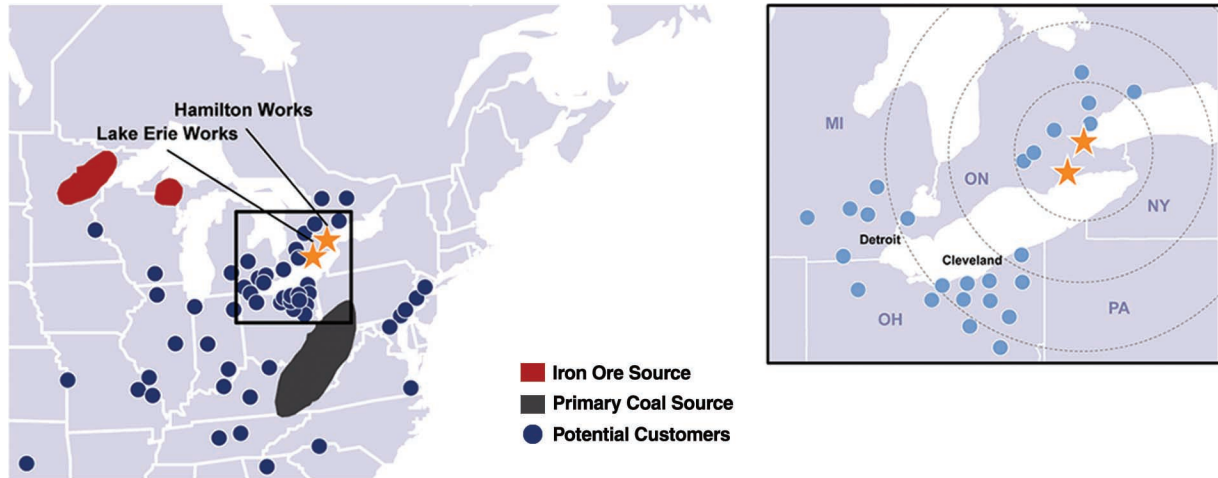
Currently, the largest components of our cost base are iron ore, metallurgical coal, other raw materials, and energy used to operate our facilities, the majority of which are variable costs. Most of the raw materials are sourced under supply contracts that provide us with reliable access at what we believe to be attractive rates with minimal or no take-or-pay requirements, improving our flexible cost position. We believe our advantageous cost position will allow us to outperform our competitors and generate positive cash flow throughout the commodity cycle.

## 3. Strategically Located Near Core Customers and Raw Material Suppliers with Access to Multiple Transportation Options

Our facilities are strategically located close to the key steel consuming regions of Southern Ontario and the mid-western United States. These regions represent the heart of North American manufacturing including automotive, where numerous OEMs and Tier 1 component manufacturers are located. The close proximity of our operating facilities to customers provides us with freight and other logistical benefits that support our position as a low cost producer on a delivered basis. Our low cost position is further enhanced by our location on the Great Lakes, which we believe provides us with a competitive advantage in both sourcing key raw materials

and accessing low cost barge transportation options. We are ideally located to source iron ore from the Mesabi Iron Range and metallurgical coal from Central Appalachia in the United States.

We are well positioned to serve both Canadian and U.S. automotive customers with multiple low cost transportation options that allow us to offer more competitive pricing and reduced product lead-times relative to many of our competitors. HW is located within a three hour drive of most light automotive manufacturing in Canada. Additionally, we are ideally located to supply the major U.S. automotive OEMs and Tier 1 component manufacturers located in the mid-west. Our strategic location is enhanced by our historic relationships with key customers, track record of product performance, and our differentiated and quality product capabilities, which we believe, collectively, will enable us to capture an increased share of automotive volumes.

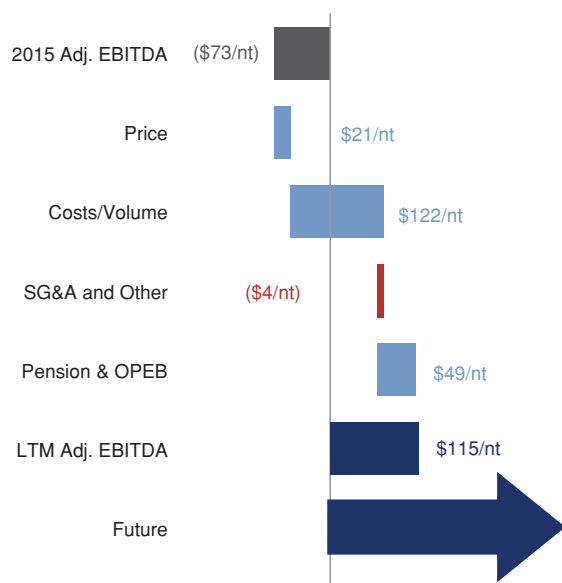


Both of our operating facilities benefit from access to multiple competing forms of transportation. HW and LEW have on-site rail infrastructure with direct and indirect access to two Class I railroads. LEW also benefits from a 1.2 kilometre dock with the ability to receive Seawaymax vessels, which facilitates access to transportation across the Great Lakes. Our dock facilities in HW and LEW provide us with the opportunity to access the U.S. Midwestern markets via water based transportation. Additionally, both facilities have proximate access to Ontario 400-Series highways and the U.S. Interstate Highway System. This transportation optionality allows us to negotiate competitive rates and also provides the ability to rapidly adapt to different market environments or customer locations.

#### 4. Successful Operational and Financial Turnaround with Strengthened Capital Structure

Stelco has undergone a transformational change that has directly addressed several of the challenges the business faced in its history. We are now well positioned to continue our operational and financial turnaround and sustain this performance over the long-term.

## 2015 vs LTM Adjusted EBITDA per net ton<sup>1</sup>



- Significantly impaired profitability in 2015
- Return to profitability as a result of highly successful turnaround, which has been underpinned by the following:
  - improved utilization has reduced per net ton operating costs
  - new supply contracts and improved commodity prices for key inputs
  - greater productivity as a result of improved labour relations
  - significantly reduced pension and OPEB expense
  - high cash flow conversion driven by significant drop in interest expense and substantial tax shield
- Potential further upside as Stelco continues to regain core customer base, including automotive OEMs
- Third-party slab supply and external coke sales provide incremental upside with no additional capital expenditure

More specifically, we believe our turnaround is underpinned by: (i) a strengthened balance sheet; (ii) new labour agreements; (iii) disciplined financial policies; and (iv) long-term iron ore supply.

### ***Strengthened Balance Sheet***

Through the CCAA process, we were able to extinguish approximately \$3.0 billion of secured and unsecured debt as well as approximately \$1.4 billion of pension and OPEB obligations. Pro forma the Offering as at June 30, 2017, the only debt on our balance sheet is \$68 million drawn on our \$375 million ABL Credit Facility. We believe our ABL Credit Facility and cash resources provide sufficient liquidity to support our operational and strategic initiatives. These actions materially strengthened our balance sheet and will enhance our cash flow generation by greatly reducing the Company's annual servicing requirements.

### ***New Labour Agreements***

Stelco's management team is committed to a cooperative and productive relationship with the Company's unions. As part of Stelco's turnaround, renewed and amended collective agreements have been entered into for five-year terms. We believe that the long-term nature of these agreements will provide greater certainty for our internal planning processes as well as those of our suppliers and customers.

### ***Disciplined Financial Policies***

We are focused on maximizing profitability and cash flow generation to increase shareholder returns. Accordingly, we have instituted financial policies that are aimed at achieving these objectives. For example, we have set strict financial criteria for evaluating investments. Additionally, we have taken steps to optimize our working capital management by: employing best practices in receivables management and collections; extending supplier payment terms; reducing outstanding deposits; and strategically sourcing and improving logistics management to reduce inventory costs. We believe our disciplined approach will ensure we direct our capital and resources towards the initiatives that yield the strongest returns for our shareholders.

<sup>1</sup> See "Management's Discussion and Analysis of Financial Condition and Results of Operations of Stelco Inc. — Selected Annual and Quarterly Financial Information" for a reconciliation of the foregoing non-IFRS measure to its most directly comparable measure calculated in accordance with IFRS.

### Long-term Iron Ore Supply

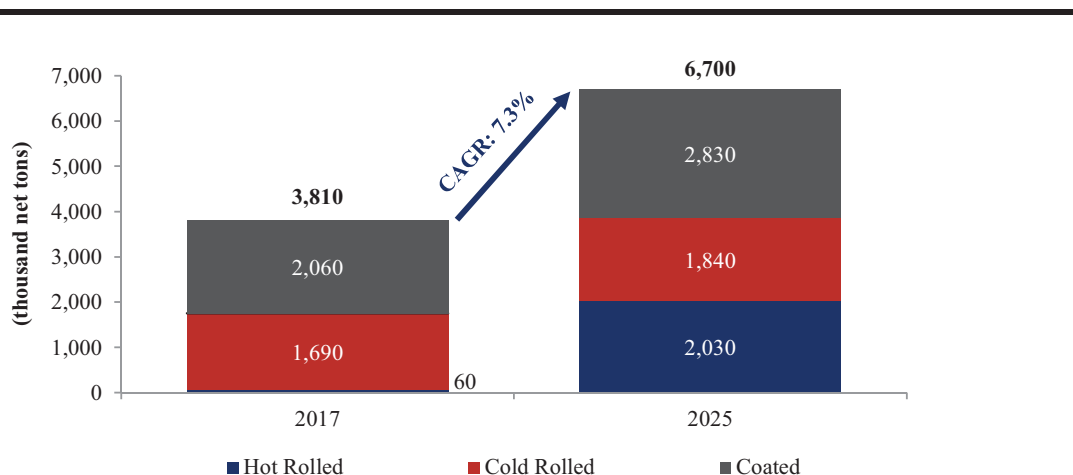
To limit fluctuations in input costs associated with iron ore price volatility, we have entered into a five year agreement for supply of our iron ore requirements. We believe this contract will limit our exposure to fluctuations in the price of iron ore, which have historically been significant.

### 5. Exposure to Attractive Fundamentals of North American Steel Sector with Favourable Outlook in Stelco’s Key End-Markets

Stelco is exposed to a diverse group of North American end-markets, many of which have favourable demand outlooks according to World Steel Dynamics. The North American flat-rolled market has been among the most resilient and stable markets since the financial crisis. The combination of trade measures aimed at unfairly-priced foreign imports as well as growing end-market demand have resulted in the price of flat-rolled steel products in North America exceeding the price of these products in the world export market.

The automotive market is an important element of our business and growth strategy. Based on 2006 shipments, which is a representative year for our target product and end-market mix, automotive represented approximately 37% of total shipments. In 2016, North American automotive manufacturers experienced a record year with light vehicle production of approximately 17.8 million units. World Steel Dynamics forecasts significant growth in AHSS and UHSS demand as automotive producers seek to reduce vehicle weight without sacrificing strength and safety in order to meet the increasingly stringent U.S. Corporate Average Fuel Economy standards. As such, there is significant growth potential for North American producers with the capabilities to produce AHSS and UHSS grades as demonstrated in the graph below.

**AHSS / UHSS Steel Consumption in North American Automobiles**



Source: World Steel Dynamics

Note: Coated products include galvanized or other varieties of galvanized products (excluding cold-rolled fully processed). Coated (Exposed) include the outer components of vehicles, which are not dependent on strength factors and consume minimal AHSS/UHSS.

The construction and energy industries are also important end-markets for our business. North American energy markets have realized a strong rebound in activity over the past year with September 2017 North American drilling rig counts up by over 80% year-over-year. As a result, it is expected that energy-related pipe and tube consumption will experience an annualized increase of 45% in 2017 according to World Steel Dynamics. Residential and non-residential construction activity in North America remains on solid footing in 2017 with modest growth prospects, particularly in the residential segment. Infrastructure related spending is expected to increase in the years ahead, especially as policymakers recognize the need to increase public investment to make up for substantial shortfalls in prior years and decades; public infrastructure projects historically tend to be highly steel-intensive in both developed and developing economies.

## **6. Entrepreneurial Management Team with Proven Track Record of Maximizing Shareholder Return and Growth**

We are led by a management team that combines extensive industry experience with deep operational, institutional, and customer knowledge. They are hands-on operators with a proven track record of increasing productivity, reducing costs, implementing marketing strategies, and maintaining strong relationships with all stakeholders. Since emerging from CCAA, our management team has sought to instill an entrepreneurial culture at Stelco. In order to accomplish this objective, our management team has simplified our organizational structure, designed a compensation program tied to performance, and stressed the importance of cost control. We believe these changes will empower our employees to actively seek out opportunities to improve our assets' performance and profitability.

## OUR BUSINESS STRATEGIES

Our strategy is to maximize total shareholder returns while maintaining a conservative capital structure. In order to accomplish this strategy, we are focused on four strategic objectives: (i) optimizing production from our assets; (ii) maintaining our strong balance sheet; (iii) maximizing profitability and cash flows; and (iv) growing our business. These strategic objectives are supported by the entrepreneurial culture that underpins Stelco's return-based approach to operating our business. This culture is driven by our leadership team's ownership mentality as a result of Bedrock's significant holdings in Stelco, 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

We are seeking to increase the value of Stelco by optimizing production from our assets. We have significant excess capacity as a result of our assets being underutilized. We believe we can utilize this excess capacity to grow our revenues and lower our costs per nt. We are actively pursuing initiatives, including 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 plan to optimize our assets by 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 strict 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 AHSS and 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 \$1.1 billion of non-capital loss carry-forwards and other tax attributes on a pre-tax basis, which may allow us to reduce our cash tax payments and increase free cash flow generation. Under the terms of the Tax Savings Agreement (as defined herein), we are required to share a portion of any tax savings with the Main Pension Plans (as defined herein) and the ELHTs (as defined herein). See *"Our Business — Recent Restructuring of Our Business — CCAA Restructuring and Acquisition by Bedrock — Tax Savings Agreement"*. We will 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

We intend to focus our production and sales efforts 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 cold-rolled, fully-processed 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 intend to aggressively maintain our low cost position by seeking to control 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 also plan to continue to focus on 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.

### Grow our Business

We plan to take a disciplined approach to all of our future 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

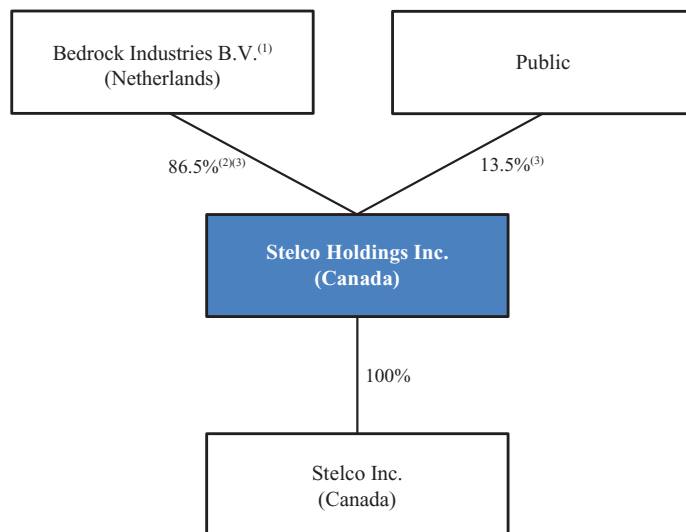
and strategic opportunities when market conditions are favourable to us. We have adopted this return-based approach to evaluate opportunities for our business as we seek to expand our capabilities. We plan to evaluate and consider strategic opportunities based on strictly defined financial criteria focused 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.

### CORPORATE INFORMATION

Stelco Inc. came into existence as The Steel Company of Canada, Limited in 1910. In October 2007, Stelco Inc. was acquired by USS and changed its name to U. S. Steel Canada Inc. (“USSC”). On June 30, 2017, in connection with USSC’s emergence from its CCAA restructuring proceeding, Bedrock and its affiliates indirectly acquired all of the outstanding shares of USSC and changed its name back to Stelco Inc. As part of the pre-closing transactions, the Issuer will acquire all of the issued and outstanding shares of Stelco Inc.

The Issuer is a corporation incorporated under the *Canada Business Corporations Act* (“CBCA”). Our registered and principal office is located at 386 Wilcox Street, Hamilton, Ontario. Our telephone number at our principal office is (905) 528-2511 and our website address is www.stelco.com. Our website and the information contained on our website do not constitute a part of this prospectus.

The following chart identifies our material wholly-owned subsidiaries (including jurisdictions of formation, incorporation or continuance of the various entities) immediately after Closing, assuming no exercise of the Over-Allotment Option.



**Notes:**

- (1) As of the date of this prospectus, all of the outstanding shares of Stelco Inc. are held by Bedrock Industries B.V. (“**Bedrock Industries**”). Bedrock Industries is wholly owned by Bedrock. See “*Principal Shareholder*”.
- (2) Immediately prior to Closing, Bedrock Industries will own 100% of the Issuer and is not selling any Common Shares that it holds in the Offering.
- (3) Based on the midpoint of the estimated price range set forth on the cover of this prospectus.

## THE OFFERING

<b>Issuer:</b>	Stelco Holdings Inc.
<b>Offering:</b>	<ul style="list-style-type: none"><li>• Common Shares.</li></ul> <p>If the Over-Allotment Option is exercised in full, the Issuer will sell up to an additional <ul style="list-style-type: none"><li>• Common Shares. See “<i>Plan of Distribution</i>”.</li></ul></p>
<b>Offering Price:</b>	It is anticipated that the Offering Price will be between \$16.00 and \$18.00 per Common Share.
<b>Offering Size</b>	\$200,000,000.  If the Over-Allotment Option is exercised in full, the Offering Size will be \$230,000,000.
<b>Over-Allotment Option</b>	The Issuer has granted to the Underwriters an Over-Allotment Option solely to cover over-allocations, if any, and for market stabilization purposes. The Over-Allotment Option is exercisable in whole or in part at any time for a period of 30 days after Closing and entitles the Underwriters to purchase from the Issuer, up to <ul style="list-style-type: none"><li>• Common Shares</li></ul> in the aggregate at a price of \$ <ul style="list-style-type: none"><li>•</li></ul> per Common Share (being 15% of the number of Common Shares offered hereunder). If the Over-Allotment Option is exercised in full, the total price to the public will be \$ <ul style="list-style-type: none"><li>•</li></ul> , the Underwriters’ fee will be \$ <ul style="list-style-type: none"><li>•</li></ul> , and the net proceeds to the Issuer will be \$ <ul style="list-style-type: none"><li>•</li></ul> . See “ <i>Plan of Distribution</i> ”.
<b>Shares Outstanding:</b>	On Closing an aggregate of <ul style="list-style-type: none"><li>• Common Shares</li></ul> ( <ul style="list-style-type: none"><li>• Common Shares</li></ul> if the Over-Allotment Option is exercised in full) will be outstanding and no preferred shares will be outstanding.
<b>Principal Shareholder:</b>	Immediately following Closing, based on the midpoint of the estimated price range set forth on the cover page of this prospectus, Bedrock Industries will hold 86.5% of outstanding Common Shares of the Issuer and will hold 75,283,887 Common Shares. Bedrock Industries is wholly owned by Bedrock. If the Over-Allotment Option is exercised in full, Bedrock Industries will hold 84.8% of outstanding Common Shares of the Issuer and will hold 75,283,887 Common Shares. See “ <i>Principal Shareholder</i> ”.
<b>Use of Proceeds:</b>	The estimated net proceeds of the Offering will be approximately \$ <ul style="list-style-type: none"><li>•</li></ul> , after deducting the Underwriters’ fee and the estimated expenses of the Offering (the “ <b>Net Proceeds of the Offering</b> ”) assuming no exercise of the Over-Allotment Option. We intend to use the Net Proceeds of the Offering (i) to fund certain capital expenditures including: (a) the enhancement of our capabilities to produce advanced steels in the amount of \$40 to \$45 million; (b) the restart of the temper mill and installation of annealing furnaces in the amount of \$20 to \$25 million; and (c) the upgrade of the LEW dock facility in the amount of up to \$10 million; and (ii) to pay \$50 million to certain pension and OPEB trusts and to pay the Provincial OPEB Advance, with the balance being used for general corporate purposes and working capital, which may include additional capital investments. While the Company intends to spend the Net Proceeds from the Offering as stated above, there may be circumstances where funds may be re-allocated at the discretion of the Board or management. See “ <i>Use of Proceeds</i> ”.
<b>Lock-up Arrangements:</b>	Pursuant to the Underwriting Agreement (as defined herein), all of our equity securities held by Bedrock Industries, our immediate parent, will be subject to a contractual lock-up agreement with the Underwriters for a

period commencing on the date hereof and ending 180 days after the Closing Date. See “*Plan of Distribution — Lock-Up Arrangements*”.

**Dividend Policy:**

Our 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. These policies may include initiating payment of a dividend on our Common Shares at some point in the future. Any determination to pay dividends in the future will be at the discretion of our Board 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 may deem relevant. See “*Dividend Policy*” and “*Risk Factors*”.

**Risk Factors:**

An investment in Common Shares is subject to a number of risk factors that should be carefully considered by prospective investors. These risks include, but are not limited to:

- our industry is cyclical in nature and highly competitive;
- North American and global steel overcapacity may adversely impact our sales, financial results and cash flows;
- existing and new trade laws and regulations in North America may be inadequate to prevent trade practices such as “dumping” or may impose duties on our products being sold in other jurisdictions which may adversely affect our business;
- competition from other producers, imports or alternative materials along with industry demands may adversely affect our business;
- our cost reduction initiatives may not be successful or sufficient;
- we may not be able to successfully implement our business strategy on a timely basis or at all;
- changes in the availability and cost of raw materials, electricity and natural gas and the cost of such inputs relative to steel prices could adversely affect our business;
- certain of our contracts that are important to our business contain provisions that allow the counterparty to terminate the contract upon a change of control or in a default scenario;
- our business could be harmed if we fail to maintain proper inventory levels;
- our facilities require continual capital investments that we may not be able to sustain and which may require an outage of certain of our facilities to complete;
- our operations are subject to scheduled maintenance, unplanned repairs or equipment outages and logistical disruptions;
- our steelmaking facilities and other facilities are located on lands that we lease;
- estimates of capital and operating costs may not reflect actual costs;
- we have a history of cash flow volatility;

- we may experience volatility in earnings due to financial reporting of cash-settled awards under our Long Term Incentive Plan (as defined herein);
- we could incur significant cash expenses for temporary and potential permanent idling of facilities;
- a large percentage of our sales volumes come from a limited number of large customers;
- the loss of significant volume from our key customers could adversely affect us;
- changes in the automotive market could materially affect our financial condition and performance given our plan to increase our market share of the automotive market;
- the closing or relocation of customer facilities could adversely affect us;
- our products may not benefit from intellectual property protection and we must respect intellectual property rights of others;
- a change in our relationship with the other members of any of our joint ventures may have an adverse effect on that joint venture;
- we are subject to legal proceedings and legal compliance risks;
- product liability and insurance;
- we are exposed to credit and business risks;
- environmental compliance and remediation could result in substantially increased costs and materially adversely impact our competitive position;
- risks related to climate change and greenhouse gas emissions could impose significant additional costs on both our steelmaking and metals recycling operations, as well as otherwise affect our operations;
- some of our competitors may not face as much environmental regulation;
- Stelco is party to collective bargaining agreements. Labour difficulties, additional collective agreements and the loss of or inability to hire key employees may adversely affect our ability to successfully manage our operations and meet our strategic objectives;
- our operating results depend in part on continued successful research, development and marketing of new and/or improved products and services, and there can be no assurance that we will continue to successfully introduce new products and services;
- all of our manufacturing facilities are located in Hamilton and Nanticoke, Ontario, which increases the risk of a significant disruption to our business as a result of unforeseeable developments in this geographic area;
- Bedrock or its affiliates will continue to have significant influence over us after the Offering;
- we are contractually required to make certain payments to various pension and OPEB trusts and establish new pension plans;
- potential use of derivative contracts to hedge commodity pricing volatility could adversely affect our financial results and cash flows;

- future acquisitions may require significant expenditures or dilution and may result in inadequate returns and may involve risks to our business;
- we may experience difficulties with our internal systems and controls during periods of growth;
- we are subject to foreign currency risks, which may negatively impact our profitability and cash flows;
- we are subject to insurance related risks which could have an adverse effect on our business;
- a material disruption or security breach affecting our information technology systems could affect our business and lead to reduced revenue, growth prospects and reputational damage;
- uncertainties relating to the Transition Services Agreements (as defined herein);
- risks related to the migration of information technology systems currently provided to us under certain of the Transition Services Agreements;
- changes to global data privacy laws and cross-border transfer requirements could adversely affect our business and operations;
- we rely primarily on third parties for transportation of the products we manufacture as well as delivery of our raw materials;
- some of our operations present significant risk of injury or death;
- covenants contained in the ABL Credit Agreement (as defined herein) affect and, in some cases, significantly limit or prohibit the manner in which we operate our business and pay dividends;
- any adverse change in our access to capital or the terms of our borrowings could have a negative impact on our financial condition;
- we will incur increased expenses as a result of being a public company;
- we may not use the Net Proceeds of the Offering as described in this prospectus;
- we are dependent on our operating subsidiary;
- natural disasters, unusually adverse weather, pandemic outbreaks, boycotts and geo-political events could materially adversely affect our business, results of operations or financial condition;
- parties with whom we do business may be subject to insolvency risks or may otherwise become unable or unwilling to perform their obligations to us;
- there are risks related to forward-looking information in this prospectus;
- changes in accounting standards and subjective assumptions, estimates and judgments by management related to complex accounting matters could significantly affect our reported financial results or financial condition;
- tax increases and changes in tax laws and regulations could adversely affect our financial results;
- the Company is dependent on a relatively small number of key personnel;

- non-competition and non-solicitation restrictions applicable to Sujit Sanyal;
- we are undertaking a reorganization immediately prior to Closing to facilitate our initial public offering which may affect certain of our contracts;
- potential volatility of Common Share price;
- dilution;
- future sales of Common Shares by our directors, executive officers and significant shareholders;
- absence of a prior public market;
- no dividends;
- any issuance of preferred shares could make it difficult for another company to acquire us or could otherwise adversely affect holders of our Common Shares, which could depress the price of our Common Shares;
- changes to tax laws may have an adverse impact on holders of the Common Shares;
- if securities or industry analysts do not publish research or publish inaccurate or unfavourable research about us or our business, the trading price and volume of our Common Shares could decline;
- shareholders will have limited control over our Company's operations;
- the financial information for the twelve month period ended June 30, 2017 has not been separately audited or reviewed by outside auditors and care should be taken when relying upon such information;
- pro-forma financial information; and
- financial reporting and other public company requirements.

See “*Risk Factors*” and the other information included in this prospectus for a discussion of the risks that an investor should carefully consider before deciding to invest in Common Shares.

## SELECTED SUMMARY FINANCIAL INFORMATION

The selected summary consolidated historical financial information, other financial data and operating data for the trailing 12 months ended June, 30, 2017, the three month periods ended June 30, 2017 and 2016, the six month periods ended June 30, 2017 and 2016 and for the fiscal years ended December 31, 2016, 2015 and 2014 presented below have been derived from Stelco Inc.'s unaudited interim condensed consolidated financial statements and related notes thereto and from Stelco Inc.'s audited consolidated financial statements and related notes thereto included elsewhere in this prospectus. Stelco Inc.'s historical results for any prior period are not necessarily indicative of results expected in any future period. You should read the selected summary consolidated historical financial information, other financial data and operating data set forth below in conjunction with the consolidated financial statements including the notes thereto, as well as "*Management's Discussion and Analysis of Financial Condition and Results of Operations of Stelco Inc.*", "*Consolidated Capitalization*", "*Description of Material Indebtedness*", "*Risk Factors*" and "*Non-IFRS Measures*" included elsewhere in this prospectus.

## Selected Summary Consolidated Historical Annual and Quarterly Financial and Operating Information

For the period ended (millions of Canadian dollars)	Trailing 12 months ended June 30, 2017	Three months ended June 30,		Six months ended June 30,		Fiscal year	Fiscal year	Fiscal year
		2017	2016	2017	2016	2016	2015	2014
Total revenue . . . . .	1,498	427	334	813	617	1,302	1,347	1,893
Cost of goods sold . . . . .	1,348	362	320	702	641	1,287	1,440	1,855
Gross profit (loss) . . . . .	150	65	14	111	(24)	15	(93)	38
Selling, general and administrative expenses . . . . .	62	40	6	50	12	24	28	44
Operating profit (loss) . . . . .	88	25	8	61	(36)	(9)	(121)	(6)
Finance costs . . . . .	236	71	55	121	82	197	236	200
Impairment loss . . . . .	—	—	—	—	—	—	—	14
Finance income . . . . .	(2)	—	—	(1)	—	(1)	(1)	(1)
Share of loss of joint ventures . . . . .	2	1	—	1	—	1	1	2
(Gain) loss on disposal of property, plant and equipment . . . . .	(2)	—	—	—	—	(2)	—	—
Restructuring costs . . . . .	51	24	10	32	17	36	33	13
Gain on emergence from CCAA . . . . .	(3,665)	(3,665)	—	(3,665)	—	—	—	—
Other (income) loss . . . . .	(7)	1	—	(3)	—	(4)	(1)	(1)
Income (loss) before income taxes	3,475	3,593	(57)	3,576	(135)	(236)	(389)	(233)
Income tax expense . . . . .	—	—	—	—	—	—	—	—
Income (loss) for the period . . . . .	3,475	3,593	(57)	3,576	(135)	(236)	(389)	(233)
<b>Other Financial Data:</b>								
Adjusted EBITDA . . . . .	225	76	26	140	3	88	(132)	(27)
Adjusted EBITDA as a percentage of total revenue . . . . .	15%	18%	8%	17%	0%	7%	(10)%	(1)%
Capital Expenditures <sup>(1)</sup> . . . . .	26	—	—	14	9	21	29	24
<b>Operating Data:</b>								
Selling Price per nt (In dollars per NT) . . . . .	764	851	645	812	608	659	742	813
Adjusted EBITDA per nt (In dollars per NT) . . . . .	115	151	50	140	3	45	(73)	(12)
Shipping Volume (In thousands of NT) . . . . .	1,962	502	517	1,001	1,015	1,977	1,814	2,329
Hot-rolled . . . . .	1,386	359	375	699	758	1,446	1,140	1,398
Cold-rolled . . . . .	43	17	1	31	2	14	110	213
Coated . . . . .	434	103	115	225	203	412	468	475
Other . . . . .	99	22	26	47	52	104	96	244

(1) Capital Expenditures for the three months ended June 30, 2017 and 2016 are not available.

The selected pro forma financial position information as at June 30, 2017 presented below has been derived from Stelco Holdings Inc.'s unaudited pro forma consolidated statements of financial position as at June 30, 2017 and related notes thereto included elsewhere in this prospectus. This financial information has been prepared by management and is not intended to be a forecast or a projection of future results. The actual results of operations of Stelco Holdings Inc. for any period will likely vary from the amounts set forth in the following

analysis and such variation may be material. Prospective investors should review this information in conjunction with the consolidated financial statements including the notes thereto, as well as “Management’s Discussion and Analysis of Financial Condition and Results of Operations of Stelco Inc.”, “Consolidated Capitalization”, “Description of Material Indebtedness”, “Risk Factors” and “Non-IFRS Measures” included elsewhere in this prospectus.

### Selected Pro Forma Financial Position Information

<u>As at (millions of Canadian dollars)</u>	<u>Pro Forma June 30, 2017</u>
Cash and cash equivalents . . . . .	30
Trade and other receivables . . . . .	169
Inventories . . . . .	282
Property, plant and equipment . . . . .	270
Total assets . . . . .	846
Trade and other payables . . . . .	94
Current portion of long-term debt . . . . .	—
Current portion of employee benefit commitment . . . . .	31
Other current liabilities . . . . .	31
Long-term debt . . . . .	79
Long term portion of pension and other post-employment benefits . . . . .	—
Long term portion of employment benefit commitments . . . . .	286
Total liabilities . . . . .	549
Total shareholder’s equity . . . . .	297

The following table provides a reconciliation of EBITDA and Adjusted EBITDA and certain other non-IFRS measures for the periods and years indicated (see “Non-IFRS Measures”):

<u>Reconciliation of Income (loss) for the year to Adjusted EBITDA: For the period ended (millions of Canadian dollars)</u>	<u>Trailing 12 months ended June 30</u>	<u>Three months ended June 30</u>		<u>Six months ended June 30</u>		<u>Fiscal year</u>	<u>Fiscal year</u>	<u>Fiscal year</u>
	<u>2017</u>	<u>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Income (loss) for the period . . . . .	3,475	3,593	(57)	3,576	(135)	(236)	(389)	(233)
Depreciation . . . . .	30	8	7	15	14	29	27	25
Finance costs . . . . .	236	71	55	121	82	197	236	200
Finance income . . . . .	(2)	—	—	(1)	—	(1)	(1)	(1)
Income tax expense . . . . .	—	—	—	—	—	—	—	—
<b>EBITDA</b> . . . . .	<b>3,739</b>	<b>3,672</b>	<b>5</b>	<b>3,711</b>	<b>(39)</b>	<b>(11)</b>	<b>(127)</b>	<b>(9)</b>
Adjustments to EBITDA:								
Gains related to emergence from CCAA <sup>(1)</sup>	(3,665)	(3,665)	—	(3,665)	—	—	—	—
Acquisition related costs <sup>(2)</sup> . . . . .	18	18	—	18	—	—	—	—
Provision on pension and other post-employment benefits <sup>(3)</sup> . . . . .	59	11	11	24	25	60	(38)	(45)
Restructuring costs <sup>(4)</sup> . . . . .	51	24	10	32	17	36	33	13
Separation costs related to USS support services <sup>(5)</sup> . . . . .	23	16	—	20	—	3	—	—
Asset impairments <sup>(6)</sup> . . . . .	—	—	—	—	—	—	—	14
<b>Adjusted EBITDA</b> . . . . .	<b>225</b>	<b>76</b>	<b>26</b>	<b>140</b>	<b>3</b>	<b>88</b>	<b>(132)</b>	<b>(27)</b>

**Notes:**

(1) Represents the gain from the implementation of the CCAA plan on June 30, 2017. See “Management’s Discussion and Analysis of Financial Condition and Results of Operations of Stelco Inc. — Q2 2017 Compared to Q2 2016 (Three months ending June 30) — Gain on emergence from CCAA” and “Management’s Discussion and Analysis of Financial Condition and Results of Operations of Stelco Inc. — Q2 2017 Compared to Q2 2016 (Six months ending June 30) — Gain on emergence from CCAA”. Refer to Note 13 of the unaudited

interim condensed consolidated financial statements of Stelco Inc. for the three and six months ended June 30, 2017 found elsewhere in this prospectus.

- (2) Acquisition costs related to the purchase of Stelco Inc. by Bedrock.
- (3) Represents difference between total cash funding obligation for pensions and OPEBs and amount already reflected in EBITDA.
- (4) Restructuring expenses relates to the CCAA proceedings, which primarily included legal fees, financial advisor fees, court-appointed monitor fees, interim financing fees and other related restructuring expenses. The Company implemented its CCAA plan as of June 30, 2017.
- (5) The Company has received information system services from USS since USS acquired the Company in 2007, and continues to receive information system services from USS under Transition Services Agreements that will expire on June 30, 2019, unless cancelled earlier by the Company. The separation costs being adjusted here are expenses incurred by the Company in connection with implementation of its own standalone information systems, including an ERP system, as well as other operating and communication systems.
- (6) In fiscal year 2014, the Company recorded an impairment loss of \$14 million relating to its investment in its joint venture, Baycoat (as defined herein).

## OUR BUSINESS

### Corporate History

Stelco Inc., which will become a wholly-owned subsidiary of the Issuer prior to Closing, came into existence as The Steel Company of Canada, Limited in 1910.



In 2004, Stelco Inc. filed for creditor protection under the *Companies' Creditors Arrangement Act* (“CCAA”). Stelco Inc. subsequently emerged from CCAA as a going concern on March 31, 2006. In early 2007, following completion of its operational restructuring, Stelco Inc. began to explore merger or sale opportunities for its business. After running a competitive sale process, in October 2007, Stelco Inc. was acquired by United States Steel Corporation (“USS”) for a purchase price representing an enterprise value of approximately US\$2.0 billion and changed its name to U. S. Steel Canada Inc. (“USSC”). From October 31, 2007 until June 30, 2017, USSC operated as an indirect, wholly-owned subsidiary of USS. During this period, USSC experienced numerous operational disruptions, including labour disruptions between 2009 and 2013, incurred significant debt obligations, and made substantial cash payments in respect of historical pension and other post-employment benefits (“OPEB”). USSC suffered significant financial losses during this period and sought CCAA protection in September 2014.

Following a competitive sales process, within its CCAA proceeding, USSC reached an agreement with Bedrock Industries L.P. (“**Bedrock**”) on December 9, 2016, whereby Bedrock would acquire all of the outstanding shares of USSC. Upon closing of the acquisition by Bedrock on June 30, 2017, USSC exited CCAA protection and changed its name back to Stelco Inc. We believe our acquisition by Bedrock and our related restructuring have significantly enhanced our financial position as we have eliminated over \$3.0 billion of debt, extinguished approximately \$1.4 billion of pension and OPEB obligations in exchange for making manageable fixed payments and formula-based contributions linked to the cash flow of the business, addressed certain historical environmental liabilities, and regained control over our sales functions and production decisions. Additionally, we have seen considerable improvements in labour relations as a result of our management

approach since we were acquired by Bedrock and now benefit from five year coterminus labour agreements with our unions.

Today, we have returned as a low cost, integrated and independent steelmaker focusing on regaining our stature as an industry leader. With a strengthened balance sheet, a \$375 million ABL Credit Facility (as defined herein) to finance our working capital requirements and no term debt once the Provincial OPEB Advance (as defined herein) has been repaid on Closing, we believe we are well positioned to execute our strategy and regain our market position. As at June 30, 2017, the Company had a cash balance of \$30 million and approximately \$223 million available under the ABL Credit Facility providing our Company with financial flexibility to execute on our business strategies. In addition, the Company's significantly improved labour relations, new management team (including Chief Financial Officer, Chief Operating Officer, General Counsel and VP Operations) and high quality assets provide us an enhanced competitive position. Recently, the Company achieved \$225 million in Adjusted EBITDA<sup>2</sup> over the twelve month period ending June 30, 2017, which is a strong improvement over our financial performance relative to historic periods. As the transformation of our business continues, we expect to see continued improvement in our financial results.

## **Business Overview**

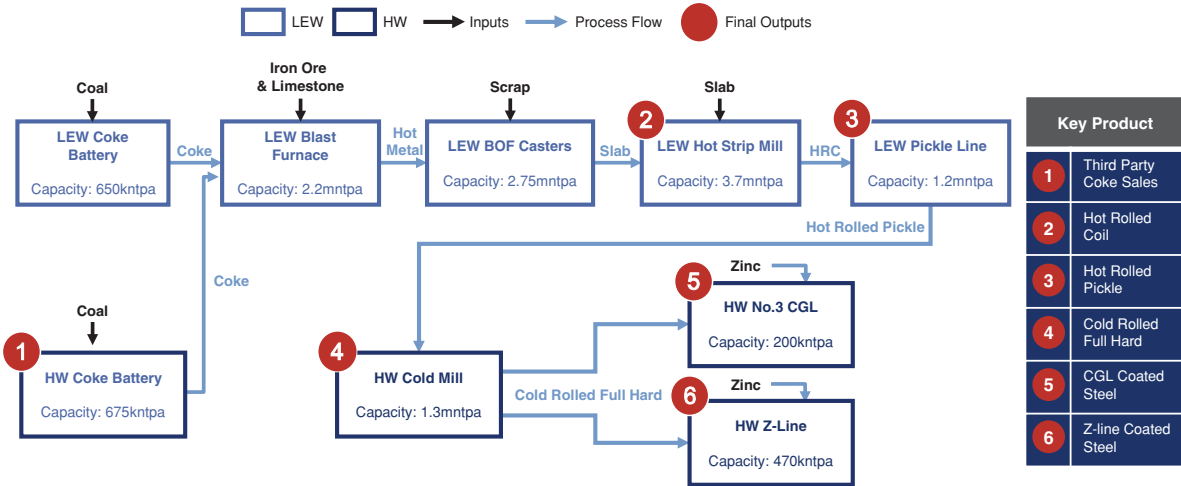
We believe we own the newest and one of the most technologically advanced integrated steelmaking facilities in North America. We produce flat-rolled value-added steels, including premium-quality coated, cold-rolled and hot-rolled steel products as well as metallurgical coke. With first-rate gauge, crown, and shape control, as well as reliable uniformity of 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. We believe our total costs per 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: LEW near Nanticoke, Ontario and HW in Hamilton, Ontario. LEW facilities are comprised of a coke battery, a blast furnace, two steelmaking vessels, a twin-strand slab caster, a 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 cold-rolling mill, a Z-Line ("**Z-Line**") galvaneal and a continuous galvanizing line ("**CGL**"). HW is supplied with hot-rolled pickled steel from LEW and produces high quality cold-rolled and coated steel products as well as coke that is supplied to LEW to fuel its blast furnace and could be 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 ("**Baycoat**") and D.C. Chrome Limited ("**D.C. Chrome**") that complement our finishing capabilities.

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<sup>2</sup> See "*Management's Discussion and Analysis of Financial Condition and Results of Operations of Stelco Inc. — Selected Annual and Quarterly Financial Information*" for a reconciliation of the foregoing non-IFRS measure to its most directly comparable measure calculated in accordance with IFRS.

The following schematic shows various inputs, process flows and outputs:



Our operations are strategically located near our raw material suppliers and core customers which we believe positions us to serve both Canadian and United States 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 (barge, 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. We believe our strategic location is reinforced by long-term customer relationships, a track record of product performance and quality product capabilities that will enable us to re-capture market share. The average length of our relationships with our top 10 customers exceeds 20 years.

Our operations currently have substantial excess capacity and we believe this excess capacity is accessible with limited capital investment. In particular, the LEW hot strip mill has a production capacity of 3.7mnt versus our total steelmaking capacity of 2.8 mnt. We plan to backfill the LEW hot strip mill with externally sourced slabs to utilize this capacity. We also plan on increasing utilization in the near-term by targeting service centres, pipe and tube and construction customers, especially in the United States, which includes working to expand relationships with existing customers and identifying and targeting new customers. As our production volumes increase, we expect our unit conversion costs to decline thereby contributing to increased margins across our operations. In addition to the LEW hot strip mill, our HW cold mill, HW No. 3 CGL and HW Z-line, which are all designed to supply higher value-added steel for construction and automotive customers, have been underutilized. Re-engaging with these customers to increase sales volume of technically advanced steels is an important near-term focus area for the Company. Finally, several of our operations including the HW coke plant and Hamilton water treatment facilities are currently being used exclusively for internal requirements but have excess capacity. We believe that we will be able to identify third parties who would be interested in becoming customers of these facilities. A summary of our initiatives to optimize utilization of our assets is set out below:

## Selected Operations with Excess Capacity

Operation	Excess Capacity <sup>(1)</sup>	Current Initiatives
HW coke battery . . . . .	0.3 mnt	<ul style="list-style-type: none"> <li>• Potential customers for excess capacity identified</li> </ul>
LEW hot strip mill . . . . .	1.5 mnt	<ul style="list-style-type: none"> <li>• Sources of third party slab supply have been identified to buy and/or toll roll</li> </ul>
HW cold mill . . . . .	0.8 mnt	<ul style="list-style-type: none"> <li>• Recapture share in higher-margin automotive sector which Stelco had participated in prior to USS sales restrictions</li> <li>• Capital investments supporting strategy by enabling production of higher-value add products</li> </ul>
HW No. 3 CGL . . . . .	0.1 mnt	
HW Z-Line . . . . .	0.2 mnt	

**Note:**

(1) Excess capacity means design capacity less 2016 actual production.

As noted above, we intend to grow our sales of high-value steel products by leveraging our world-class finishing capabilities. We aim to grow our shipments of galvanized and galvaneal products that are primarily used for construction and automotive applications. In particular, management is focused on re-establishing commercial and development efforts on producing advanced high-strength steel (“AHSS”) and ultra-high strength steel (“UHSS”) grades. These steels are stronger and lighter than traditional grades of steel and are being increasingly used by automakers to achieve improved fuel economy without compromising safety. We plan to work closely with customers as we expand our product offering to increase the types and quantities of these advanced products. We believe that the customers that demand these specialized grades of steel will be motivated to work with us in order to diversify their supply base.

### **Lake Erie Works**

We believe LEW is one of the lowest cost steel producers in North America. LEW is located on the shores of Lake Erie (near Nanticoke, Ontario). It is situated on a 2,330 acre parcel of long-term leased property with a 1.2 kilometre dock on Lake Erie. See “*Our Business — Recent Restructuring of Our Business — CCAA Restructuring and Acquisition by Bedrock — Land Arrangements*”. LEW’s 80-inch hot strip mill is able to produce flat-rolled steels that we believe are wider than many steel mills in North America. Additionally, LEW’s steelmaking facilities possess advanced chemistry control, which facilitates the production of high-quality steel. As a result, we believe we are able to produce products with advanced physical properties in wider and lighter gauge high-strength grades than many other North American steel mills. Furthermore, we believe LEW’s location on the Great Lakes provides us with a competitive advantage in sourcing key raw materials, including iron ore from the Mesabi Iron Range and metallurgical coal from Central Appalachia. LEW also benefits from on-site rail infrastructure, access to Ontario’s 400-Series highways that are connected to the U.S. Interstate Highway System, and its 1.2 kilometre dock which has the ability to receive St. Lawrence Seaway dimension ships. Our dock has the capacity to process two vessels per day during the shipping season and, with modest investment, will provide us with the ability to cost-effectively receive third party slab and ship hot-rolled coil to

U.S. mid-western markets. We believe that the optionality of several available freight modes allows LEW to negotiate competitive rates amongst competing freight suppliers.



The largest components of LEW's cost base are the iron ore, metallurgical coal and other raw materials used to operate our facilities. Historically, we were exposed to relatively higher raw material costs. Currently, these raw materials are sourced under supply contracts that provide us with reliable access at attractive rates. Additionally, we capture, recycle, and sell many of the by-products generated in our production processes, which further enhances our cost base and eliminates waste. Collectively, we believe this enhances our operational and financial flexibility and will allow us to generate positive cash flow throughout the commodity cycle.

Our LEW facility has a proven track record of producing high-quality products for our customers. We are currently focused on expanding our technical capabilities in order to produce AHSS and UHSS grades. The equipment at LEW is well suited to produce the technically demanding grades of advanced steels that we are targeting as part of our business strategy. For example, our RH-OB vacuum degasser and ladle treatment station enables the complex chemistry control that is necessary to ensure precise regulation of impurities and alloying additives in liquid steel, which is critical for AHSS and UHSS grades. LEW also benefits from significant slab stack cooling capacity between the caster and hot strip mill, which is a requirement for a number of advanced applications. Additionally, our coilbox technology enables iso-thermal processing control at the hot strip mill that enables us to ensure uniformity of mechanical properties throughout the length of each coil.

Our strip mill has the capacity to process external slab. In addition, the high rated horsepower of the rolls allows us to process a wide variety of slab feedstock. For example, we recently toll-rolled stainless steel into coils, which is difficult due to the hardness of stainless steel slab. Management is actively pursuing opportunities to source additional material to utilize the excess capacity at the mill.

LEW also conducts some finishing operations at its three push-pull pickle lines, which were acquired in 2008 and are located adjacent to LEW in the Lake Erie Industrial Park. Pickling is the process of acid cleaning hot-rolled steel coils before they are shipped to customers or further processed into higher-value products at

HW. The pickle lines replaced older lines at HW and allow LEW to diversify and expand its product offering and customer base.

LEW is the newest greenfield integrated steel facility in North America with well-maintained assets that have benefited from substantial investment. Over \$600 million has been invested on major projects at LEW since 2000. Approximately 65% of this amount was related to the expansion of the LEW hot strip mill, which, among other improvements, increased the facility's production capacity and enhanced quality capabilities. We expect the hot strip mill will undergo an additional upgrade to enhance its capabilities, which we are targeting to be completed by the end of 2019. These upgrades will increase the product gauge-width envelope of the products that the hot strip mill is capable of producing, which are important for producing next generation products. The remaining 35% of the capital spent over this period was attributable to iron and steelmaking operations of LEW and its pickling operation, including the installation of the LEW ladle trim station which enhances LEW's ability to produce high quality, customized slabs.



In mid-August, 2017, we commenced a planned repair and maintenance of our LEW blast furnace. This resulted in an approximately three week outage of production of hot metal at LEW. The repair and maintenance work included the application of a protective shotcrete refractory to the walls of the blast furnace as well as certain other repairs to the blast furnace components to extend the life of the blast furnace and improve production output. The repair and maintenance outage was successful and the blast furnace returned to service on September 9, 2017 and cost approximately \$13 million.

We intend to proceed with a major overhaul and repair of the blast furnace by 2020 that will result in an approximate eight week outage. This overhaul will include a full relining of the brick refractory in the blast furnace along with the replacement of major components and other hardware to extend the life of the blast furnace by 15-20 years. The Company is in the process of finalizing the costing for this overhaul project and anticipates the total repair to cost between \$60-\$85 million.

## *Hamilton Works*

We believe that HW is among the most technologically advanced steel finishing facilities in North America, which provides our Company with a unique and differentiated platform to produce high quality, value add steel products. HW is situated on an approximately 290 acre parcel of long-term leased property located directly on Hamilton Harbour, providing access to the Great Lakes and the St. Lawrence Seaway System. See “*Our Business — Recent Restructuring of Our Business — CCAA Restructuring and Acquisition by Bedrock — Land Arrangements*”. HW is strategically located close to the key steel consuming regions of Southern Ontario and the mid-western United States. These regions represent the heart of North American automotive manufacturing where numerous original equipment manufacturers (“OEMs”) and Tier 1 component manufacturers are located. HW is located within a three hour drive of most light automotive manufacturing facilities in Canada and well positioned to supply Detroit and other major United States automotive regions.

HW was historically a fully-integrated steel producer, consisting of a coke battery, blast furnace, and finishing lines. However, its steelmaking operations were permanently shut down in 2013 and HW now consists of finishing lines and a coke battery. HW’s finishing lines include a modern and technically advanced cold-rolled line with an annual capacity of 1.3 mnt, a state-of-the-art Z-Line with an annual capacity of 470,000 nt of galvanized steel and a CGL with an annual capacity of 200,000 nt. HW’s coated products are difficult to produce and are sold to demanding customers, where quality, on-time delivery, and customer service allow us to differentiate us from our competitors. HW’s facility has precise width and gauge control at our cold mill, which allows us to further enhance our hot-rolled pickle product into thinner and more uniform widths and gauges. In addition, our CGL line at HW produces zinc-coated, corrosion resistant steel products that are widely used in construction and appliances. Our 72-inch Z-Line was constructed to serve the automotive industry and is qualified by a number of automotive manufacturers for the supply of certain grades of AHSS products. We believe the Z-Line has the potential to produce more advanced AHSS products and a portion of the Net Proceeds of the Offering (as defined herein) will be used to fund AHSS and UHSS research and enhance our product capabilities.



Similar to LEW, HW has benefited from substantial investment with over \$90 million spent on major projects since 2000. These investments include quality and capacity upgrades at the HW's cold mill and Z-Line. We plan to use a portion of the Net Proceeds of the Offering to restart HW's temper mill and for the installation of annealing furnaces. This will allow us to produce cold-rolled fully processed steel, which has historically commanded higher prices relative to the cold-rolled products we produce today.

### ***Products***

LEW products can be broken into three broad categories: (i) slabs, which are further processed at LEW; (ii) hot-rolled coil, which is relatively thick sheet steel used for structural, construction, automotive or tubing purposes or for further processing; and (iii) hot-rolled pickle, which is hot-rolled coil that has been further processed when surface quality is important. Hot-rolled pickle is either sent to HW for further processing or sold directly for use in applications including hydroformed tubing, automotive safety hardware and accessories as well as further processing into cold-rolled coil.

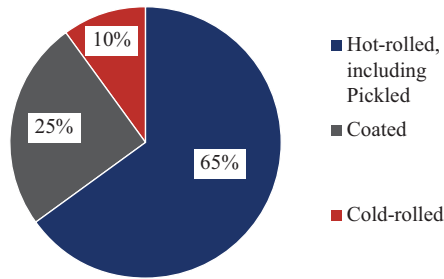


HW cold-rolled and coated products can be broken into two broad categories: (i) cold-rolled full hard, which is used in selected applications where the desired thickness is less than the minimum thickness available in hot-rolled form but corrosion resistant coating is not required; and (ii) galvanized and galvalume sheet steel for automotive, construction, pre-paint and appliance applications where corrosion resistant coating is required. We are in the process of restarting our temper mill and we plan to install batch annealing furnaces at HW, which will allow us to make and sell fully processed cold-rolled coil. Currently, this product is sold at a significant premium to hot-rolled coil and cold-rolled full hard coil.

The following chart shows our historical breakdown of volume shipments by product in 2006, which we believe is a representative year for our target product mix, and 2016.

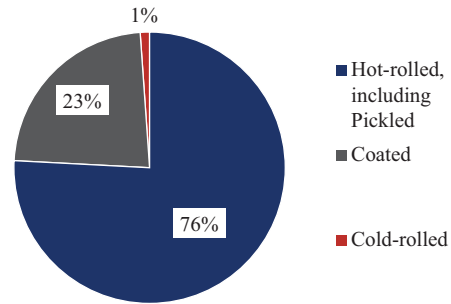
**Consolidated Shipments by Product (nt shipped basis)**

**2006**



Total volume: 2.95 mnt

**2016**



Total volume: 1.97 mnt

We currently produce certain grades of AHSS and UHSS, and our goal is to expand our product capabilities, including next generation AHSS and UHSS. To accomplish this objective, we plan to increase our focus on developing technically demanding grades of steel, which have historically commanded the most substantial price premiums. Our target product mix by 2022 of 3,000-3,200 knt is expected to be comprised of 2,000-2,200 knt of hot-rolled coil, 650 knt of coated products and 350 knt of cold-rolled coil assuming we reach full capacity for coated products and cold-rolled coil. Actual future product mix may differ materially from the target product mix. See “*Forward-Looking Information*” for a discussion of the uncertainties, risks and assumptions associated with this statement.

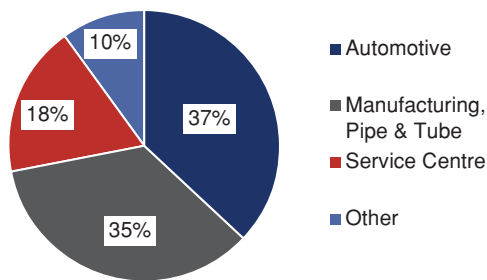
Our coking operations at both HW and LEW produce coke that has historically been used primarily to support iron-making operations at LEW. We have identified that in the future, we may have excess coke and if we do, we intend to sell excess coke to third parties as an additional revenue opportunity.

**Customers**

Today, the principal customers of our products are steel service centres and pipe and tubular products manufacturers. In the past, we have also been a direct supplier to the automotive industry and our strategy is designed to recapture that market share. The following chart shows our historical breakdown of volume shipments per class of customers in 2006, which we believe is a representative year for our target end market mix, and 2016.

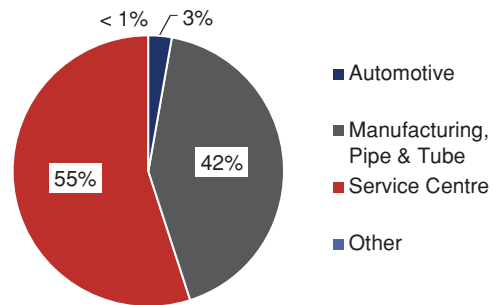
**Consolidated Shipments by End-Market (nt shipped basis)**

**2006**



Total volume: 2.95 mnt

**2016**



Total volume: 1.97 mnt

As noted above, a significant base of our customers were historically automotive OEMs which accounted for roughly 37% of our sales in 2006. During our ownership by USS, automotive contracts were procured and sourced by USS. Following arrangements entered into with USS in October 2015 to establish operational separation, we assumed responsibility for all of our own sales and marketing activities and have subsequently

developed a marketing and sales strategy to grow our business, including once again sourcing business directly from OEMs and Tier 1 component manufacturers. During the CCAA proceeding we focused on rebuilding relationships in the OEM sector, updating OEM on our capabilities, communicating key milestones and events related to the CCAA process, and developing roadmaps to recover our OEM market participation following emergence from CCAA creditor protection. Additionally, we have spent time analyzing the trends in the automotive market to determine supply needs in order to identify future staffing and resource requirements to service these markets.

### **Joint Ventures**

We own a 50% limited partner interest in Baycoat, a joint venture partnership with ArcelorMittal Dofasco (“AMD”). The general partner, Baycoat Limited owns a nominal interest in Baycoat and is jointly owned by our Company and AMD. We believe Baycoat is one of Canada’s largest painters of flat-rolled steel coils for a wide range of industrial and commercial applications. It operates two steel coil-coating lines, each equipped to coat cold-rolled or galvanized steel with a variety of exterior and interior paints, from a site in Hamilton, Ontario. Baycoat’s only customers are our Company and AMD. Baycoat coats the steel owned by its customers for a tolling fee and is self-funded through toll processing fees charged to our Company and AMD. The primary market for these products are the construction, manufacturing and other sectors. Representatives of our Company serve on the board of directors of Baycoat Limited.

We also own 50% of D.C. Chrome, a joint venture with The Court Group of Companies Limited. D.C. Chrome operates a mill roll grinding/texturing and hard chromium plating plant in Stoney Creek, Ontario. D.C. Chrome textures rolls and chromium-plates rolls used in the cold-rolling of steel by our Company at HW, as well as for other customers and the grinding and chroming of steel shafts used in hydraulic pistons. It is funded through payments from our Company, its major customer, and, to a much lesser extent, from its other customers for services provided. Representatives of our Company serve on the board of directors of D.C. Chrome.

### **Employees**

As of September 18, 2017, our work force consisted of 2,227 employees, 576 of whom had salaried positions and 1,651 of whom had hourly positions. We work closely with the United Steel, Paper and Forestry, Rubber, Manufacturing, Allied Industrial, and Service Workers International Union (“USW”) and other organizations to train our employees. We have an existing profit sharing plan for our unionized employees and we have implemented a performance-based compensation system for our salaried employees, which allows our employees to participate meaningfully in the performance of the Company. Similar to other North American integrated steel producers, we will engage contractors from time to time to assist with matters such as reducing the duration of our maintenance work.

There are currently three collective agreements between our Company and each of USW Local 8782, USW Local 8782(b) and USW Local 1005. USW Local 8782 and USW Local 8782(b) collectively represent 1,908 current and former hourly employees of LEW and LEW’s pickle lines and USW Local 1005 represents 8,050 current and former hourly employees of HW. The collective agreements were amended on June 30, 2017 to reflect a new five-year term, the new pension benefits and OPEBs arrangements between our Company and our employees. We believe we have a positive and constructive relationship with our labour unions. See “—*Recent Restructuring of Our Business — CCAA Restructuring and Acquisition by Bedrock — Labour and Employment Matters*”.

### **Competition**

Currently all of our sales are in North America, with competition coming primarily from integrated producers, like ourselves, as well as electric arc furnace (“EAF”) producers. EAF producers typically require lower capital expenditures for construction of facilities and may have lower total employment costs; however, these competitive advantages may be minimized or eliminated when scrap prices are high. The North America steel market is large and highly competitive. Management believes that we can compete effectively in this market given our current cost structure including our low leverage as a result of our emergence from the CCAA proceedings. We also face competition from outside North America, including from China which is estimated to

have a steel capacity of over one billion metric tons per year. Management believes that we can compete effectively against imported steel given our shorter lead time and the costs of importing steel into the North American market including applicable duties. In addition, other products, such as aluminum, plastics and composites, compete with our products. Furthermore, our competitive position may be affected by, among other things, differences among our and our competitors' cost structure, labour costs, environmental remediation and compliance costs, global capacity and the existence and magnitude of government subsidies.

## **Environmental, Health and Safety**

### ***Environmental***

Our business is subject to substantial and evolving environmental laws, regulations and other requirements relating to, among other things, emissions to the air, discharges to water or land, noise control, and the handling, storage, transportation, treatment, and disposal of hazardous and non-hazardous substances. These laws, regulations and other requirements can involve federal, provincial, and municipal levels of government.

Our commitment is 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 improve continually.

We review and audit the operating practices of our business to monitor compliance with the Company's health and safety and 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. There is always the possibility, however, that unforeseen changes (such as in the law enforcement policies of relevant government bodies), or circumstances (such as the discovery of changed conditions on the Company's leased lands or its operations), could result in an increase in the costs of environmental compliance that could result in a material adverse effect on the Company's financial position or could materially affect the Company's operations, especially its ability to increase production.

As a result of our emergence from CCAA, we entered into a Framework Agreement Concerning Environmental Issues at the Hamilton Works and Lake Erie Works properties with Bedrock and the Province of Ontario (the "**Environmental Framework Agreement**") which we believe has significantly lowered our exposure to unforeseen historic environmental issues at LEW and HW. As Stelco 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 at the HW Lands and LEW Lands. Under the terms of the Environmental Framework Agreement, we are working to establish the extent and nature of such historical contamination. We have received a release from the Province of Ontario on the Completion Date, pursuant to which it agreed not to hold the Company liable for certain historical contamination provided that we comply with the terms of the Environmental Framework Agreement. See "*— Recent Restructuring of Our Business — CCAA Restructuring and Acquisition by Bedrock — Environmental Arrangements*".

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* ("**CEPA**") 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 ("**NOx**"), and volatile organic compounds ("**VOC**") and the Notice applies to all steel mills (including LEW and HW, other integrated mills as well as mini mills). The Notice requires these facilities to prepare and implement plans to achieve specified air emission targets for SO<sub>2</sub>, NOx, and to implement best practices to reduce fugitive emissions of VOCs. As noted above, the target date for desulphurization of coke oven gas is January 1, 2026. The facilities are 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. We currently estimate that it will cost us between \$40 million and \$50 million at each of LEW and HW coke ovens for a total \$80 million to \$100 million to comply with this requirement if we choose to continue to operate these units.

### ***Health and Safety***

The health and safety of our employees is one of our top priorities. We are committed to continued responsibility and excellence in the health and safety of our employees and in protecting the environment of the communities where we have operating facilities. In recent years, we have continually invested in the health and well-being of our employees. These investments have included enhancements to personal protection equipment for all employees, improvements to existing equipment and the workplace environment to enhance employee safety and protection, and continuous review of policies and procedures to implement best practices 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. Our continued focus on employee safety has resulted in a 80% decrease in occupational safety and health recordable incidents at our facilities between 2009 and 2016, from 2.238 incidents per 200,000 hours in 2009 to 0.447 incidents per 200,000 hours in 2016.

### **Acquisition by USS in 2007**

In early 2007, following completion of an operational restructuring, Stelco Inc. began to explore merger or sale opportunities for its business. After running a competitive sale process, Stelco Inc. consummated a sale to USS in October 2007 reflecting an enterprise value of approximately US\$2 billion. After the acquisition, Stelco Inc. changed its name to U. S. Steel Canada Inc. From October 2007 until June 30, 2017, a period of nearly 10 years, USSC was as an indirect, wholly-owned subsidiary of USS. During this period, the operations of USSC became highly integrated with its parent, USS, as part of the effort to reduce overall USS costs and take advantage of operational scale and synergies. USSC came to rely on USS to service a significant portion of its operations. Also, USSC's mining interests were transferred to USS at the end of 2007.

### **Recent Restructuring of Our Business**

#### ***CCAA Restructuring and Acquisition by Bedrock***

In September 2014, it was concluded that USSC's business was not viable without a formal restructuring of its operations and obligations under the CCAA. USSC was insolvent at the time and it projected that its liquidity needs through to the end of 2014 would exceed its cash on hand and other sources of liquidity and that it had additional projected liquidity needs in 2015 for which it did not have funding. On September 16, 2014, USSC filed for creditor protection under the CCAA.

During the period of CCAA protection, USSC ran a competitive process in order to sell the business, from which Bedrock emerged as the successful bidder. In December 2016, USSC and Bedrock entered into a plan sponsor agreement reflecting the principal terms for the acquisition of the business and USSC obtained approval of the Ontario Superior Court of Justice (the "**Court**") to pursue a restructuring with Bedrock by way of a CCAA plan and related stakeholder agreements (subject to approval by further order of the Court).

On June 9, 2017, the Court approved the second amended and restated plan of compromise, arrangement and reorganization of our Company under the CCAA and the *Canada Business Corporations Act* ("**CBCA**") (the "**Plan**"), which provided for the acquisition from USS of all of the outstanding shares of USSC by Bedrock. The transactions contemplated by the Plan were completed on June 30, 2017 (the "**Completion Date**") with Bedrock thereby indirectly acquiring substantially all of our operating assets and business on a going concern basis.

The Plan and related agreements with our key stakeholders and creditor groups collectively provided for the following critical aspects of our restructuring to address the major financial and structural challenges facing the Company at the time:

1. cooperative resolution of issues with our employee unions, each of whom ratified an amendment to or renewal of its collective agreement;
2. release from our significant debt obligations, including those in favour of USS and the Province of Ontario;
3. release from the Province of Ontario for certain liability for historical environmental contamination matters relating to the LEW Lands and the HW Lands (as defined herein);
4. restructuring of our pension and OPEB obligations, with the assistance of commitments from Bedrock and the Province of Ontario and through spinning off our land assets into the Land Vehicle (as defined herein) to help fund legacy pension and OPEB entitlements, which has significantly lessened the previously high ongoing funding costs for these obligations; and
5. independence from USS (subject to certain transitional arrangements).

As a result of these measures, we emerged from the CCAA proceedings as a competitive, going concern, stand-alone steel manufacturer with positive cash flows and a healthy balance sheet. The key details of each of these measures are described below.

#### *Labour and Employment Matters*

HW employed approximately 859 people as at September 18, 2017. 560 of these employees were represented by USW Local 1005. LEW employed approximately 1,368 people as at September 18, 2017. 1,091 of these employees were represented by USW Local 8782 or USW Local 8782(b) (together with USW Local 8782 and USW Local 1005, (the “Locals” and each a “Local”). We entered into memorandums of understanding (the “MOAs”) with each of the Locals that set out the terms for amendments to or a renewal of their existing collective agreements which became effective on the Completion Date. The MOAs include the agreement of the applicable Local to the restructured pension and OPEB obligations (as applicable to such Local and its current and former members) and the broad releases by the applicable Local of our Company and the other key stakeholders in respect of such obligations. Each MOA extends the term of the collective agreement with the applicable Local until July 1, 2022. Each MOA was ratified and received broad support from the members of each applicable Local.

#### *Indebtedness*

On the Completion Date, we entered into a payout and discharge agreement with USS which provided for the payment in full of all secured claims of USS against our Company, which were equal to approximately US\$127 million, and the discharge of all corresponding security interests. Unsecured claims in respect of USS loans totaling \$1,576 million plus accrued interest, consisting of the USS term loan and USS unsecured revolving loan, and net trade amounts of \$26 million were discharged and cancelled for nominal consideration.

In addition, general unsecured creditors, who overwhelmingly approved the Plan at a meeting of creditors held on April 27, 2017, received a cash distribution in respect of their claims (other than the Province of Ontario, which waived its distribution in respect of its unsecured loan of approximately \$150 million) which in aggregate totalled \$15.4 million, and their claims of approximately \$281 million in the aggregate were discharged.

We entered into a revolving asset-based lending facility pursuant to which we have the ability to borrow up to the lesser of \$375 million and the Borrowing Base (as such term is defined in the ABL Credit Agreement). See “*Description of Material Indebtedness*”.

The Province of Ontario provided a loan to our Company to fund a portion of the Advance OPEB Payment described below of which \$10.5 million has been advanced (the “**Provincial OPEB Advance**”) and used to fund OPEBs (maximum commitment of \$22 million). We intend to use a portion of the Net Proceeds of the Offering to repay the Provincial OPEB Advance. See “*Use of Proceeds*”.

## *Environmental Arrangements*

On the Completion Date, we received a release from the Province of Ontario. In the release, the Province of Ontario agreed not to hold, among others, Stelco Inc. liable for historical contamination in respect of the HW Lands and LEW Lands except in circumstances where Stelco Inc.: (1) does not comply with specified obligations under the Environmental Framework Agreement or (2) has altered, exposed or mobilized the historical contamination through certain defined activities or conduct. Stelco Inc. entered into the Environmental Framework Agreement and paid US\$61 million to the Province of Ontario (the “**Province Payment**”) in consideration for such release. The Environmental Framework Agreement sets out an environmental management plan relating to our ongoing operations at HW and LEW including, among other things: (1) a soil, groundwater and on-site sediment monitoring program, (2) the establishment and updating of reference contaminant levels, and (3) reporting frequency and timing. Under the Environmental Framework Agreement, Stelco Inc. is required to comply with all applicable environmental laws and to respond to environmental incidents, even those that relate to historical contamination, as required by applicable environmental laws. Where remediation and/or clean-up of soil and/or groundwater is required, Stelco Inc. could incur significant costs in responding to environmental incidents. However, under the Environmental Framework Agreement, we expect that Stelco Inc. would likely be entitled to reimbursement from the Province of Ontario in respect of most costs Stelco Inc. incurs in addressing an environmental incident that relates to historical contamination. If the Ontario Ministry of the Environment and Climate Change (“**MOECC**”) determines that there is a portion of the Province Payment that is not required by the MOECC in connection with historic environmental issues, one half of such portion will then be allocated to the ELHTs (as defined herein) and the other half will be paid to the Main Pension Plans (as defined herein). All such distributions will be subject to the application of such funds to the payments of debts of the Land Vehicle to the Province of Ontario. Stelco Inc. recently discovered an isolated leak that resulted in contamination being released into the surrounding soil. Stelco is continuing to investigate the incident to determine the nature and extent of the contamination and the degree to which such contamination relates to historical contamination. See “*Risk Factors — Environmental compliance and remediation could result in substantially increased costs and materially adversely impact our competitive position*”.

## *Land Arrangements*

On the Completion Date, the 810 acre parcel of land in Hamilton, Ontario, including where the HW facilities are situated (the “**HW Lands**”), and the 6,600 acre parcel of land on the shores of Lake Erie (near Nanticoke, Ontario), including where the LEW facilities are situated (the “**LEW Lands**”), together with most of our other real property (collectively, the “**Land Assets**”), were transferred to two nominees, each holding the applicable lands for and on behalf of the Legacy Lands Limited Partnership (collectively, the “**Land Vehicle**”), a limited partnership formed for the purpose of holding the Land Assets for the benefit of the Main Pension Plans and the ELHTs.

The Land Vehicle has agreed to sell or otherwise dispose of the Land Assets within ten years of the Completion Date. Subject to the repayment of certain debt, if applicable, and the deduction of certain costs and expenses, the proceeds of such sale will be applied for the benefit of the Main Pension Plans and the ELHTs.

The Land Vehicle has leased approximately 2,330 acres on which the LEW facilities are situated (the “**LEW Leased Premises**”) and approximately 290 acres on which the HW facilities are situated (the “**HW Leased Premises**”) back to us for an initial term of 25 years each (subject to obtaining *Planning Act* (Ontario) (the “**Planning Act**”) consent) pursuant to lease agreements (the “**Lease Agreements**”). Until consent under the Planning Act has been obtained, the term of each lease, including all extension rights, will be limited to 21 years less a day, provided that we will have the option to purchase the LEW Lands or the HW Lands, as applicable, if such consent has not been obtained within such time and if we have not entered into a new lease with the Land Vehicle for the LEW Leased Premises or the HW Leased Premises, as applicable, on the same terms and conditions and for the same base rent set out in the applicable lease for another term of 20 years. Our Company and the Land Vehicle will also enter into various land use agreements to govern the relationship between the Land Vehicle and Stelco Inc.

The Land Vehicle was also assigned Stelco Inc.’s lessee interest in the water lot lease with the Province of Ontario concerning the water on which our 1.2 kilometre dock at the LEW facilities are located (the “**Water Lot**”).

**Lease**”), and was in turn subleased back to Stelco Inc. The Water Lot Lease has an original term of 50 years, expiring on December 31, 2025.

In addition, certain of the premises of the HW Lands that are not required for our business operations over the long-term are leased for terms ranging from two to 24 months following the Completion Date and we do not have the right to extend such terms.

For the first two years of the Lease Agreements, no rent is payable. For years three through ten, we will pay aggregate base rent to the Land Vehicle of approximately: \$5 million in year three, \$7 million in year four and \$10.5 million in each of years five through ten. For the remaining term of the Lease Agreements, annual base rent will be approximately \$10.225 million in year 11, escalating annually thereafter in accordance with the consumer price index for inflation in Canada. In addition, we are required to pay certain additional amounts under the Lease Agreements, including specified taxes and operating costs.

#### *Tax Savings Arrangements*

We entered into a Tax Savings Agreement (the “**Tax Savings Agreement**”) on the Completion Date whereby (1) we would forego the benefit of 50% of certain tax attributes existing immediately following closing that would otherwise be available to reduce our income tax liability in post-closing tax years provided the requirements pursuant to the Tax Act to claim such amounts are satisfied, and (2) for each post-closing tax year (including the first tax year ending after June 30, 2017) we would make an annual cash payment equal to 33.5% of the tax savings actually realized in that year in respect of the remaining tax attributes (the “**Tax Savings Payments**”) which shall be paid as follows: (i) the first \$75 million of Tax Savings Payments shall be paid to the Main Pension Plans; and (ii) any amounts in addition shall be paid 50% to the ELHTs and 50% to the Main Pension Plans. The Tax Savings Agreement continues for 20 years subject to earlier termination in limited circumstances. As of the Completion Date, after giving effect to the 50% reduction outlined in the Tax Savings Agreement, approximately \$1.1 billion of non-capital loss carry-forwards and other tax attributes are available on a pre-tax basis.

#### *Pension Arrangements*

One of the major financial challenges that necessitated USSC seeking CCAA protection in 2014 was a significant funding deficit in relation to and the high cash funding costs of the five main defined benefit pension plans sponsored by USSC (the “**Main Pension Plans**”). As of December 31, 2013, the aggregate deficit in the Main Pension Plans on a solvency funding basis was estimated at \$838.7 million and our annual cash funding obligations under the Main Pension Plans, which were limited to approximately \$70 million, were set to significantly increase to more than \$200 million per annum starting in 2016.

The Plan, the related applicable agreements and the new pension regulations that were implemented on the Completion Date provide that, except for certain specified contributions to the Main Pension Plans, we have no other funding obligations in respect of the Main Pension Plans while the Main Pension Plans are ongoing and we are released from any liability for wind up deficit funding of the Main Pension Plans as of the Completion Date. As such, the maximum total contribution of our Company to the Main Pension Plans from the Completion Date is limited to \$400 million (not including the normal cost contributions for 2017).

Under the pension agreement (the “**Pension Agreement**”) entered into on the Completion Date among Stelco Inc., Bedrock, the Province of Ontario and the Superintendent of Financial Services (the “**Superintendent**”), defined benefit accruals under all of the Main Pension Plans will cease effective December 31, 2017. The Pension Agreement provides for, among other things, funding, administration and governance matters in relation to the Main Pension Plans and the three new defined benefit pension plans to be established and administered by our Company in respect of service after December 31, 2017 as successor pension plans to three of the five Main Pension Plans (the “**New Pension Plans**”). Effective January 1, 2018, employees who are not earning pension entitlements under the New Pension Plans will participate in the “Opportunity Plan” under which we make limited contributions to a RRSP.

In addition, on the Completion Date, the Province of Ontario passed a special regulation under the *Pension Benefits Act* (Ontario) (the “**Pension Act**”) titled *U. S. Steel Canada Inc. Pension Plans*, O. Reg 255/17

(the “**Special Regulation**”) which provides, among other things, that, except as set out in the Pension Agreement and the Special Regulation, we have no funding obligations in respect of the Main Pension Plans while they are ongoing, we will be exempt from any wind-up deficit funding obligations under Section 75 of the Pension Act, and the deemed trust provisions of the Pension Act do not apply to the Main Pension Plans or to us in respect of the Main Pension Plans.

On the Completion Date, we contributed \$99.8 million to the Main Pension Plans of which approximately \$30 million was retained by the plans and approximately \$69.8 million was then paid to the Company by the plans to acquire an interest in the HW Lands and LEW Lands from the Company through the Land Vehicle.

We are not permitted to pay any dividend, redeem any capital stock or otherwise directly or indirectly make any distribution to our shareholders, affiliates, investors or funds unless and until we have paid \$20 million to the Main Pension Plans (the “**Advance Pension Payment**”) and special payments to fund OPEBs in the aggregate amount of \$30 million (the “**Advance OPEB Payment**”). We may use a portion of the Net Proceeds of the Offering to make the Advance Pension Payment, the remaining portion of the Advance OPEB Payment and repay of the Provincial OPEB Advance. See “*Use of Proceeds*”.

Our future funding obligations with respect to the Main Pension Plans are limited to the contributions contemplated in the Plan, the Special Regulation and the Pension Agreement and related agreements, which (subject to an aggregate maximum amount of \$400 million, not including the normal cost contributions for 2017) are as follows:

1. Normal Cost Contributions for 2017 — we are required to make contributions to satisfy the normal cost of benefits accruing under the Main Pension Plans until December 31, 2017 in accordance with the general funding regime under the Pension Act;
2. Free Cash Flow Contribution — annually, we are required to contribute 10% of Free Cash Flow (as defined in the Pension Agreement) to the Main Pension Plans, subject to paying minimum amounts of \$5 million in 2017, \$10 million per year in 2018 through 2021, \$15 million per year in 2022 through 2036 and \$5 million in 2037; and
3. Tax Savings Contributions — pursuant to the Tax Savings Agreement, we are obligated to contribute to the Main Pension Plans each fiscal year commencing in 2018 to and including our tax year ending after June 30, 2037 (subject to earlier termination in limited circumstances) the following amounts:
  - (i) 33.5% of the annual tax savings, if any, realized by our Company in respect of the year, until a cumulative \$75 million of such contributions have been made to the Main Pension Plans; and
  - (ii) thereafter, 16.75% of the annual tax savings, if any, realized by our Company in respect of the year.

Additionally, in respect of the New Pension Plans established for the benefit of approximately 800 members of the LEW and HW hourly bargaining unit members who continue to be active members of such plans (the “**Historic Members**”), the Pension Agreement and Special Regulation require contributions from the Company to the New Pension Plans of approximately \$4 million per year for the period from January 1, 2018 to December 31, 2027. By no later than January 1, 2028, our Company will be required to fund the New Pension Plans in accordance with the general funding regime under the Pension Act, including any deficit funding obligations, as applicable. However, we believe that our future funding obligations under the general funding regime under the Pension Act will not be material given the fact that there are limited number of Historic Members and because no additional members will be added to the New Pension Plans.

We have historically been the administrator of the Main Pension Plans and we continue in that role currently. In connection with the Plan and as contemplated by the Pension Agreement, administration of the Main Pension Plans will be transitioned to a new permanent administrator to be appointed by the Superintendent prior to December 31, 2017.

#### *Bedrock Guarantee*

In accordance with the terms of the Pension Agreement, Bedrock has guaranteed pursuant to a guarantee dated June 30, 2017 in favour of the administrator of each of the Main Pension Plans in its capacity as such (the “**Administrator**”) and the Province of Ontario (the “**Bedrock Guarantee**”) certain minimum contributions of

our Company to the Main Pension Plans pursuant to the terms of the Pension Agreement up to a maximum amount of \$160 million (the “**Guarantee Amount**”). The Guarantee Amount may be reduced based upon, among other things, certain contributions being made to the Main Pension Plans. The Bedrock Guarantee is fully and finally discharged upon the earlier of the Guarantee Amount being reduced to zero or the aggregate amount of all payments made by our Company or Bedrock under the Pension Agreement reaching \$300 million. Pursuant to a contribution agreement dated June 30, 2017 entered into by LG Bedrock (as defined herein) and AK Bedrock (as defined herein), the principal limited partners of Bedrock, with Bedrock, its general partner Bedrock Industries GP LLC, the Administrator and the Province of Ontario, they agreed in favour of Bedrock to make capital contributions to Bedrock to the extent of their capital commitments to Bedrock as necessary to enable Bedrock to fulfill its obligations under the Bedrock Guarantee (the “**Contribution Agreement**”). Pursuant to an equity commitment letter dated June 30, 2017 entered into by Lindsay Goldberg Fund IV, LP with LG Bedrock, the Administrator and the Province of Ontario, it agreed in favour of LG Bedrock to purchase certain limited partnership interests of LG Bedrock with a purchase price not exceeding the Guarantee Amount as required to enable LG Bedrock to fulfill LG Bedrock’s and AK Bedrock’s obligations to make capital contributions to Bedrock under the Contribution Agreement (the “**Equity Commitment Letter**”).

Pursuant to the Pension Agreement and as a term of the Bedrock Guarantee, the Company agreed that to the extent that Bedrock or its affiliates provides funding to the Company pursuant to the Bedrock Guarantee, such amounts will be contributed to the Company as equity capital or advanced to the Company pursuant to debt instruments of the Company subordinated and postponed to the Company’s obligations to make payments to the ELHTs pursuant to the OPEB Funding Agreement and to fund the Main Pension Plans. Bedrock has confirmed to us that in the event that it or its affiliates are obliged to provide funding to the Company pursuant to the Bedrock Guarantee, it will elect to provide such funding through such debt instruments of the Company rather than equity capital of the Company.

In the event of a “**Qualified IPO**” (as defined in the Bedrock Guarantee), such as the Offering, Bedrock may assign the Bedrock Guarantee to the Issuer with the consent of the Province of Ontario and the Administrator of the Main Pension Plans, such consent not to be unreasonably withheld, delayed or conditioned, if the Company then has the financial capacity to pay the remaining balance of the Guarantee Amount. Additionally, in the case of certain change of control transactions, the Bedrock Guarantee may be assigned to the acquiror with the consent of the Province of Ontario and the Administrator.

#### *OPEB Arrangements*

A major financial challenge of USSC that led to seeking CCAA protection was the high cash funding costs of OPEBs. As of December 31, 2014, the aggregate liabilities of USSC to provide OPEBs for current and future retirees was estimated at \$870 million. At September 2014, USSC’s cash funding obligations for OPEBs was anticipated to continue to be approximately US\$42 million per year. The Plan provided for a restructuring of the prior OPEB arrangements, with future minimum and maximum annual contributions of the Company to fund OPEBs.

On the Completion Date, we entered into an OPEB funding agreement (the “**OPEB Funding Agreement**”) with the Province of Ontario and the Employee Life and Health Trusts that were established for the purpose of receiving, holding and distributing funds on account of OPEBs (the “**ELHTs**”) providing that the ELHTs will be responsible for the payment of OPEBs to our Company’s retirees after the Completion Date and the Company will be responsible for making specified contributions to the ELHTs. Future OPEBs will be determined by the ELHT trustees. The Company will have no responsibility for the payment or funding of OPEBs beyond the requirements of the OPEB Funding Agreement.

On the Completion Date, we contributed approximately \$69.8 million to the ELHTs in order for ELHTs to subscribe for units in the Land Vehicle. The Land Vehicle in turn used those proceeds and the proceeds from the subscription by the Main Pension Plans to acquire its interest in the HW Lands and LEW Lands from our Company, as described above.

The Plan, the OPEB Funding Agreement and related agreements provide for the following funding obligations by the Company:

1. Stelco Annual Contributions — fixed contributions by our Company of between \$9.0 million and \$15.0 million per year (depending on the year) in years 1-10 to the ELHTs, for an aggregate contribution of \$120 million, and \$15 million per year to the ELHTs for years 11-20, for an aggregate contribution of \$150 million;
2. Advance OPEB Payment — payments by our Company to the ELHTs in years 1-4 in the aggregate of \$30 million. The Province of Ontario agreed to loan \$22 million in aggregate to our Company (the “**OPEB Advance Payment Loan**”) to fund a portion of the Advance OPEB Payment of which \$10.5 million was advanced to the Company on the Completion Date;
3. Free Cash Flow — the requirement for Stelco to pay 6.5% of its Free Cash Flow (as defined in the OPEB Funding Agreement) to the applicable ELHTs to a maximum of \$15 million per annum for a period of up to 20 calendar years on and after the Completion Date. The free cash flow maximum contribution is reduced to \$11 million per annum by the earlier of 2027 and the completion of the calendar year in which certain loans advanced to the ELHTs by the Province of Ontario in respect of OPEB funding are repaid;
4. Tax Savings — 16.75% of the annual tax savings, if any, realized by our Company in respect of the year after \$75 million of such contributions have been made to the Main Pension Plans; and
5. Excess Free Cash Flow — If excess Free Cash Flow is greater than \$200 million in any year for the first 10 years on and after the Completion Date, we shall contribute a percentage of the excess Free Cash Flow which is in excess of \$200 million in the year to applicable ELHTs.

If the cost of OPEBs for USW Local 8782 and USW Local 8782(b) retirees is more than \$40 million over the course of 10 years, the Company is required to fund the deficit. If the cost of OPEBs for USW Local 8782 and USW Local 8782(b) retirees is less than \$40 million over the course of 10 years, the difference between the actual cost and \$40 million shall be paid to the ELHTs as directed by the Company. In addition, in certain circumstances, we have agreed to advance up to \$39 million in the form of a secured loan to the ELHTs to ensure a minimum level of funding is available to fund OPEBs over the first 10 years after the Completion Date.

As discussed above, we are not permitted to pay any dividend, redeem any capital stock or otherwise directly or indirectly make any distribution to our shareholders, affiliates, investors or funds unless and until we have made the Advance Pension Payment and the Advance OPEB Payment. We intend to use a portion of the Net Proceeds of the Offering to make the Advance Pension Payment, the remaining portion of the Advance OPEB Payment and repayment of the Provincial OPEB Advance. See “*Use of Proceeds*”.

### *USS Arrangements*

#### Pellet Sale and Purchase Contract

Effective July 1, 2017, we and Bedrock Industries have entered into a pellet sale and purchase contract with USS which provides that USS will supply us with all of our requirements for iron ore pellets at LEW through January 31, 2022 up to a maximum amount (the “**Pellet Sale and Purchase Contract**”).

#### Transition Services Agreements

Our Company continues to rely on certain intercompany services provided by USS. In particular, on June 30, 2017, we entered into three transition services agreements with USS and Bedrock Industries (the “**Transition Services Agreements**”), which provided that USS would continue to provide certain IT services and transition services for a certain period. We have also agreed to provide certain transitional business services to USS which are necessary to maintain status quo operations in respect of the certain business processes of USS for certain periods (depending on the service). Both parties will pay a service charge per month and expenses in connection with the provision of such services.

### Mutual Confidentiality and Non-Disclosure Agreement

On June 30, 2017, we entered into a Mutual Confidentiality and Non-Disclosure Agreement with USS and Bedrock Industries (the “**Confidentiality Agreement**”). The agreement governs the use of non-public, confidential, proprietary information that USS or the Company may obtain in connection with providing transition services to one another.

### Pension Transition Agreement

On June 30, 2017, we entered into a Pension Transition Agreement with USS and Bedrock Industries (the “**Pension Transition Agreement**”). The agreement provides that USS will provide us with certain software and services necessary for the continued administration of the Main Pension Plans for a certain period of time in consideration for a monthly fee.

### Intellectual Property Agreement

On June 30, 2017, we entered into an Intellectual Property Agreement with USS and Bedrock Industries (the “**Intellectual Property Agreement**”). As part of the agreement, we agreed that we would not use USS proprietary information in our operations or make, process or sell certain grades of steel under certain conditions, including where such act involves the use of USS proprietary information.

### Indemnity Agreement

Effective at Closing, the Issuer will enter into an indemnity agreement (the “**Indemnity Agreement**”) between it and Bedrock Industries pursuant to which the Issuer will indemnify and hold harmless Bedrock Industries for any obligations that it may have from time to time after Closing under the terms of the USS Agreements (including its obligations to cause Stelco to perform its obligations under the USS Agreements).

### Global Full and Final Release

To obtain the participation in and support of our Company’s restructuring from our key stakeholders, it was essential that broad releases be exchanged as a condition to the restructuring. On the Completion Date, the following parties entered into a global full and final mutual release (the “**Global Release**”): our Company and our subsidiaries (the “**Stelco Group**”), USS and its affiliates excluding the Stelco Group, United States Steel and Carnegie Pension Fund, the Province of Ontario, the USW, the Locals, the Non-USW Active and Retiree Beneficiaries (as defined in the Representative Counsel Order) acting through the Non-USW Representatives, certain individuals that opted out of representation by Representative Counsel and certain current and former directors and officers of our Company.

The Global Release released all claims between the various counter-parties that related to our Company, our Company’s assets or business, our Company’s pension plans, the CCAA proceedings or certain other matters as provided therein, with the exception of certain non-released matters set out in the Global Release such as various obligations of the respective parties under the stakeholder arrangements described above and in respect of matters under the Plan.

### Intercompany Agreement

The Issuer, the Company and Bedrock have entered into an agreement that provides that the Company has agreed to fund certain costs associated with the Issuer becoming a public company, including compensation payable to our Board and fees payable to securities regulators and to the TSX. To the extent that the Issuer determines to pay dividends or other distributions to holders of its shares, or to redeem or purchase any of its shares, the Company has agreed to provide funding required by the Issuer for any such distribution, redemption or purchase by way of an interest-free advance to the Issuer. See “*Dividend Policy*” and “*Risk Factors*”.

### Bedrock’s Carried Interest Agreement

On the Completion Date, Stelco entered into a Carried Interest Agreement (the “**Carried Interest Agreement**”) with the Province of Ontario, Bedrock, the Administrator and the funding trust established for the

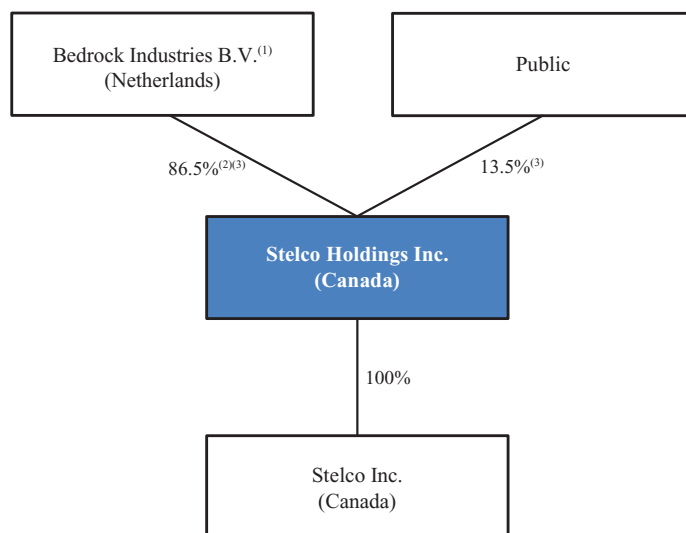
Main Pension Plans. Pursuant to the Carried Interest Agreement, once Bedrock or certain of its affiliates recoup their capital investment in the Company, 10% of distributions, sale proceeds and certain other amounts to be received by such parties must be paid to such funding trust. The obligation to make such payment will be an obligation of Bedrock or certain of its affiliates.

### Corporate Structure

The Issuer is a corporation incorporated under the CBCA. Our registered and principal office is located at 386 Wilcox Street, Hamilton, Ontario. Our telephone number at our principal office is (905) 528-2511 and our website address is www.stelco.com. Our website and the information contained on our website do not constitute a part of this prospectus.

Prior to Closing, the Issuer will complete a transaction that will result in the acquisition by the Issuer of all of the issued and outstanding shares of the Company. After the pre-closing transactions, the Issuer will own all of the issued and outstanding shares of Stelco Inc.

The following chart identifies our material wholly-owned subsidiaries (including jurisdiction of formation, incorporation or continuance of the various entities) immediately after Closing, assuming no exercise of the Over-Allotment Option.



**Notes:**

- (1) As of the date of this prospectus, all of the outstanding shares of Stelco Inc. are held by Bedrock Industries. Bedrock Industries is wholly owned by Bedrock. See “Principal Shareholder”.
- (2) Immediately prior to Closing, Bedrock Industries will own 100% of the Issuer and is not selling any Common Shares that it holds in the Offering.
- (3) Based on the midpoint of the estimated price range set forth on the cover of this prospectus.

## OUR COMPETITIVE STRENGTHS

### 1. Multiple Attractive Organic Growth Opportunities Which Require Limited Capital Investment

We plan to take a disciplined approach to all of our future investments with a focus on maximizing shareholder returns. As part of Bedrock's review of Stelco's operations, it identified multiple opportunities to increase the value of our assets where limited capital investment is required. These opportunities can be grouped into three categories: (i) asset optimization initiatives; (ii) expansion of our product capabilities; and (iii) and co-generation initiatives. We believe we can deliver significant organic growth from these opportunities, which will allow us to generate long-term, sustainable returns for our shareholders.

#### *Asset Optimization*

We have significant excess capacity as a result of our assets being underutilized. We believe we can utilize this excess capacity to grow our revenues and lower our total costs per nt. LEW's hot strip mill has 0.9 mnt of excess capacity, which can be utilized through purchases of external slab or toll-rolling for third-parties. We are in active discussions with third-parties regarding toll-rolling opportunities and recently demonstrated our ability to successfully toll-roll stainless steel coils. We also have identified several sources of third-party slab and have already purchased approximately 80 knt of slabs for delivery in 2017. As highlighted in the chart below, there is currently an opportunity to earn an attractive margin by processing purchased slabs and selling them as hot-rolled coil. Improved utilization from processing slabs, as well as revenue received from toll-rolling third-party volumes, could lower our total costs per nt and increase our cash flow generation.



Source: Platts, World Steel Dynamics

In order to support increased volumes from improved utilization, we plan to upgrade our LEW dock facility to allow for direct off-loading of third-party slabs as well as loading of hot-rolled coils for shipping to customers. We believe this upgrade will provide us the opportunity to access the U.S. markets via low cost barge transportation. The investment required to complete this upgrade is expected to be less than \$10 million in total and can be completed within 4-6 months. Improved utilization at LEW will also benefit HW where in 2016 we had excess capacity at our cold mill (0.8 mnt), No. 3 CGL (0.1 mnt), and Z-Line (0.2 mnt). Lastly, we are in active discussions with third-parties regarding sales of coke from our HW coke battery, which is currently operating at approximately 50% of its design capacity. This could allow us to generate additional revenue and improve our costs as a result of operating leverage.

### ***Expansion of Our Product Capabilities***

We intend to focus our production and sales efforts 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 cold-rolled, fully-processed products. We plan to use a portion of the Net Proceeds of the Offering to restart HW's temper mill and the installation of annealing furnaces, which is estimated to cost \$20 to \$25 million. This will allow us to produce up to 0.2 mnt of cold-rolled fully processed steel, which has historically commanded higher prices relative to the cold-rolled products we produce today. We currently produce first generation AHSS and UHSS products, but believe we have the capability to produce a much wider range of steels. To that end, we plan to invest in research and development to develop the techniques and know-how to produce a wider spectrum of steel grades. In addition, we plan to upgrade the bearings at our hot strip mill to allow us to process advanced steel products and make similar upgrades at the Z-Line to finish those steels into products that would commonly be used in automotive applications.

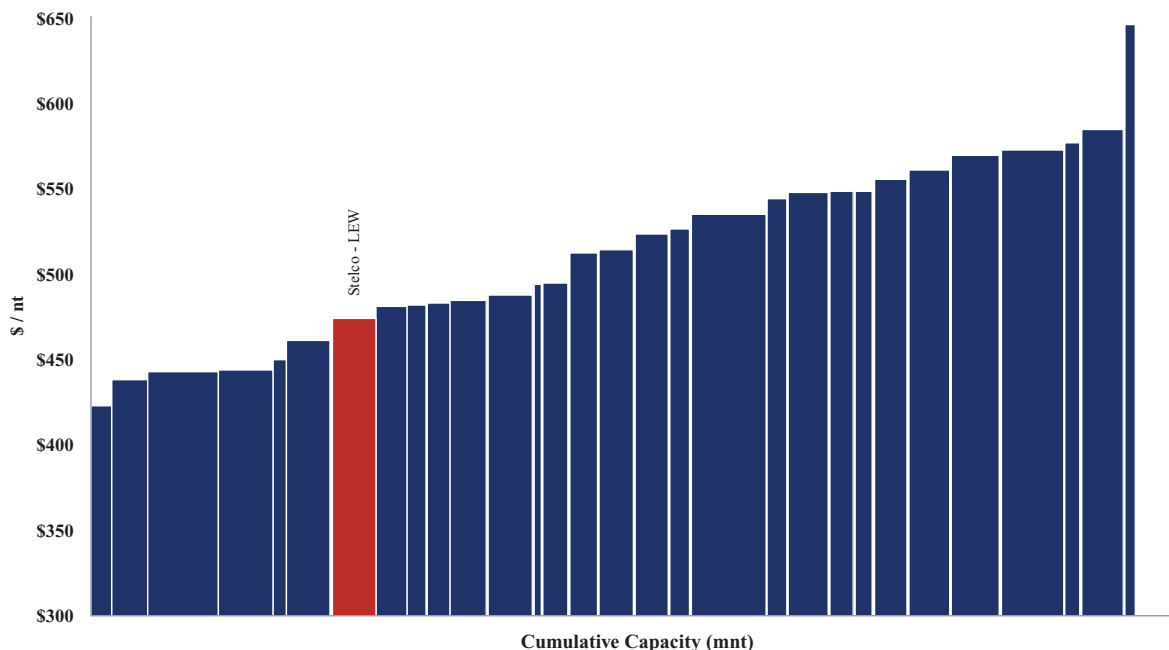
### ***Co-generation***

We believe there is an opportunity to capture the by-product gases from our operations at HW and LEW to produce electricity for our operations. These future on-site co-generation facilities could substantially reduce our reliance on the Ontario power grid, which we believe has among the highest power rates in North America. We are currently exploring opportunities to partner with a utility that would build and operate such a facility. If successful, this initiative could meaningfully reduce our operating costs.

## **2. Low Cost Producer**

We believe we are one of the lowest cost steel producers in North America. Following the commencement of the CCAA proceedings in 2014, we have focused on improving productivity as well as various cost reduction initiatives. Our cost position has been enhanced by new long-term contracts for both labour and raw materials that took effect following our emergence from CCAA. Additionally, through the CCAA process, we have significantly reduced our financial costs, including interest expense and costs associated with legacy liabilities. We expect our total costs per nt will continue to improve as we grow our volumes. The following chart illustrates our current position on the North American steel producer cost curve as estimated by World Steel Dynamics.

## North American Hot Rolled Coil Total Costs (US\$)



Source: World Steel Dynamics

Note: Represents cost curve as of July 2017 for U.S. and Canadian hot-rolled coil (incl. SG&A, interest expense, and pension & OPEB costs).

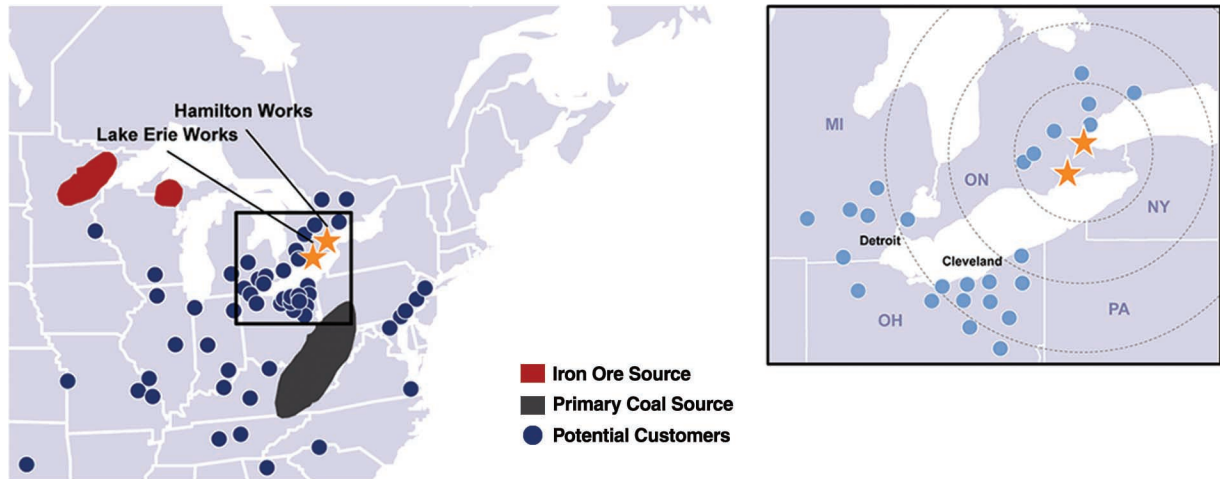
Currently, the largest components of our cost base are iron ore, metallurgical coal, other raw materials, and energy used to operate our facilities, the majority of which are variable costs. Most of the raw materials are sourced under supply contracts that provide us with reliable access at what we believe to be attractive rates with minimal or no take-or-pay requirements, improving our flexible cost position. We believe our advantageous cost position will allow us to outperform our competitors and generate positive cash flow throughout the commodity cycle.

### 3. Strategically Located Near Core Customers and Raw Material Suppliers with Access to Multiple Transportation Options

Our facilities are strategically located close to the key steel consuming regions of Southern Ontario and the mid-western United States. These regions represent the heart of North American manufacturing including automotive, where numerous OEMs and Tier 1 component manufacturers are located. The close proximity of our operating facilities to customers provides us with freight and other logistical benefits that support our position as a low cost producer on a delivered basis. Our low cost position is further enhanced by our location on the Great Lakes, which we believe provides us with a competitive advantage in both sourcing key raw materials and accessing low cost barge transportation options. We are ideally located to source iron ore from the Mesabi Iron Range and metallurgical coal from Central Appalachia in the United States.

We are well positioned to serve both Canadian and U.S. automotive customers with multiple low cost transportation options that allow us to offer more competitive pricing and reduced product lead-times relative to many of our competitors. HW is located within a three hour drive of most light automotive manufacturing in Canada. Additionally, we are ideally located to supply the major U.S. automotive OEMs and Tier 1 component manufacturers located in the mid-west. Our strategic location is enhanced by our historic relationships with key

customers, track record of product performance, and our differentiated and quality product capabilities, which we believe, collectively, will enable us to capture an increased share of automotive volumes.

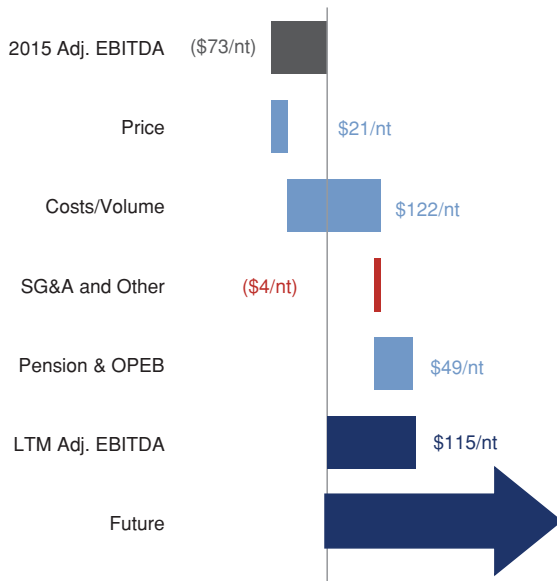


Both of our operating facilities benefit from access to multiple competing forms of transportation. HW and LEW have on-site rail infrastructure with direct and indirect access to two Class I railroads. LEW also benefits from a 1.2 kilometre dock with the ability to receive Seawaymax vessels, which facilitates access to transportation across the Great Lakes. Our dock facilities in HW and LEW provide us with the opportunity to access the U.S. Midwestern markets via water based transportation. Additionally, both facilities have proximate access to Ontario 400-Series highways and the U.S. Interstate Highway System. This transportation optionality allows us to negotiate competitive rates and also provides the ability to rapidly adapt to different market environments or customer locations.

#### 4. Successful Operational and Financial Turnaround with Strengthened Capital Structure

Stelco has undergone a transformational change that has directly addressed several of the challenges the business faced in its history. We are now well positioned to continue our operational and financial turnaround and sustain this performance over the long-term.

## 2015 vs LTM Adjusted EBITDA per net ton<sup>3</sup>



- Significantly impaired profitability in 2015
- Return to profitability as a result of highly successful turnaround, which has been underpinned by the following:
  - improved utilization has reduced per net ton operating costs
  - new supply contracts and improved commodity prices for key inputs
  - greater productivity as a result of improved labour relations
  - significantly reduced pension and OPEB expense
  - high cash flow conversion driven by significant drop in interest expense and substantial tax shield
- Potential further upside as Stelco continues to regain core customer base, including automotive OEMs
- Third-party slab supply and external coke sales provide incremental upside with no additional capital expenditure

More specifically, we believe our turnaround is underpinned by: (i) a strengthened balance sheet; (ii) new labour agreements; (iii) disciplined financial policies; and (iv) long-term iron ore supply.

### ***Strengthened Balance Sheet***

Through the CCAA process, we were able to extinguish approximately \$3.0 billion of secured and unsecured debt as well as approximately \$1.4 billion of pension and OPEB obligations. Pro forma the Offering as at June 30, 2017, the only debt on our balance sheet is \$68 million drawn on our \$375 million ABL Credit Facility. We believe our ABL Credit Facility and cash resources provide sufficient liquidity to support our operational and strategic initiatives. These actions materially strengthened our balance sheet and will enhance our cash flow generation by greatly reducing the Company's annual servicing requirements.

### ***New Labour Agreements***

Stelco's management team is committed to a cooperative and productive relationship with the Company's unions. As part of Stelco's turnaround, renewed and amended collective agreements have been entered into for five-year terms. We believe that the long-term nature of these agreements will provide greater certainty for our internal planning processes as well as those of our suppliers and customers.

### ***Disciplined Financial Policies***

We are focused on maximizing profitability and cash flow generation to increase shareholder returns. Accordingly we have instituted financial policies that are aimed at achieving these objectives. For example, we have set strict financial criteria for evaluating investments. Additionally, we have taken steps to optimize our working capital management by: employing best practices in receivables management and collections; extending supplier payment terms; reducing outstanding deposits; and strategically sourcing and improving logistics management to reduce inventory costs. We believe our disciplined approach will ensure we direct our capital and resources towards the initiatives that yield the strongest returns for our shareholders.

<sup>3</sup> See "Management's Discussion and Analysis of Financial Condition and Results of Operations of Stelco Inc. — Selected Annual and Quarterly Financial Information" for a reconciliation of the foregoing non-IFRS measure to its most directly comparable measure calculated in accordance with IFRS.

### Long-term Iron Ore Supply

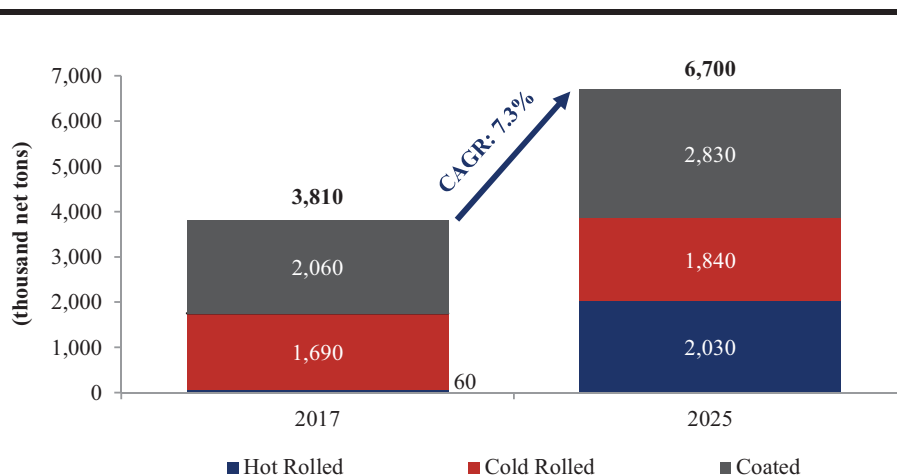
To limit fluctuations in input costs associated with iron ore price volatility, we have entered into a five year agreement for supply of our iron ore requirements. We believe this contract will limit our exposure to fluctuations in the price of iron ore, which have historically been significant.

### 5. Exposure to Attractive Fundamentals of North American Steel Sector with Favourable Outlook in Stelco's Key End-Markets

Stelco is exposed to a diverse group of North American end-markets, many of which have favourable demand outlooks according to World Steel Dynamics. The North American flat-rolled market has been among the most resilient and stable markets since the financial crisis. The combination of trade measures aimed at unfairly-priced foreign imports as well as growing end-market demand have resulted in the price of flat rolled steel products in North America exceeding the price of these products in the world export market.

The automotive market is an important element of our business and growth strategy. Based on 2006 shipments, which is a representative year for our target product and end-market mix, automotive represented approximately 37% of total shipments. In 2016, North American automotive manufacturers experienced a record year with light vehicle production of approximately 17.8 million units. World Steel Dynamics forecasts significant growth in AHSS and UHSS demand as automotive producers seek to reduce vehicle weight without sacrificing strength and safety in order to meet the increasingly stringent U.S. Corporate Average Fuel Economy standards. As such, there is significant growth potential for North American producers with the capabilities to produce AHSS and UHSS grades as demonstrated in the graph below.

**AHSS / UHSS Steel Consumption in North American Automobiles**



Source: World Steel Dynamics

Note: Coated products include galvanized or other varieties of galvanized products (excluding cold-rolled fully processed). Coated (Exposed) include the outer components of vehicles, which are not dependent on strength factors and consume minimal AHSS/UHSS.

The construction and energy industries are also important end-markets for our business. North American energy markets have realized a strong rebound in activity over the past year with September 2017 North American drilling rig counts up by over 80% year-over-year. As a result, it is expected that energy-related pipe and tube consumption will experience an annualized increase of 45% in 2017 according to World Steel Dynamics. Residential and non-residential construction activity in North America remains on solid footing in 2017 with modest growth prospects, particularly in the residential segment. Infrastructure related spending is expected to increase in the years ahead, especially as policymakers recognize the need to increase public investment to make up for substantial shortfalls in prior years and decades; public infrastructure projects historically tend to be highly steel-intensive in both developed and developing economies.

## **6. Entrepreneurial Management Team with Proven Track Record of Maximizing Shareholder Return and Growth**

We are led by a management team that combines extensive industry experience with deep operational, institutional, and customer knowledge. They are hands-on operators with a proven track record of increasing productivity, reducing costs, implementing marketing strategies, and maintaining strong relationships with all stakeholders. Since emerging from CCAA, our management team has sought to instill an entrepreneurial culture at Stelco. In order to accomplish this objective, our management team has simplified our organizational structure, designed a compensation program tied to performance, and stressed the importance of cost control. We believe these changes will empower our employees to actively seek out opportunities to improve our assets' performance and profitability.

## OUR BUSINESS STRATEGIES

Our strategy is to maximize total shareholder returns while maintaining a conservative capital structure. In order to accomplish this strategy, we are focused on four strategic objectives: (i) optimizing production from our assets; (ii) maintaining our strong balance sheet; (iii) maximizing profitability and cash flows; and (iv) growing our business. These strategic objectives are supported by the entrepreneurial culture that underpins Stelco's return-based approach to operating our business. This culture is driven by our leadership team's ownership mentality as a result of Bedrock's significant holdings in Stelco, 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

We are seeking to increase the value of Stelco by optimizing production from our assets. We have significant excess capacity as a result of our assets being underutilized. We believe we can utilize this excess capacity to grow our revenues and lower our costs per nt. We are actively pursuing initiatives, including 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 plan to optimize our assets by 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 strict 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 AHSS and 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 \$1.1 billion of non-capital loss carry-forwards and other tax attributes on a pre-tax basis, which may allow us to reduce our cash tax payments and increase free cash flow generation. Under the terms of the Tax Savings Agreement (as defined herein), we are required to share a portion of any tax savings with the Main Pension Plans (as defined herein) and the ELHTs (as defined herein). See *“Our Business — Recent Restructuring of Our Business — CCAA Restructuring and Acquisition by Bedrock — Tax Savings Agreements”*. We will 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

We intend to focus our production and sales efforts 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 cold-rolled, fully-processed 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 intend to aggressively maintain our low cost position by seeking to control 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 also plan to continue to focus on 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.

### Grow our Business

We plan to take a disciplined approach to all of our future 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 plan to 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.

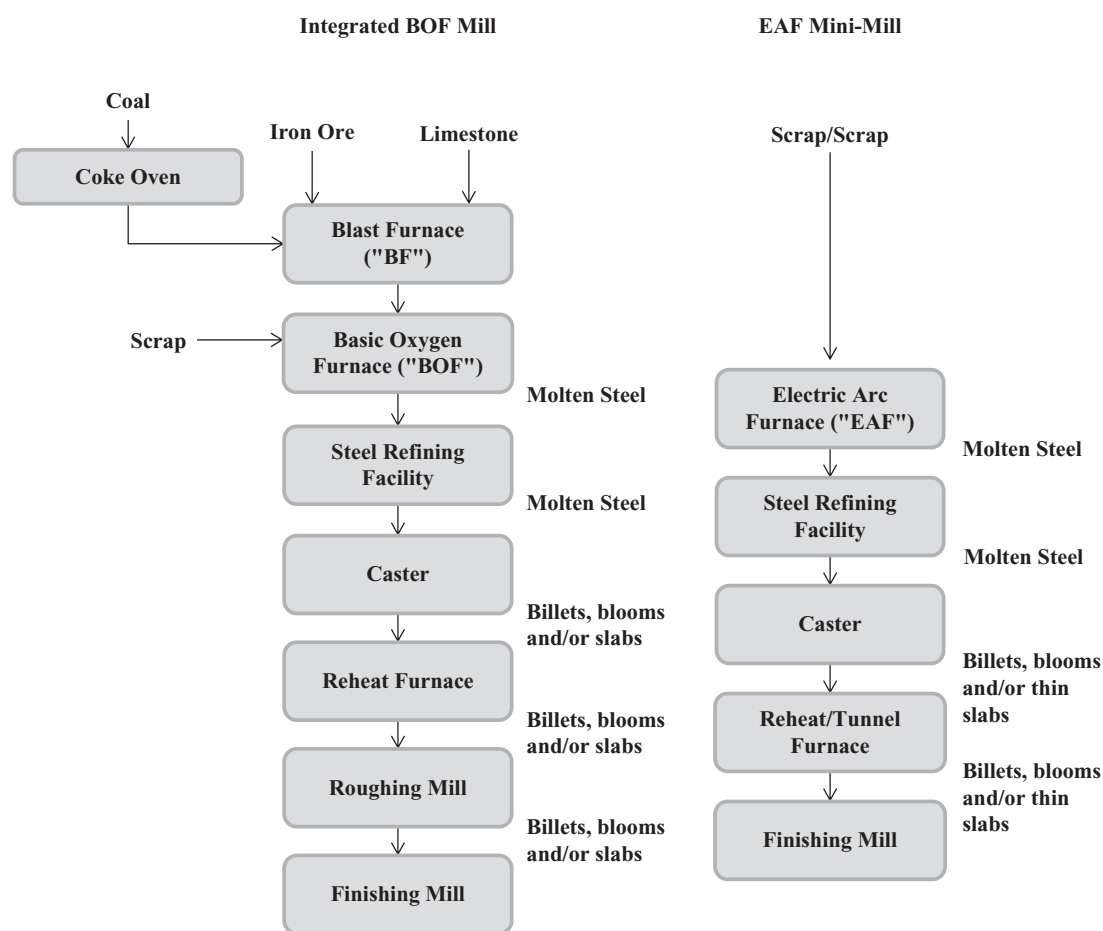
## OUR INDUSTRY

### Steelmaking Overview

Steel is one of the fundamental building blocks of modern society and generally considered to be a critical driver of economic and industrial development. Its end-market applications cover a wide range of industries including construction, engineering, heavy machinery, pipes and tubes, energy, automotive, packaging and appliances.

Steel in its molten form is produced through two main methods: (i) basic oxygen furnace (“BOF”) employed in integrated mills and (ii) EAF used in mini-mills. While mini-mills using EAF are the predominant form of steel production in North America, the vast majority of global steel (approximately 73% according to World Steel Dynamics) is produced in integrated mills through BOF.

**Figure 1 — Illustrative BOF and EAF Steelmaking Process**



Source : World Steel Dynamics

In mini-mills, molten steel is produced through the EAF process which utilizes steel scrap as its primary feedstock that is subsequently melted through the application of an electric current (with approximately 450 kWh per nt of steel). EAF steelmaking consumes approximately 1.1 nt of steel scrap per nt of molten steel. The production cost in EAF is highly dependent on the prevailing price of scrap and electricity, and product quality is often limited by the quality and purity of scrap charged into the furnace.

By contrast, integrated mills (such as Stelco’s operations) produce molten iron in a blast furnace by combining iron ore, metallurgical coke and limestone. The molten iron is then combined with a small quantity of

steel scrap in a BOF to produce molten steel. In order to produce one nt of steel, the process consumes approximately 1.5-1.7 nt of iron ore, 0.6-0.8 nt of coal (to form 0.4-0.5 nt of coke) and between 0.05-0.30 nt of scrap steel depending on the operation. Integrated mills have historically had a better ability to produce high-end grades of steel where input control is critical.

### **Steel Products**

There are two broad categories of steel products: (i) flat products (slabs, hot-rolled coil, cold-rolled coil, coated steel products, tinplate and heavy plate) and (ii) long products (blooms, billets, rebars, wire rod, drawn wire, sheet piles, sections, and rails). Historically, mini-mills were focused almost exclusively on the production of long products, but began moving into providing flat products in the late 1980s although mini-mills still represent the minority share of global steel production, they do represent the majority of production capacity in North America. By contrast, integrated steel mills have a longer history of producing the entire range of products and many (including Stelco) operate downstream processing facilities to further process and refine the semi-finished steel (slabs) into higher-margin products.

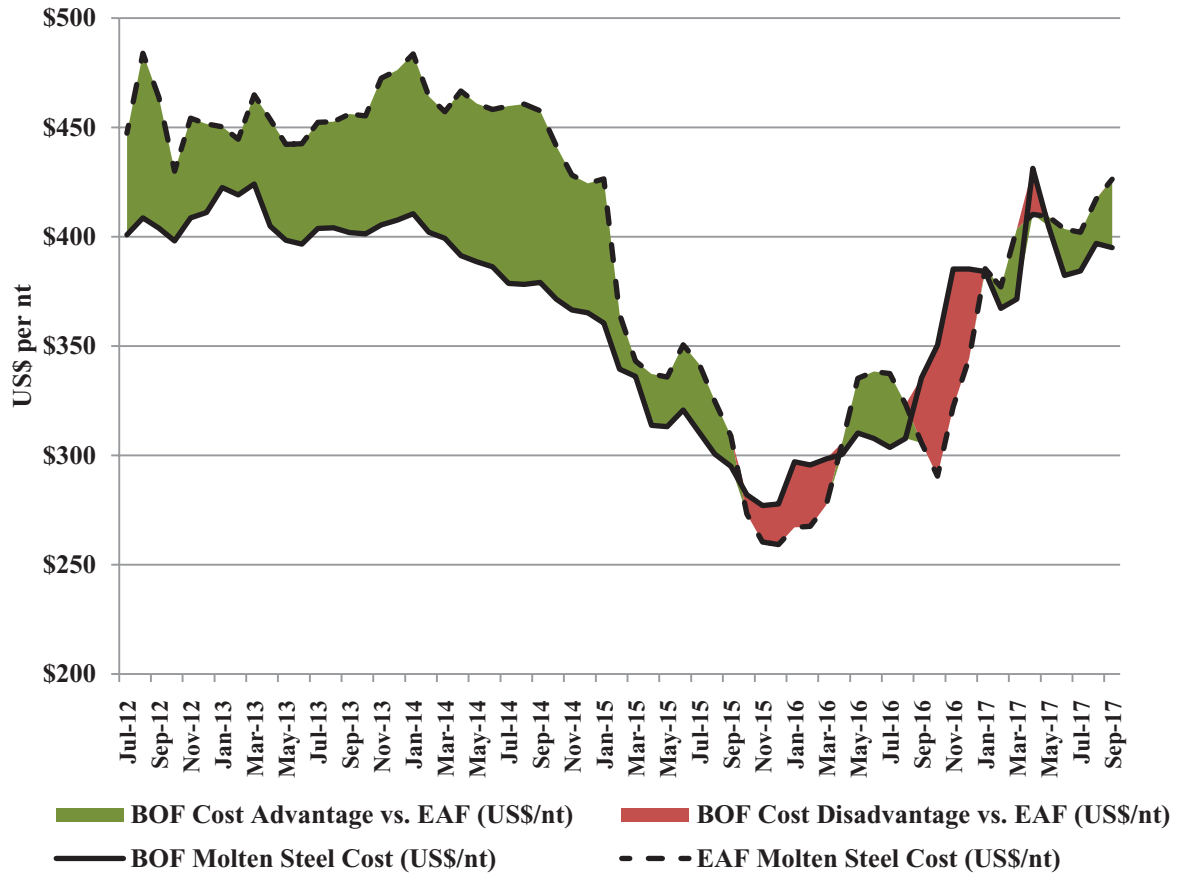
Certain flat-rolled products that command a higher price point (whether hot-rolled, cold-rolled or coated) require investment in research and development, and technology on the part of the steel producer. Production of these products often demands specialized rolling, heat-treating, coating and/or other techniques and/or some form of proprietary chemical composition of the alloying elements in the molten steel production phase. In many cases, equipment limitations may preclude certain steel plants from producing these products. The automotive industry tends to be the dominant consumer of these products and plays a substantial role directly specifying their desired characteristics (typically a combination of higher strength at a lower weight).

### **Cost Structure**

The cost structures associated with steelmaking through BOF or EAF vary significantly around the world based on currencies, labour costs, raw material prices and other factors. While all steelmaking plants (both BOF and EAF) are sensitive to raw material commodity prices, specifically in North America, many integrated mills also carry significant interest costs as well as legacy defined contribution pension and other post-employment benefits plans that add to their cost structure. Producers that have negotiated these plans away are generally in a more favourable cost position. In addition, North American BOF producers that have entered into long-term fixed contracts for raw materials are subject to lower levels of cost volatility when compared to EAFs that have not secured their input supply.

Given prevailing market prices for steel scrap in North America, the production cost of molten steel is currently lower for many integrated producers when compared to mini-mills. This relative condition may fluctuate going forward depending on changes in the price of scrap relative to changes in iron ore and coking coal pricing arrangements that impact integrated producers.

Figure 2: USA EAF vs BOF Cost for Molten Steel Production

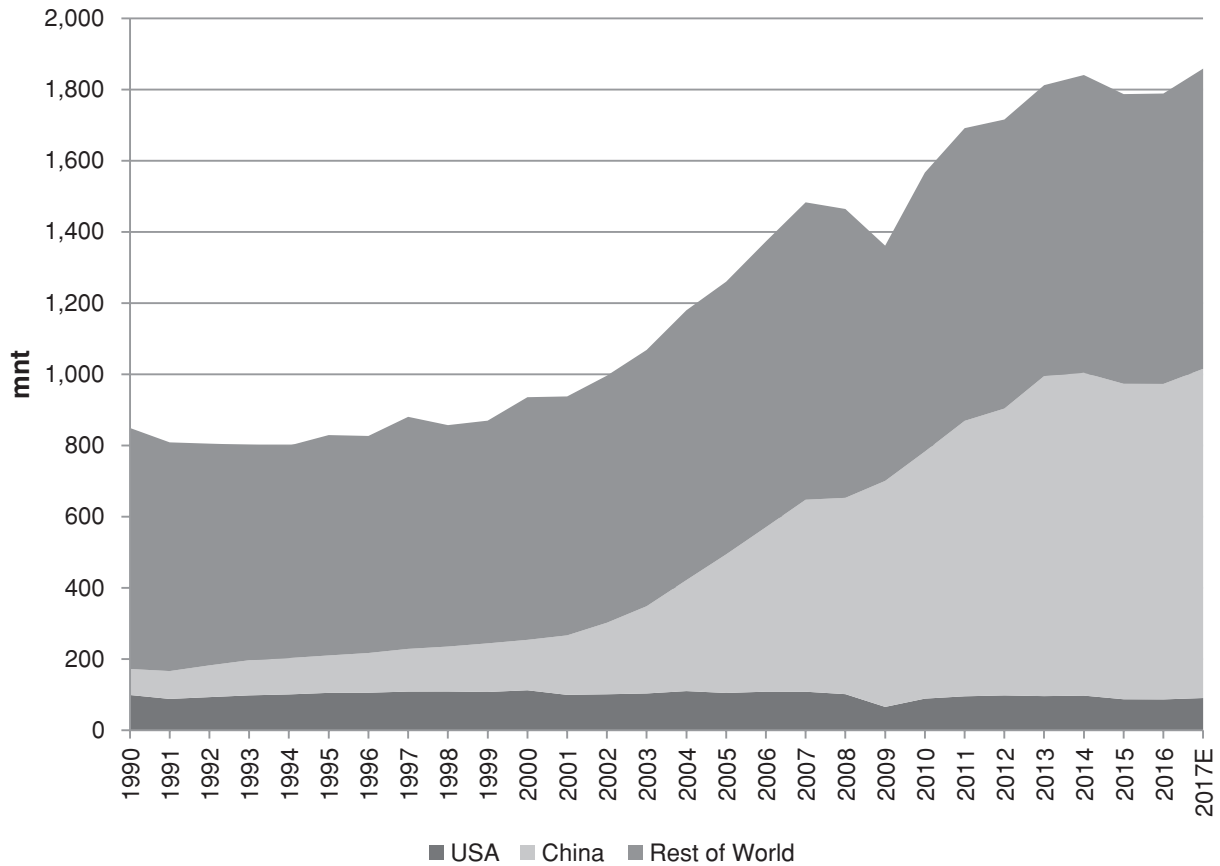


Source : World Steel Dynamics estimates, Platts, Steelbenchmarker.

## Overview of Global Steel Industry

A rapid period of steel demand growth occurred in China from 2009 to 2013 on the back of stimulus programs deployed by the Chinese government in order to offset the slowdown in export-oriented economic growth that resulted from the global financial crisis of 2008-2009 (see Figure 3 below).

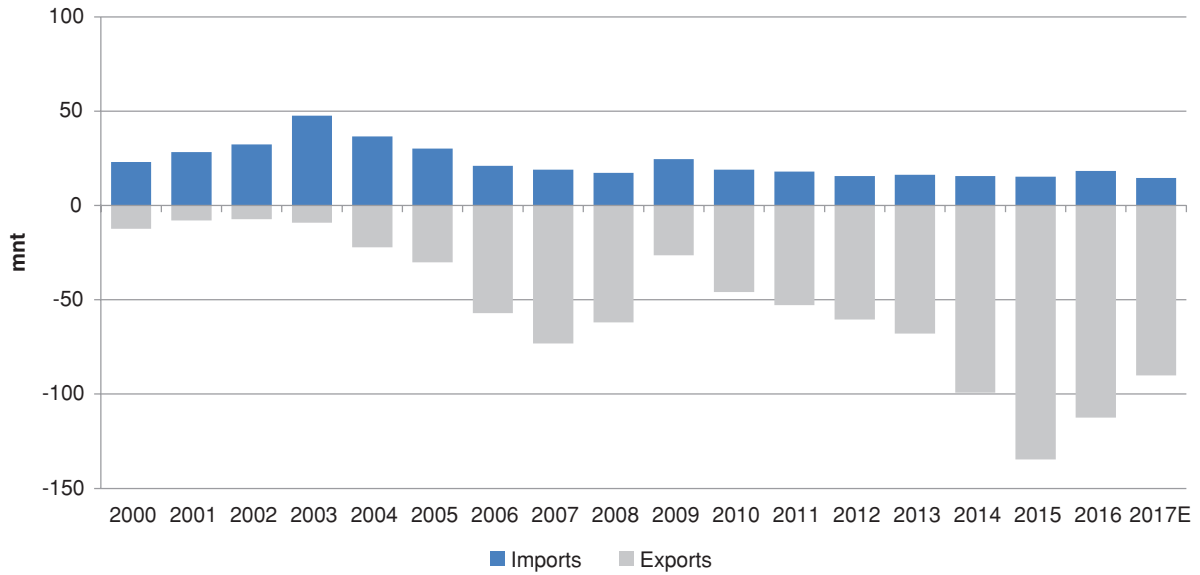
**Figure 3: Global Steel Production**



Source : World Steel Association

As a result of this increase in demand, capacity expansion in China accelerated at a correspondingly rapid rate and resulted in an eventual “overshoot” of capacity relative to demand. This overcapacity and subsequent slowdown of steel demand in China led to a surge in steel exports, ultimately impacting global steel markets. While China steel imports have remained relatively stable since 2010 below 20 mnt per year, exports have increased substantially from 26 mnt in 2009 to a peak of 135 mnt in 2015.

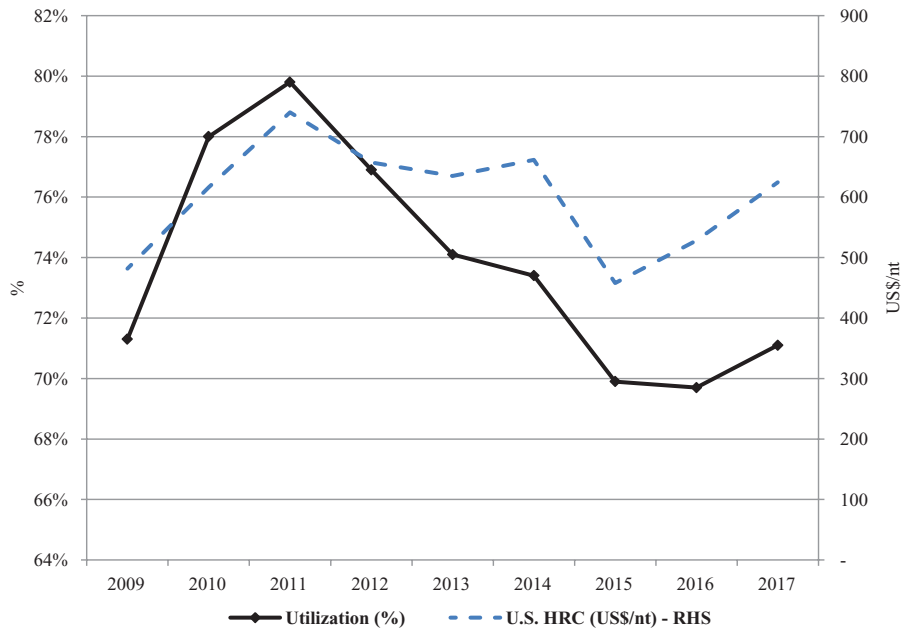
**Figure 4: China Steel Trade Balance**



Source: China Trade Statistics, World Steel Dynamics estimates

Following a destocking cycle in 2014-2015 and curtailment of Chinese steel mills, global steel production growth has returned to positive territory and Chinese and ex-China demand have witnessed synchronized growth. Further, global capacity utilization which troughed in 2016 has stabilized and gradually recovered, coinciding with a decline in Chinese exports.

**Figure 5: World Steel Capacity Utilization**



Source: World Steel Association

Note: 2017 represents first 7 months.

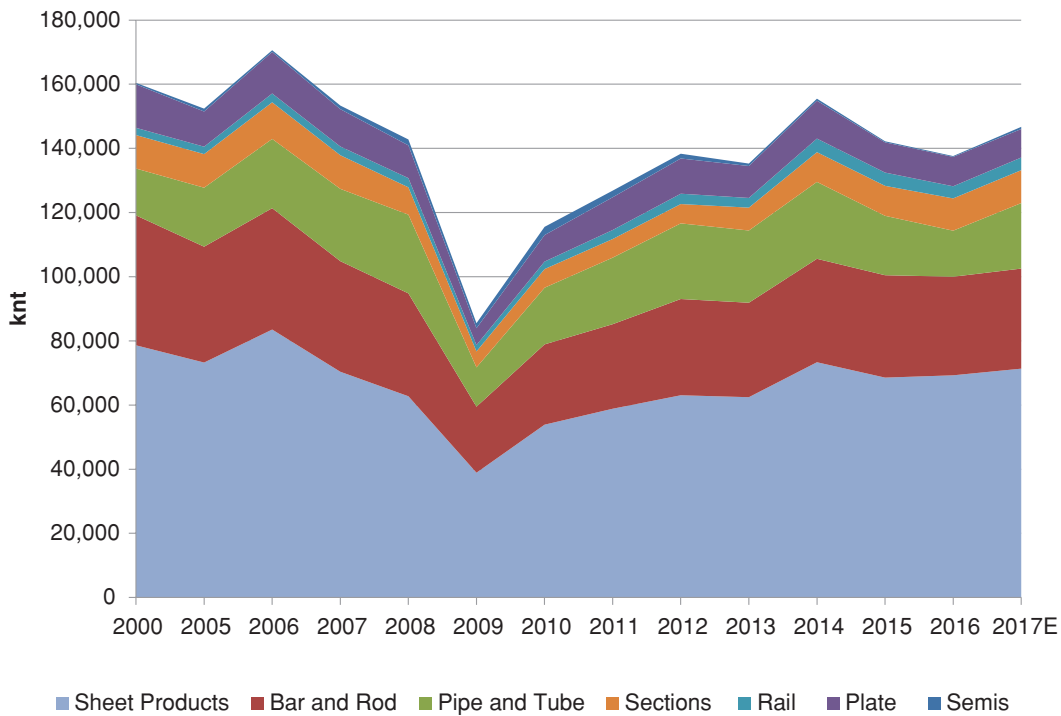
Global steel prices have rallied since 2016 and the economic backdrop remains constructive for steel as Chinese steel inventory levels remain low, net-exports have steadily declined, and the profitability index of its integrated mills are at levels not seen since 2009. Going forward, steel market conditions will continue to depend on a number of factors including: (i) sustained global demand growth; (ii) continued steel production capacity curtailments in China; and (iii) improved and stable supply and demand fundamentals in the rest of the world.

International steel prices have rebounded since 2016 aided by the decline in Chinese steel exports which was in part due to improved North American demand. The impact of rising international prices on the North American market is generally positive as the higher price of imported steel increases the “floor price” in the North American market and, as a generality, any reduction in the premium between North American and international prices tends to reduce the incentive for imports and shifts new orders to North American producers.

**Overview of North American Steel Industry**

The North American steel market has faced similar cyclicity as the global market. Apparent demand for all steel products peaked at 171 mnt in 2006 prior to the financial crisis. Apparent demand subsequently troughed at 86 mnt in 2009 but has since seen a recovery and is expected to achieve 147 mnt in 2017 according to World Steel Dynamics, a CAGR of 7% (2009-2017).

**Figure 6: North American Apparent Steel Consumption by Product Type**



Source: AISI, Statistic Canada, Canacero, World Steel Dynamics estimates

As a percentage of total steel consumption, approximately two thirds of North American steel product demand in 2017 is expected to be comprised of flat-rolled products. In general, flat-rolled products are driven by the manufacturing cycle, with the automotive, energy, machinery and construction sectors all acting as primary drivers of demand. Conversely, long products are dominated by the construction sector as a primary consumer and key driver of demand. North American flat-rolled products consumption is expected to achieve 97 mnt in 2017 according to World Steel Dynamics, a CAGR of 7% (2009-2017).

## Geography of End-Markets

From a geographic perspective, the North American steel market is divided into regions as opposed to physical borders between countries. As an example, the United States and Canadian markets are divided into the West Coast and East Coast with a limited amount of steel shipped across these two regions. On the other hand, the market along the Great Lakes is considerably homogeneous despite the actual border between the United States and Canada, due in part by the presence of automotive and other manufacturing supply chains that are often serving the same market and supplying the same OEMs on either side of the United States and Canada border. A similar dynamic of interconnectedness exists with respect to raw material supply for the integrated mills along the Great Lakes. Iron ore mined in Minnesota and Michigan is available to be shipped via lake vessels to integrated producers in Canada as well as the United States.

## BOF and EAF in North America and Trade Dynamics

North American steel production in recent years has reflected two key dynamics: (i) changes in the mini-mills and integrated mills landscape and ii) a significant increase in imported steel products since 2013, that have subsequently declined in 2015-2016.

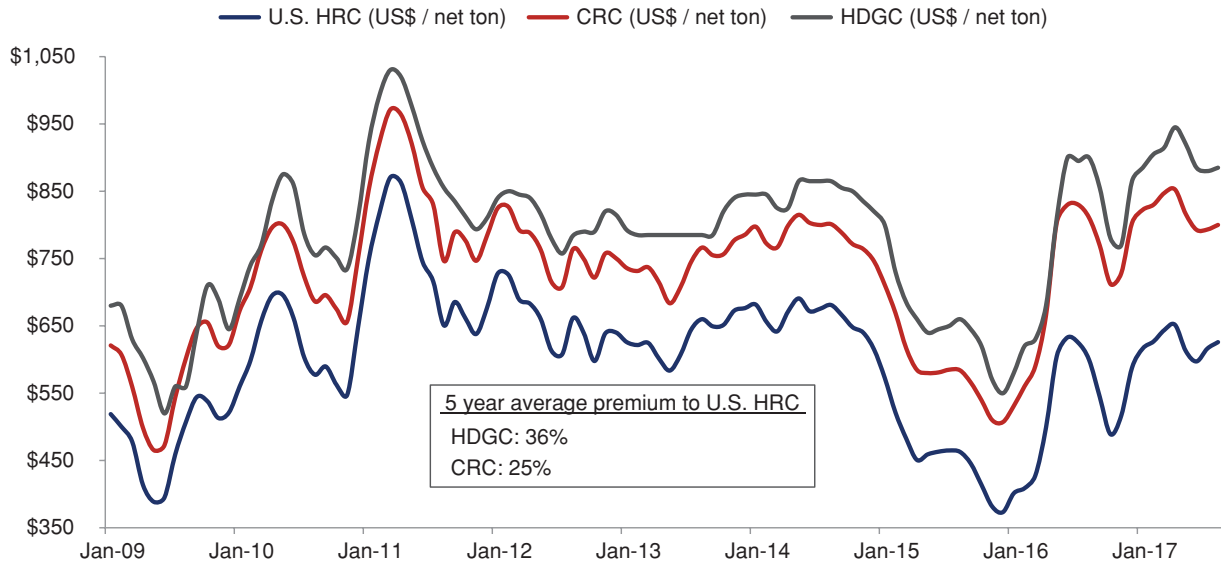
Integrated mills employing BOF have historically been the dominant method of steel production in North America; however, a series of bankruptcies in the early 2000s and consolidation among integrated producers contributed to the reduction in BOF steelmaking, further exacerbated by the financial crisis of 2008-2009 which saw another wave of consolidation and idling of integrated mills. EAF-based mini-mills remained relatively stable during this period of weak demand and prices. In our view, with a combination of rising steel demand, especially in the specialized non-commodity steel segment where integrated mills have a historical advantage and, a series of restructurings which have reduced the cost profile for integrated mills, the outlook for integrated mills appears stable and constructive.

Since 2013, the North American flat-rolled market has also seen an increase in import penetration driven by the global overcapacity condition and slowdown in Chinese demand growth up until 2016. Historically, flat-rolled steel in the North American market carried a price premium over products on the world export market (free on board port of export). As this price premium grew, the increased price spread incentivized North American buyers to purchase foreign steel at the expense of North American production.

## **Steel Pricing Trends**

Steel prices are impacted by both the supply and demand fundamentals, and raw material prices including iron ore, metallurgical coal and scrap metal prices. As a result of fundamental improvement in demand, as well as higher raw material prices; global steel prices have witnessed a rally since 2016, with United States hot-rolled coil prices increasing 56% since the beginning of 2016. Cold-rolled coil prices have consequently rallied as well, increasing 51% over the same time frame.

**Figure 7: Historical Steel Prices in the U.S.**



Source: World Steel Dynamics, Platts

### North American Steel Industry Outlook

The North American market for steel products is anticipated to remain relatively strong over the coming years according to World Steel Dynamics, growing in-line with expected gross domestic product growth of 2%-3% per annum. Energy related steel products continue to offer upside to steel consumption throughout the region, and while infrastructure development and general construction remain below peak levels when compared to prior cycles; the possibility of government-sponsored spending increases and the need for reconstruction as a result of weather related events in Southern United States support the outlook for stable demand growth.

International steel prices have rebounded since 2016 partly as a result of the decline in Chinese steel exports reflecting an improvement in the supply and demand dynamics within China. This is a positive indicator for the sustainability of international prices above the lows seen during 2015-2016. Looking ahead, the improved international pricing environment is expected to be constructive to North American flat-rolled prices as the higher price of imported steel elevates the “floor” in the North American market. Further, higher international prices generally disincentivize imports and shift new orders to North American producers.

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

The following management's discussion and analysis of financial condition and results of operations ("MD&A") should be read in conjunction with the audited statement of financial position of the Issuer. This MD&A contains certain forward-looking information that involves risks and uncertainties, including but not limited to, those described in the "Risk Factors" section of this prospectus.

See "Forward-Looking Information" and "Risk Factors" for a discussion of the uncertainties, risks and assumptions associated with these statements. Actual results may differ materially from those indicated or implied by such forward-looking information as a result of various factors, including those described in "Risk Factors" and elsewhere in this prospectus.

### **Basis of Presentation**

Our audited statement of financial position have been prepared in accordance with IFRS and is presented in Canadian dollars unless otherwise indicated. The statement of financial position was issued and effective as at September 25, 2017, the date the Board approved the statement of financial position.

### **Overview**

The Issuer was incorporated on September 25, 2017 under the CBCA as Stelco Holdings Inc. and issued 10 shares to Bedrock Industries B.V. on that date. Bedrock Industries is the direct parent of the Issuer. The Issuer was formed for the purposes of completing a public offering of its common shares.

Immediately prior to the completion of the Offering, it is intended that the Company will become a direct wholly owned subsidiary of the Issuer.

The acquisition by the Issuer of the Company from Bedrock Industries will be a transaction amongst entities under common control. The Issuer will account for this transaction using book value accounting, based on the book values that would be recognized in the consolidated financial statements of Bedrock Industries upon its acquisition of Stelco Inc. on June 30, 2017. The acquisition of Stelco Inc. on June 30, 2017 was accounted for by Bedrock Industries as a business combination at fair value in accordance with IFRS 3 Business Combinations.

### **Results of Operations**

As described above, the Issuer has been formed for the purposes of completing a public offering. Prior to Closing, the Issuer will acquire all of the issued and outstanding shares of the Company, and the Company will become a wholly owned subsidiary of the Issuer. Accordingly, the Issuer has nil operating results.

### **Statement of Financial Position**

The Issuer was formed with nominal capital. Accordingly, the statement of financial position of the Issuer reflects cash of \$10 and corresponding share capital of \$10 as at September 25, 2017.

### **Outstanding Share Capital**

The Issuer is authorized to issue (i) an unlimited number of common shares and (ii) an unlimited number of preferred shares, issuable in series. There are currently 10 common shares and no preferred shares issued and outstanding.

### **Liquidity and Capital Resources**

The liquidity and capital resources of the Issuer are limited to the consideration transferred on formation of the Issuer, which was for a nominal amount. The Issuer had cash of \$10 and corresponding equity of \$10 as at September 25, 2017.

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

The following MD&A has been prepared with respect to Stelco Inc. In this MD&A only, references to the “**Company**”, “**Stelco**”, “**we**”, “**us**” or “**our**” refer to Stelco Inc. and its consolidated subsidiaries, and do not include or refer to the Issuer. This MD&A should be read in conjunction with our audited consolidated financial statements and unaudited interim consolidated financial statements. The MD&A contain certain forward-looking information that involves risks and uncertainties, including but not limited to, those described in the “*Risk Factors*” section of this prospectus.

See “*Forward-Looking Information*” and “*Risk Factors*” for a discussion of the uncertainties, risks and assumptions associated with these statements. Actual results may differ materially from those indicated or underlying forward-looking information as a result of various factors, including those described in “*Risk Factors*” and elsewhere in this MD&A.

### **Basis of Presentation**

Our audited consolidated financial statements and unaudited interim condensed consolidated financial statements have been prepared in accordance with IFRS and are presented in millions of Canadian dollars unless otherwise indicated. We manage our business on the basis of one operating and reportable segment.

All references in this MD&A to “Fiscal 2016” are to our fiscal year ended December 31, 2016, to “Fiscal 2015” are to our fiscal year ended December 31, 2015, and to “Fiscal 2014” are to our fiscal year ended December 31, 2014. All references to IFRS opening statement of financial position are to the statement of financial position as at January 1, 2014. All references in this MD&A to “Q2 2017” are to our fiscal quarter ended June 30, 2017 and to “Q2 2016” are to our fiscal quarter ended June 30, 2016.

### **Non-IFRS Financial Measures**

This MD&A makes reference to certain non-IFRS measures. 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. We use non-IFRS measures including “EBITDA”, “Adjusted EBITDA”, “Adjusted EBITDA per net ton”, “Selling Price per net ton”, and “Shipping Volume” to provide supplemental measures of our operating performance and thus highlight trends in our core business that may not otherwise be apparent when relying solely on IFRS financial measures. We also believe that securities analysts, investors and other interested parties frequently use non-IFRS measures in the evaluation of issuers. Our management uses these non-IFRS financial measures in order to facilitate operating performance comparisons from period to period, to prepare annual operating budgets and forecasts, and drive performance through our management compensation program. See “*Non-IFRS Measures*”.

### **Overview**

Stelco Inc. (formerly known as U. S. Steel Canada Inc.) 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, cold-rolled and hot-rolled steel products. With first-rate gauge, crown, and shape control, as well as reliable uniformity of mechanical properties, our steel products are supplied to demanding customers in the construction, automotive and energy industries across Canada and the United States. We believe our total cash costs per 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: LEW near Nanticoke, Ontario and HW in Hamilton, Ontario. LEW facilities are comprised of a coke battery, a blast furnace, two steel making vessels, a twin-strand slab caster, a 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 cold-rolling mill, a Z-Line and a CGL. HW is supplied with hot-rolled pickled steel from LEW and produces high quality cold-rolled and coated steel products as well as coke that is supplied to LEW to fuel its blast furnace and could be 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 and D.C. Chrome 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 United States 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 (barge, 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.

From October 31, 2007 until June 30, 2017, USSC operated as an indirect, wholly-owned subsidiary of USS. During this period, USSC experienced numerous operational disruptions, including labour disruptions between 2009 and 2013, incurred significant debt obligations, and made substantial cash payments in respect of historical pension and OPEB obligations. USSC suffered significant financial losses during this period and sought protection through the CCAA in September 2014.

Following a competitive sales process, USSC reached an agreement with Bedrock on December 9, 2016, whereby Bedrock would acquire all of the outstanding shares of USSC. Upon closing of the acquisition by Bedrock on June 30, 2017, USSC changed its name back to Stelco Inc. We believe our acquisition by Bedrock and restructuring has significantly enhanced our financial position as it has eliminated over \$3,056 million of debt, extinguished approximately \$1,387 million of pension and OPEB obligations in exchange for making manageable fixed payments and formula-based contributions linked to the cash flow of the business, addressed historical environmental liabilities, and allowed us to regain control over our sales functions and production decisions. Additionally, we have seen considerable improvements in labour relations as a result of our management approach since we were acquired by Bedrock and now benefit from five year coterminus labour agreements with our unions.

As a result of the Bedrock transaction agreements with stakeholders and emergence from the CCAA, the Company has significantly strengthened its balance sheet and streamlined its capital structure. As reflected in the following table of selected financial position data, between December 31, 2016, and June 30, 2017, the Company reduced trade and other payables from \$457 million to \$94 million (a reduction of \$363 million, or 79%), reduced pension and OPEB obligations from \$1,030 million to \$0, reduced total liabilities from \$4,487 million to \$548 million (a decrease of \$3,939 million, or 88%), and increased total shareholders' equity from a deficit of (\$3,287) million to a surplus of \$306 million (an increase of \$3,593 million):

<u>As at (millions of Canadian dollars)</u>	<u>June 30, 2017</u>	<u>December 31, 2016</u>	<u>Change</u>
Cash and cash equivalents . . . . .	30	188	(158)
Trade and other receivables . . . . .	169	237	(68)
Inventories . . . . .	271	314	(43)
Property, plant and equipment . . . . .	298	378	(80)
Total assets . . . . .	854	1,200	(346)
Trade and other payables . . . . .	94	457	(363)
Employee benefit commitments . . . . .	317	—	317
Pension and OPEB obligations . . . . .	—	1,030	(1,030)
Current and non-current portion of long term debt . . . . .	79	1822	(1,743)
Total liabilities . . . . .	548	4,487	(3,939)
Total shareholders' equity (deficiency) . . . . .	306	(3,287)	3,593

In addition to a strengthened balance sheet, the Company emerged from CCAA and the acquisition by Bedrock with substantial tax attributes that will enable the Company to shield approximately \$1,144 million of future pre-tax earnings from income taxation in Canada provided the requirements pursuant to the Tax Act to

claim such amounts are satisfied. Pursuant to the Tax Savings Agreement, we may be required to make certain payments to the Main Pension Plans and the ELHTs to the extent our tax attributes reduce the amount of taxes otherwise payable by Stelco (see “*Our Business — Recent Restructuring of Our Business — CCAA Restructuring and Acquisition by Bedrock — Tax Savings Arrangements*”). The Company also entered to a number of funding commitments with stakeholders that provide for certain future fixed payments and potential variable payments that are tied to our future financial performance (see “*Our Business — Recent Restructuring of Our Business — CCAA Restructuring and Acquisition by Bedrock*”).

In summary, we have returned as a low cost, integrated and independent steelmaker focusing on regaining our stature as an industry leader. With a strengthened balance sheet, a \$375 million ABL Credit Facility (as defined herein) to finance our working capital requirements and no term debt once the Provincial OPEB Advance has been repaid on Closing, we believe we are well positioned to execute our strategy and regain our market position.

### **Summary of Factors That Could Impact Our Future Financial Performance**

We believe our performance and future success depend on a number of factors that present significant opportunities for us. These factors are also subject to a number of inherent risks and challenges, some of which are discussed below and in the “*Risk Factors*” section of this prospectus.

#### ***Industry Trends***

Our business is subject to changing industry trends. The success of new product offerings or enhancements depends upon a number of factors, including our ability to: (i) accurately anticipate customer needs; (ii) develop new products that meet these needs; (iii) successfully commercialize new products in a timely manner; (iv) price products competitively; (v) manufacture and deliver products in sufficient volumes and in a timely manner; and (vi) differentiate product offerings from those of our competitors.

#### ***Customer Trends***

The North American steel industry is subject to shifts in automotive industry trends, oil and gas drilling, pipeline transmission, general construction activity, as well as consumer preferences and spending. Our revenue and operating results depend, in part, on our ability to respond to such changes in a timely manner. As a result of our broad product scope and our adaptive capabilities, we believe that we are well-positioned to respond to these shifts in sector performance, consumer trends, preferences and spending.

#### ***Market Pricing***

Our business is subject to the market pricing trends in the industry, competition, global trade, imports, customer trends, and concentration can affect the price of steel as the market reacts to the various supply and demand influences these factors create in the market.

#### ***Customer Concentration***

We have built long-lasting relationships with our customers driven by our ability to consistently produce high-quality steel products that meet customer requirements. The average length of our relationships with our top 10 customers exceeds 20 years and, in some cases, such relationships extend over multiple decades. Our customer relationships provide us with stability and visibility into our future volumes and earnings, which we believe provides us with a competitive advantage relative to our competitors. For the six month period ending June 30, 2017, our five largest customers accounted for approximately 69% of revenue during that period. While the loss of one or more major customer could have a significant impact on the Company’s financial performance, we believe this risk is partially mitigated by the strength and tenor of our relationships.

#### ***Competition***

The market for steel products is highly competitive. Our direct competition consists of steel manufacturers worldwide as well as in Canada and the United States. Our competition varies by market and we have a strategic

approach to entering markets, which includes evaluating certain factors in each market, such as competitiveness, pricing dynamics, foreign exchange, growth potential and regulatory environment.

### ***Global Overcapacity, Imports and Trade Remedies***

The North American steel industry is challenged by unfairly-traded offshore imports that result in part from substantial overcapacity in global steel production. As a result, dumped and subsidized imports into the North American market have historically reduced demand for our products and placed downward pressure on North American price levels.

The Canadian steel industry has worked with the Canadian government to modernize the North American trade remedy system to ensure that North American producers have access to the appropriate tools to respond to unfair trade. The 2017 Canadian Federal Budget proposed a number of amendments to the *Special Import Measures Act* and related trade remedy regulations to strengthen the trade remedy system, while remaining aligned with international trade rules. The legislative amendments were approved by Parliament and received Royal Assent on June 22, 2017, with an expectation that they will be put into force later this year.

We are subject to changing trade rules in other jurisdictions where we conduct business, including the United States. For example, while reports of negotiations between Canada and the United States regarding the Section 232 investigation under the *Trade Expansion Act* of 1962 being conducted by the Department of Commerce have generally been positive, there remains a risk that access to the US market may be restricted for Canadian steel producers in the future. There is also a risk of steel imports destined for the United States being diverted into the Canadian market which could have a negative impact on domestic demand and pricing. Similarly, the outcome of trilateral negotiations regarding the North American Free Trade Agreement (“NAFTA”) could have an impact — either positive or negative — on the domestic market for both Canadian steel producers and our customers.

### ***Planned Repairs or Equipment Outages***

Our production equipment is taken out of service on a regularly scheduled basis for short durations to ensure the operational reliability of the components of the production process. The Company took the blast furnace out of service for a planned major repair and maintenance outage at LEW starting in mid-August 2017. The outage included the application of a protective shotcrete refractory to the walls of the blast furnace as well as repairs to extend the life of the blast furnace and improve production output. The repair and maintenance outage was successful and the blast furnace returned to service on September 9, 2017. The outage resulted in lost production of approximately 160,000 nt of hot-rolled coil, which negatively impacted sales and profits during the outage. The Company mitigated a portion of the production and sales impact from the outage by increasing slab production prior to the shut down and purchasing steel slabs from third party suppliers.

Work completed during the outage is expected to result in improved blast furnace operational reliability and productivity. As an indication of the production improvements already experienced, from July 1, 2017 until entering the outage on August 14, 2017, the blast furnace averaged approximately 21 heats (production volume of liquid steel) per day. Since completing the outage and bringing the furnace back to full production on September 9, 2017, the blast furnace has averaged 29 heats per day over the 21 day period ending September 30, 2017 representing an increase of 38%.

### ***Unplanned Repairs or Equipment Outages***

It is possible that operations may be disrupted due to other unforeseen circumstances such as power outages, explosions, fires, floods, accidents and severe weather conditions. We are also exposed to similar risks involving major customers and suppliers such as force majeure events of raw materials and other supplies that have occurred or may occur in the future. Availability of raw materials and inputs, and delivery of products to customers could be affected by logistical disruptions, such as limited availability of barges, lake and ocean vessels, rail cars or trucks, or unavailability of rail lines or navigable bodies of water. To the extent that lost production cannot be compensated and depending on the length of the outage, our sales and our production costs could be adversely affected.

Stelco has a comprehensive preventative maintenance program designed to help prevent unexpected events and avoid unplanned outages. As part of the program Stelco maintains alarm systems and backup capabilities for timely reaction and prevention of production interruption. Regular capital expenditures are made to prevent equipment obsolescence, a major cause of equipment failure. As part of inventory management, Stelco can maintain a bank of inventory for critical customers to ensure no disruption in the supply chain and has an established protocol and supplier base to purchase slabs. However, notwithstanding these measures it remains possible that unplanned repairs or equipment outages could have a material adverse effect on our business, financial condition or results of operations.

### ***Third Party Transportation***

Our business depends on the transportation of a large number of products within North America. We rely primarily on third party providers for transportation of the products we manufacture as well as delivery of our raw materials. Any increase in the cost of the transportation of our raw materials or products as a result of increases in fuel or labour costs, higher demand for logistic services, consolidation within the transportation industry or otherwise, may adversely affect our results of operations as we may not be able to pass such cost increases onto our customers.

If any of these providers were to fail to deliver raw materials to us in a timely manner, we may be unable to manufacture and deliver our products in response to customer demand. In addition, if any of these third parties were to cease operations or cease doing business with us, we may be unable to replace them at a reasonable cost or time frame.

In addition, such failure of a third-party transportation provider could harm our reputation, negatively affect our customer relationships and have a material adverse effect on our financial position and results of operations.

### ***Sourcing and Production***

We have developed a strong, North American supply chain based on long-standing relationships. The majority of our suppliers have had a relationship with us for several decades. We purchase our raw materials from high quality suppliers predominantly located in North America and depend on a stable and consistent supply of raw materials and inputs. Although raw materials and inputs are generally available from multiple sources, certain materials and inputs are sourced from a restricted number of suppliers. The price and availability of such raw materials and inputs are subject to market forces where we do not have ownership interests and, in some cases, to government regulations and, accordingly, are subject to fluctuations. Such fluctuations may increase our costs, which in turn could impact profitability.

### ***Raw Material Logistics***

The Company ships substantial quantities of raw materials across the Great Lakes. During the winter months, shipping lanes are often inaccessible due to ice. As a result, the Company typically builds its coal and iron ore inventories throughout the summer and fall months in order to have adequate raw materials during the winter and early spring months. A severe winter or an extended winter season could impact ice volumes on the Great Lakes and negatively impact raw material availability at our manufacturing facilities. Buying raw materials from alternative suppliers or shipping by truck or rail may increase our costs, which in turn could impact profitability.

### ***Liquidity***

Our inventory cycle requires significant spend in the months leading up to winter (see “—*Raw Material Logistics*”) to ensure we have adequate coal and iron ore available for winter production needs. During the winter and early spring months, the raw materials purchased during the summer and fall months are converted to finished goods and sold to customers, improving the Company’s liquidity. The Company has entered into the ABL Credit Facility, an asset-based revolving credit facility with borrowing capacity of up to \$375 million, limited at any time to a percentage of existing inventory and trade accounts receivable levels. If the Company’s

liquidity needs exceed the available cash and availability under the ABL Credit Facility, it could negatively impact our ability to purchase raw materials and ultimately impact customer sales.

### ***Foreign Exchange***

Our functional currency is the Canadian dollar (“CAD”) because the majority of our revenue and purchases are in that currency. We do have transactions denominated in U.S. dollar (“USD”) because we sell into the U.S. market and purchase goods and services from the U.S. As a result, changes in CAD to USD exchange rate can impact our business and result in foreign currency gains or losses. It should be noted that our USD denominated purchases exceed our USD denominated revenue in a fiscal year.

It should also be noted that many of our domestic customers export their products into the U.S. Thus, a stronger CAD can cause those customers to be less competitive in the U.S. and thereby influence the customers to resist price increases or request steel price reductions from the Company. Also, U.S. exports of steel into Canada have historically forced domestic steel prices in CAD downward. In addition, the North American benchmark for spot market prices for certain products such as hot-rolled coil, are determined in USD.

On July 28, 2017, the Company entered into forward hedging arrangements to hedge the conversion of a portion of USD denominated revenue. Under the terms of the hedging arrangements, the Company agreed to sell an aggregate of up to \$45 million U.S. dollar calls and Canadian dollar puts and purchase up to \$90 million in U.S. dollar puts and Canadian dollar calls in specified tranches between August 30, 2017 and July 30, 2018.

### ***Information Systems and Support Services***

While owned by USS, the Company received certain support services such as information technology, financial reporting, corporate finance and treasury, risk management, as well as other key functions in the business. The Company is in the process of fully separating from USS support services by enhancing its own support organization to cover the noted functions. This effort has included adding key personnel and implementing the required information and reporting systems. As part of that effort, the Company is implementing a new enterprise resource planning (“ERP”) system, an effort that is anticipated to be completed by 2019. The Company will continue to utilize USS systems under one of the Transition Services Agreements until the new system is fully operational.

### ***Environmental Compliance***

We are subject to substantial and evolving environmental laws, regulations and other requirements relating to, among other things, emissions into the air, discharges to water or land, noise control, and the generation, handling, storage, transportation and disposal of hazardous substances. These laws, regulations and other requirements vary depending on the location of the facility and can fall within federal, provincial, or municipal jurisdictions. 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 the air emissions requirements. There is always the possibility, however, that unforeseen changes (such as in enforcement policies of relevant government bodies), or the discovery of circumstances (such as changed conditions on our real property or our operations), could result in an increase in the costs of environmental compliance that could result in a material adverse effect on our financial position.

Under Ontario’s environmental regulations, we are subject to certain limits on the amount and degree of emissions that are emitted into the atmosphere at both LEW and HW. These limits are based on the total land area that our operations occupy and as such were set prior to the reduction of our land footprint resulting from the Lease Agreements (see “*Our Business — Recent Restructuring of Our Business — CCAA Restructuring and Acquisition by Bedrock — Land Arrangements*” above). These limits are currently based on a larger land area than we occupy today. Given our reduced land area footprint at both LEW and HW these limits may be reduced from current authorized levels. As a result, we may incur additional costs or be required to deploy mitigation measures or reduce our operations to ensure we comply with these revised limits. These costs may be significant and we may be required to modify our production processes to comply with these revised limits, which may have a material effect on our business and operations.

Our business is required to have environmental permits and approvals issued by governments. Any of these permits or approvals may be subject to denial, revocation or modification under various circumstances. Failure to obtain or comply with the conditions of permits or approvals may adversely affect our operations and may subject us to penalties. In addition, if environmental requirements are amended or are interpreted or enforced differently, or if new environmental requirements are enacted, we may be required to obtain additional operating permits or approvals, incur additional costs and our operations (including production) may be affected. There can be no assurance that we will be able to meet all applicable regulatory requirements or conduct our operations as we desire. In addition, we may be subject to fines, penalties or other liabilities arising from its actions imposed under environmental legislation or regulations. For example, construction and operation of new production facilities and modifications to existing facilities may require environmental permits and approvals from the appropriate regulatory agencies. Compliance with the environmental permitting and approval requirements may be costly and time consuming and could result in delays or other adverse impacts on planned projects, our results of operations and cash flows.

We could also incur material liability in connection with environmental contamination and stockpiled materials related to our past, present and future actions. We have tried to mitigate this exposure by obtaining the release from, and by entering into the Environmental Framework Agreement with, the Province of Ontario. Both the release and Environmental Framework Agreement impose obligations on Stelco Inc., including that it undertake any construction, maintenance or spill response that could impact such contamination or materials with due diligence and that Stelco Inc. not be negligent in its on-going operations. If Stelco Inc. does not fulfill its obligations, it may be held liable by the MOECC to remediate or otherwise manage such contamination and materials at the HW and LEW lands. Such remediation and other work could result in material liability to Stelco Inc. See “*Our Business — Recent Restructuring of Our Business — CCAA Restructuring and Acquisition by Bedrock — Environmental Arrangements*”.

Notwithstanding, even if Stelco Inc. receives the intended benefit of the release and Environmental Framework Agreement with respect to historic contamination and stockpiled materials, we may still be subject to other significant environmental liabilities. For example, we may be subject to claims by other third parties (including neighbours or others affected by its contamination) as well as actions by regulators other than the Province of Ontario (such as, federal and municipal regulators). These claims and regulatory actions may relate to contamination that migrated from lands used by Stelco Inc. into other person’s lands, as well as into water (such as, Hamilton Harbour, where the approximately \$140 million Randle Reef Contaminated Sediment Remediation project is on-going, which was funded by, among others, Stelco Inc.). Also, the release and Environmental Framework Agreement only cover the HW and LEW lands and associated contaminant migration. As a result, we retain exposure for contamination in respect of other previously owned properties. We could incur material liability related to remediating and otherwise managing contamination and stockpiled materials now or in the future which could have a material adverse effect on business and results of operation.

***Changes in Accounting Standards and Subjective Assumptions, Estimates and Judgments by Management Related to Complex Accounting Matters Could Significantly Affect our Reported Financial Results or Financial Condition***

IFRS and related accounting pronouncements, implementation guidelines and interpretations with regard to a wide range of matters that are relevant to our business, including but not limited to revenue recognition, impairment of goodwill and intangible assets, inventory, income taxes and litigation, are highly complex and involve many subjective assumptions, estimates and judgments. Changes in these rules or their interpretation or changes in underlying assumptions, estimates or judgments could significantly change our reported financial performance or financial condition in accordance with IFRS.

***Income Taxes***

In computing our tax obligations in the jurisdictions in which we operate, we are required to take various tax accounting and reporting positions on matters that are not entirely free from doubt and for which we have not received rulings from the governing authorities. It is possible that some taxing jurisdictions may attempt to assess additional taxes and penalties on us if the applicable authorities do not agree with our positions. A successful challenge by a tax authority, through asserting either an error in our calculation, or a change in the application of law or an interpretation of the law that differs from ours, could adversely affect the results of

operations. We may be subject to assessments for additional taxes, including sales taxes, which could reduce our operating results and liquidity.

Cash generation will be enhanced in the coming years due to substantial tax attributes in the form of net operating loss carryforward deductions, undepreciated capital cost (“UCC”) deductions, and scientific research and experimental development (“SRED”) deductions which can shield approximately \$1,144 million of pre-tax earnings from income taxation in Canada provided the requirements pursuant to the Tax Act to claim such amounts are satisfied. Pursuant to the Tax Savings Agreement, we may be required to make certain payments to the Main Pension Plans and the EHLTs to the extent that tax attributes reduce the amount of taxes otherwise payable by Stelco.

### **How We Assess the Performance of Our Business**

The key performance indicator measurements below are used by management in evaluating the performance of our Company and assessing our business. We refer to certain key performance indicators used by management and typically used by our competitors in the North American steel industry, certain of which are not recognized under IFRS. See “*Non-IFRS Measures*” in this prospectus. For a reconciliation of certain of the following non-IFRS measures to the most directly comparable measures calculated in accordance with IFRS see “— *Selected Annual and Quarterly Financial Information — Reconciliation of Income (loss) for the year to Adjusted EBITDA*” in this prospectus.

#### ***Revenue from Sale of Goods***

The majority of our revenue from the sale of goods (“**Revenue**”) is derived from hot-rolled, cold-rolled and coated steel products. In addition, other product sales such as coke fines and by-products (tar, ammonia and light oil) are included in revenue. The customer base primarily includes automotive, appliance, construction, energy, and steel service centres across Canada and the United States. Sales are recorded net of bad debt expense.

#### ***Gross Profit***

Gross profit reflects our revenue 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, as well as depreciation and amortization.

#### ***Selling, General and Administrative (“SG&A”) Expenses***

Our SG&A expenses are predominantly comprised of corporate functions, and include wages and benefits, marketing, professional and legal fees, travel, and other expenses related to the corporate infrastructure required supporting our business. In fiscal year 2016 and 2017, SG&A costs also included costs associated with establishing and enhancing support functions and information systems, including a new ERP system, that have historically been provided to the Company by USS.

#### ***Earnings Before Interest, Taxes, Depreciation and Amortization (“EBITDA”)***

EBITDA is defined as profit or loss for the period before finance costs, finance income, income tax expense, and depreciation and amortization. See “— *Selected Annual and Quarterly Financial Information — Reconciliation of Income (loss) for the year to Adjusted EBITDA*”. EBITDA is used by management, investors, and analysts to measure operating performance and is a supplement to our consolidated financial statements presented in accordance with IFRS. 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 and amortization, which are non-cash expenses. Management considers EBITDA a meaningful measure for assessing the underlying financial performance of the Company. EBITDA does not have a standardized meaning prescribed by IFRS and therefore may not be comparable to similar measures presented by other companies. See “*Non-IFRS Measures*”.

### ***Adjusted EBITDA***

Adjusted EBITDA is defined as EBITDA adjusted for 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) gains related to emergence from CCAA, (ii) acquisition related-costs, (iii) provision on pension and other post-employment benefits, (iv) restructuring costs, (v) separation costs related to USS support services, and (vi) asset impairment. See “— *Selected Annual and Quarterly Financial Information — Reconciliation of Income (loss) for the year to Adjusted EBITDA*”. As with EBITDA, 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 and amortization, 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. 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. See “*Non-IFRS Measures*”.

### ***Adjusted EBITDA per net ton***

We monitor Adjusted EBITDA per nt, defined as Adjusted EBITDA divided by Shipping Volume, 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 unit basis, while excluding the impacts of finance costs and finance income, income tax expense, depreciation and amortization, 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. See “*Non-IFRS Measures*”.

### ***Selling Price per net ton***

We believe another key measure of performance is Selling Price per nt, which is defined as revenue divided by nt shipped in the period. Selling Price per nt is used by management, investors, and analysts to measure sales price on a per unit basis. Selling Price per nt is helpful in isolating a key driver in the generation of revenue, selling price, and helps facilitate 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. See “*Non-IFRS Measures*”.

### ***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 slab shipments and 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. See “*Non-IFRS Measures*”.

## Selected Annual and Quarterly Financial Information

The following table provides selected consolidated financial data for the periods and years indicated.

For the period ended (millions of Canadian dollars)	Trailing	Three months		Six months		Fiscal	Fiscal	Fiscal
	12 months ended June 30, 2017	ended June 30,		ended June 30,		year	year	year
		2017	2016	2017	2016	2016	2015	2014
Total revenue . . . . .	1,498	427	334	813	617	1,302	1,347	1,893
Cost of goods sold . . . . .	1,348	362	320	702	641	1,287	1,440	1,855
Gross profit (loss) . . . . .	150	65	14	111	(24)	15	(93)	38
Selling, general and administrative expenses	62	40	6	50	12	24	28	44
Operating profit (loss) . . . . .	88	25	8	61	(36)	(9)	(121)	(6)
Finance costs . . . . .	236	71	55	121	82	197	236	200
Impairment loss . . . . .	—	—	—	—	—	—	—	14
Finance income . . . . .	(2)	—	—	(1)	—	(1)	(1)	(1)
Share of loss of joint ventures . . . . .	2	1	—	1	—	1	1	2
(Gain) loss on disposal of property, plant and equipment . . . . .	(2)	—	—	—	—	(2)	—	—
Restructuring costs . . . . .	51	24	10	32	17	36	33	13
Gain on emergence from CCAA . . . . .	(3,665)	(3,665)	—	(3,665)	—	—	—	—
Other (income) loss . . . . .	(7)	1	—	(3)	—	(4)	(1)	(1)
Income (loss) before income taxes . . . . .	3,475	3,593	(57)	3,576	(135)	(236)	(389)	(233)
Income tax expense . . . . .	—	—	—	—	—	—	—	—
Income (loss) for the period . . . . .	3,475	3,593	(57)	3,576	(135)	(236)	(389)	(233)

The following table provides a reconciliation of EBITDA and Adjusted EBITDA and certain other non-IFRS measures for the periods and years indicated:

Reconciliation of Income (loss) for the year to Adjusted EBITDA: For the period ended (millions of Canadian dollars, except per nt)	Trailing	Three months		Six months		Fiscal	Fiscal	Fiscal
	12 months	ended June 30		ended June 30		year	year	year
	ended June 30 2017	2017	2016	2017	2016	2016	2015	2014
Income (loss) for the period . . . . .	3,475	3,593	(57)	3,576	(135)	(236)	(389)	(233)
Depreciation . . . . .	30	8	7	15	14	29	27	25
Finance costs . . . . .	236	71	55	121	82	197	236	200
Finance income . . . . .	(2)	—	—	(1)	—	(1)	(1)	(1)
Income tax expense . . . . .	—	—	—	—	—	—	—	—
<b>EBITDA</b> . . . . .	<b>3,739</b>	<b>3,672</b>	<b>5</b>	<b>3,711</b>	<b>(39)</b>	<b>(11)</b>	<b>(127)</b>	<b>(9)</b>
Adjustments to EBITDA:								
Gains related to emergence from CCAA <sup>(1)</sup> . . . . .	(3,665)	(3,665)	—	(3,665)	—	—	—	—
Acquisition related costs <sup>(2)</sup> . . . . .	18	18	—	18	—	—	—	—
Provision on pension and other post-employment benefits <sup>(3)</sup> . . . . .	59	11	11	24	25	60	(38)	(45)
Restructuring costs <sup>(4)</sup> . . . . .	51	24	10	32	17	36	33	13
Separation costs related to USS support services <sup>(5)</sup> . . . . .	23	16	—	20	—	3	—	—
Asset impairments <sup>(6)</sup> . . . . .	—	—	—	—	—	—	—	14
<b>Adjusted EBITDA</b> . . . . .	<b>225</b>	<b>76</b>	<b>26</b>	<b>140</b>	<b>3</b>	<b>88</b>	<b>(132)</b>	<b>(27)</b>
<b>Adjusted EBITDA as a percentage of total revenue</b> . . . . .	<b>15%</b>	<b>18%</b>	<b>8%</b>	<b>17%</b>	<b>0%</b>	<b>7%</b>	<b>(10)%</b>	<b>(1)%</b>
Selling Price per nt (in dollars per nt) . . . .	764	851	645	812	608	659	742	813
Adjusted EBITDA per nt (in dollars per nt) . . . . .	115	151	50	140	3	45	(73)	(12)
Shipping Volume (in thousands of nt) . . . .	1,962	502	517	1,001	1,015	1,977	1,814	2,329
Hot-rolled . . . . .	1,386	359	375	699	758	1,446	1,140	1,398
Cold-rolled . . . . .	43	17	1	31	2	14	110	213
Coated . . . . .	434	103	115	225	203	412	468	475
Other . . . . .	99	22	26	47	52	104	96	244

(1) Represents the gain from the implementation of the CCAA plan on June 30, 2017. See “Q2 2017 Compared to Q2 2016 (Three months ending June 30) — Gain on emergence from CCAA” and “Q2 2017 Compared to Q2 2016 (Six months ending June 30) — Gain on emergence from CCAA” Refer to Note 13 of the unaudited interim condensed consolidated financial statements of Stelco Inc. for the three and six months ended June 30, 2017 found elsewhere in this prospectus.

(2) Acquisition costs related to the purchase of Stelco Inc. by Bedrock.

(3) Represents difference between total cash funding obligation for pensions and OPEBs and amount already reflected in EBITDA.

(4) Restructuring expenses relates to the CCAA proceedings, which primarily included legal fees, financial advisor fees, court-appointed monitor fees, interim financing fees and other related restructuring expenses. The Company implemented its CCAA plan on June 30, 2017.

(5) The Company has received information system services from USS since USS acquired the Company in 2007, and continues to receive information system services from USS under Transition Services Agreements that will expire on June 30, 2019, unless cancelled earlier by the Company. The separation costs being adjusted here are expenses incurred by the Company in connection with implementation of its own standalone information systems, including an ERP system, as well as other operating and communication systems.

(6) In fiscal year 2014, the Company recorded an impairment loss of \$14 million relating to its investment in its joint venture, Baycoat.

The following table provides selected financial position data for the dates indicated:

<u>As at (millions of Canadian dollars)</u>	<u>June 30, 2017</u>	<u>December 31, 2016</u>	<u>December 31, 2015</u>	<u>December 31, 2014</u>
Cash and cash equivalents . . . . .	30	188	162	199
Trade and other receivables . . . . .	169	237	268	354
Inventories . . . . .	271	314	282	405
Property, plant and equipment . . . . .	298	378	386	384
Total assets . . . . .	854	1,200	1,205	1,448
Trade and other payables . . . . .	94	457	459	478
Current portion of long-term debt . . . . .	—	1,822	1,829	1,787
Current portion of employee benefit commitment . . . . .	31	—	—	—
Other current liabilities . . . . .	31	1,172	973	632
Long-term debt . . . . .	79	—	—	—
Long term portion of pension and other post-employment benefits . . . . .	—	1,030	1,047	1,306
Long term portion of employment benefit commitments . . . . .	286	—	—	—
Total liabilities . . . . .	548	4,487	4,316	4,223
Total shareholder's equity (deficiency) . . .	306	(3,287)	(3,111)	(2,775)

## **Results of Operations**

### **Overview**

The following is an overview of the change in sales and product mix for fiscal years 2014 to 2016 and the six months ended June 30, 2017:

In fiscal years 2014 and 2015, automotive contracts were procured and sourced by USS. Following arrangements entered into with USS in October 2015 to establish operational separation, we assumed responsibility for all of our own sales and marketing activities and have subsequently developed a marketing and sales strategy to grow our business, including once again sourcing business directly from OEMs. The Company partially mitigated the decrease in revenue from lost automotive customer orders by increasing hot-rolled coil sales into the spot market in fiscal year 2016 despite the general market decline in steel pricing. In the first half of 2017, the market price of steel improved, while the Company maintained shipping volume compared to the first half of 2016. Additionally, the Company continued to sell a higher proportion of its product mix in hot-rolled coils. Blast furnace production in the first half of fiscal 2017 was reduced in order to maintain furnace stability prior to our planned major repair and maintenance outage that was scheduled for August and September 2017. Approximately 71,000 nt of hot-rolled production was lost in the six months ended June 30, 2017, as compared to the same period in the prior year, due to reduced production levels prior to the planned outage. Going forward, the Company's sales strategy is focused on regaining higher margin business from automotive customers, increasing its expansion into additional markets including the United States 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 stability, it believes it has removed a major roadblock that had previously impacted its ability to compete for automotive customer contracts.

The following is an overview of the operational changes for fiscal years 2014 to 2016 and the six months ended June 30, 2017:

During the fiscal year 2014 the Company experienced increased cost as a result of idling of the Lake Erie coke oven battery from August 2013 through to September 2014. The Company incurred the added fuel and maintenance cost for the hot idle of the coke ovens, the cost to bring the battery back into service in September 2014 and additional loss of the coke oven gas recovery that would have been used to reduce natural gas purchases. Throughout fiscal year 2015, steel market prices declined and as a result, the Company experienced a decline in revenue per nt. The Company also experienced a decline in shipping volumes due to USS plant allocation decisions. The combination of declining steel market prices, along with substantial financial

obligations and the Company's pension and OPEB obligations, resulted in the Company obtaining Court approval in the last quarter of 2015 to implement the Independent Business Plan and Cash Preservation Order (the "**Order**"). The Order provided for separating the Company's operations from USS, securing critical administrative and operational services from USS during a transition period and implementing cash conservation measures to preserve liquidity. Following Court approval of the Order, the Company sourced and began to implement a new ERP system in fiscal year 2016. The cash conservation measures approved by the Court included the suspension of the following payments as of October 2015: pension amounts in excess of normal cost contributions for active employees, OPEBs (other than life insurance), and property taxes. Further cash conservation measures were implemented beginning in October 2015 which included reducing non-essential maintenance and capital expenditures. Blast furnace production in the first half of fiscal 2017 was reduced in order to maintain furnace stability prior to our planned major repair and maintenance outage that was scheduled for August and September 2017. Approximately 71,000 nt of hot-rolled production was lost in the six months ended June 30, 2017, as compared to the same period in the prior year, due to reduced production levels prior to the planned outage.

Following the implementation of the Plan on June 30, 2017, financial and operational stability has been improved by the following factors:

- The Company entered into a commitment to purchase all of its iron ore requirements from USS through 2021 shipping season up to a maximum amount.
- The Company entered into new collective bargaining agreements with USW Local 8782, USW Local 8782(b) and USW Local 1005, each for a term of 5 years.
- From fiscal years 2014 to 2016 and the six months ending June 30, 2017 prior to emergence from CCAA, the Company had approximately \$1.8 billion of long-term debt and with an average interest expense of \$190 million per year which contributed to a highly leveraged capital structure. Following the implementation of the Plan, secured and unsecured claims to the Company were cancelled, extinguished and discharged by a combination of repayments and compromises of claims, which contributed to a deleveraging of the Company's capital structure.
- From fiscal years 2014 to 2016 and the six months ending June 30, 2017, the Company's unfunded pension and OPEB accounting liabilities ranged from approximately \$1.2 billion to \$1.4 billion. Following the implementation of the Plan, the pension and OPEB liabilities were cancelled, extinguished and discharged from the Company's balance sheet. The Company concurrently entered into new funding commitments with the pension plans and OPEB trusts.
- The Company entered into a revolving asset-based credit facility with borrowing capacity of up to of \$375 million, limited at any time to a percentage of existing inventories and trade accounts receivable levels.

### ***Q2 2017 Compared to Q2 2016 (Three months ending June 30)***

The following section provides an overview of our financial performance for the three months ended June 30, 2017 and June 30, 2016:

#### *Revenue*

Revenue increased by \$93 million, or 28%, from \$334 million in Q2 2016 to \$427 million in Q2 2017 primarily due to an increase in the selling price per nt. The increase in the selling price per nt was due to the improvement of the market price of steel. The sales product mix remained consistent year-over-year in the three months ending June 30, with hot-rolled coils representing on average approximately 75% of the total sales volume, and the remainder primarily attributable to cold-rolled and coated steel products. The Company conducted a planned blast furnace outage in Q3 2017, which included applying a protective shotcrete refractory to the blast furnace walls in order to improve the operational reliability and extend the working life of the furnace. Prior to the Q3 2017 outage, the blast furnace was operated at reduced levels in order to preserve furnace stability. These actions resulted in about 26,000 nt of lost hot-roll production as compared to the same period in 2016, a decline of 5%. Work completed during the outage is expected to result in improved blast

furnace operational reliability and productivity. As an indication of the production improvements already experienced, from July 1, 2017 until entering the outage on August 14, 2017, the blast furnace averaged approximately 21 heats (production volume of liquid steel) per day. Since completing the outage and bringing the furnace back to full production on September 9, 2017, the blast furnace has averaged 26 heats per day, an increase of 24% to the period ended September 20, 2017.

#### *Gross profit*

Gross profit increased by \$51 million, or 364%, from \$14 million in Q2 2016 to \$65 million in Q2 2017 due to increases in revenue resulting from higher market steel prices, partially offset by higher raw material costs. Raw material costs increased due to market price increases in iron ore (up approximately 5%), metallurgical coal (up approximately 18%), and scrap metal (up approximately 30%). Our results during Q2 2017 did not include the benefit of our new iron ore contract with USS, due to the timing of purchases and consumption.

#### *Selling, general and administrative expenses*

SG&A expenses increased by \$34 million, or 567%, from \$6 million in Q2 2016 to \$40 million in Q2 2017 due largely to a \$14 million increase in ERP expenses relating to the separation from USS and an \$18 million increase in acquisition related costs.

#### *Finance costs*

Finance costs increased by \$16 million, or 29%, from \$55 million in Q2 2016 to \$71 million in Q2 2017, primarily due to an \$11 million increase in foreign exchange loss relating to the volatility of the U.S. dollar and our U.S. denominated liabilities, and an addition of \$5 million in compounded interest expense on USS debt. The increase in foreign exchange loss is primarily due to the strengthening of the U.S. dollar as compared to the previous years' quarter. The increase in interest expense is due to the compounding effect of our unpaid USS debt interest.

#### *Finance income*

Finance income was minimal in Q2 2016 and in Q2 2017. Finance income primarily represents the accumulation of interest income on overnight deposits of cash held in the bank.

#### *Share of loss of joint ventures*

Share of loss of joint ventures was minimal in Q2 2016 and in Q2 2017 and represents the Company's share of the loss from its two joint ventures, Baycoat and D.C. Chrome.

#### *Gain on emergence from CCAA*

The Company recorded a gain of \$3,665 million on June 30, 2017 that was directly attributable to the emergence from CCAA. The gain reflects the extinguishment and/or satisfaction of secured and unsecured claims through the CCAA process. As a result, secured and unsecured debts totaling \$3,056 million and \$1,387 million of pension and OPEB obligations were extinguished and/or satisfied through the CCAA process for total cash compensation of \$330 million, transfer of land and equipment with a carrying value of \$120 million, and future funding obligations related to employee benefit plans estimated to represent a net present value of \$317 million. Cash payments included \$79 million (US\$61 million) paid to the Province of Ontario for purposes of future environmental remediation if necessary.

#### *Income tax expense*

Income tax expense for Q2 2016 and Q2 2017 were nil due to losses from continuing operations in 2016 and claiming prior period losses in 2017. 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 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.

#### *Income (Loss) for the Period*

Income for the period increased by \$3,650 million from a loss of \$57 million in Q2 2016 to income of \$3,593 million in Q2 2017. The improvement was largely due to the gain on emergence from CCAA and improved revenue due to market steel price increases. Partially offsetting those favourable items were higher iron ore, metallurgical coal and scrap costs, foreign exchange losses, acquisition related costs, and restructuring costs.

#### *EBITDA*

EBITDA increased by \$3,667 million, from \$5 million in Q2 2016 to \$3,672 million in Q2 2017. The improvement was largely due to the gain on emergence from CCAA and improved revenue due to market steel price increases. Partially offsetting those favourable items were higher iron ore, metallurgical coal and scrap costs, acquisition related costs, and restructuring costs.

#### *Adjusted EBITDA*

Adjusted EBITDA consisted of the following non-routine, non-recurring, and/or non-cash items: Gain related to emergence from CCAA, restructuring costs related to CCAA, provision on pension and other post-employment benefits, separation costs related to USS support services, and acquisition related costs.

Adjusted EBITDA increased by \$50 million, or 192%, from \$26 million in Q2 2016 to \$76 million in Q2 2017. The improvement was largely due to improved revenue due to market steel price increases, partially offset by higher iron ore, metallurgical coal and scrap costs.

#### *Adjusted EBITDA per net ton*

Adjusted EBITDA per nt increased by \$101 per nt, or 201%, from \$50 per nt in Q2 2016 to \$151 per nt in Q2 2017 as a result of a \$50 million improvement in Adjusted EBITDA on a 16 knt decrease in shipments.

#### *Selling price per net ton*

Selling price per nt increased by \$205 per nt, or 32%, from \$645 per nt in Q2 2016 to \$851 per nt in Q2 2017 due to the improvement in market price of steel. The sales product mix remained consistent in the three months, year over year, with hot-rolled coils representing on average approximately 75% of the total sales volume, and the remainder primarily attributable to cold-rolled and coated steel products.

#### *Shipping Volume*

Shipping volume remained generally stable, decreasing from 517 knt in Q2 2016 to 502 knt in Q2 2017. Hot-rolled coil shipments decreased from 375 knt in Q2 2016 to 359 knt in Q2 2017. Coated shipments decreased from 115 knt in Q2 2016 to 103 knt in Q2 2017. Cold-rolled coil shipments increased from 1 knt in Q2 2016 to 17 knt in Q2 2017. Other shipments decreased from 26 knt in Q2 2016 to 22 knt in Q2 2017.

#### ***Q2 2017 Compared to Q2 2016 (Six months ending June 30)***

The following section provides an overview of our financial performance for the six months ended June 30, 2017 and June 30, 2016:

#### *Revenue*

Revenue increased by \$196 million, or 32%, from \$617 million in the first half of 2016 to \$813 million in first half of 2017, primarily due to an increase in the selling price per nt. The increase in the selling price per nt was due primarily to the improvement of the market price of steel. The sales product mix remained consistent in the six months, year-over-year, with hot-rolled coils representing on average 75% of the total sales volume, and

the remainder attributable to cold-rolled and coated steel products. In the first half of 2017, the blast furnace experienced intermittent production issues which reduced production output. See “— Q2 2017 Compared to Q2 2016 (Three months ending June 30)”.

#### *Gross profit*

Gross profit increased by \$135 million, or 563%, from \$(24) million in the first half of 2016 to \$111 million in the first half of 2017 due to a combination of an increase in selling price per nt, offset partially by an increase in cost of sales per nt. The higher cost of sales was attributed to an increase in raw material costs including an approximate 43% increase in the cost per nt of scrap metal and a 20% increase in cost per nt of other steel conversion costs, offset by a 12% decrease in the cost per nt of iron ore and a 13% decrease in the cost per nt of metallurgical coal.

#### *Selling, general and administrative expenses*

SG&A expenses increased by \$38 million, or 317%, from \$12 million in the first half of 2016 to \$50 million in the first half of 2017 largely due to a \$14 million increase in ERP expenses relating to the separation from USS and an \$18 million in acquisition related costs.

#### *Finance costs*

Finance costs increased by \$39 million, or 48%, from \$82 million in the first half of 2016 to \$121 million in the first half of 2017, primarily due to a \$21 million increase in foreign exchange loss relating to the impact to our U.S. denominated liabilities, an additional \$8 million in compounded interest expense on USS debt, and \$9 million for restructuring finance costs. The increase in foreign exchange loss is primarily due to the strengthening of the U.S. dollar compared to the previous period. The increase in interest expense is due to the compounding effect of our unpaid USS debt interest.

#### *Finance income*

Finance income is minimal in the first half of 2016 and the first half of 2017. Finance income primarily represents the accumulation of interest income on overnight deposits of cash held in the bank

#### *Share of loss of joint ventures*

Share of loss of joint ventures increased by \$1 million, from nil in first half of 2016 to a loss of \$1 million in the first half of 2017 and primarily represents the Company's loss from its two joint ventures, Baycoat and D.C. Chrome.

#### *Gain on emergence from CCAA*

The Company recorded a gain of \$3,665 million in June 30, 2017 that was directly attributable to the emergence from CCAA. The gain reflects the extinguishment and/or satisfaction of secured and unsecured claims through the CCAA process. As a result, secured and unsecured debts totaling \$3,056 million and \$1,387 million of pension and OPEB obligations were extinguished and/or satisfied through the CCAA process for total cash compensation of \$330 million, transfer of land and equipment with a carrying value of \$120 million, and future funding obligations related to employee benefit plans estimated to represent a net present value of \$317 million. Cash payments included \$79 million (US\$61 million) paid to the Province of Ontario for purposes of future environmental remediation if necessary.

#### *Income tax expense*

Income tax expense for the first half of 2016 and 2017 were nil due to losses from continuing operations in 2016 and claiming prior period losses in 2017. 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 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.

### *Income (Loss) for the period*

Income for the period increased by \$3,711 million, from a loss \$135 million in the first half of 2016 to income of \$3,576 million in the first half of 2017. The improvement was largely due to the gain on emergence from CCAA and improved revenue from market steel price increases. Partially offsetting those favourable items were higher scrap metal, costs, foreign exchange losses, compounded interest on USS debt, acquisition related costs, and restructuring costs.

### *EBITDA*

EBITDA increased by \$3,750 million, from \$(39) million in the first half of 2016 to \$3,711 million in the first half of 2017. The improvement was largely due to the gain on emergence from CCAA and improved revenue from market steel price increases. Partially offsetting those favourable items were higher scrap metal, costs, acquisition related costs, and restructuring costs.

### *Adjusted EBITDA*

Adjusted EBITDA consisted of the following non-routine, non-recurring, and/or non-cash items: Gain related to emergence from CCAA, restructuring costs related to CCAA, provision on pension and other post-employment benefits, separation costs related to USS support services, and acquisition related costs.

Adjusted EBITDA increased by \$137 million, from \$3 million in the first half of 2016 to \$140 million in the first half of 2017. The improvement was largely due to improved revenue due to market steel price increases, partially offset by higher scrap metal, costs.

### *Adjusted EBITDA per net ton*

Adjusted EBITDA per nt increased by \$137 per nt, from \$3 per nt in the first half of 2016 to \$140 per nt in the first half of 2017, as a result of a \$137 million improvement in Adjusted EBITDA on a 14 knt decrease in shipments.

### *Selling price per net ton*

Selling price per nt increased by \$204 per nt, from \$608 per nt in the first half of 2016 to \$812 per nt in the first half of 2017, due to an increase in the selling price per nt. The increase in the selling price per nt was due to the improvement of market price of steel. The sales product mix remained consistent in the six months, year over year, with hot-rolled coils representing on average approximately 75% of the total sales volume, and the remainder primarily attributable to cold-rolled and coated steel products.

### *Shipping Volume*

Shipping volume remained generally stable from 1,015 knt in the first half of 2016 to 1,001 knt in the first half of 2017. Hot-rolled coil shipments decreased from 758 knt in the first half of 2016 to 699 knt in the first half of 2017. Coated shipments increased from 203 knt in the first half of 2016 to 225 knt in the first half of 2017. Cold-rolled coil shipments increased from 2 knt in the first half of 2016 to 31 knt in the first half of 2017. Other shipments decreased from 52 knt in the first half of 2016 to 47 knt in the first half of 2017.

### ***Fiscal 2016 Compared to Fiscal 2015***

The following section provides an overview of our financial performance for the fiscal years ending December 31, 2016 and December 31, 2015.

### *Revenue*

Revenue decreased by \$45 million, or 3%, from \$1,347 million in fiscal year 2015 to \$1,302 million in fiscal year 2016, primarily due to a decline in the selling price per nt of \$84 per nt, from \$742 in fiscal 2015 to \$659 in fiscal 2016 partially offset by a 163 knt increase in shipping volume, a 9% volume increase year-over-year. The decrease in our average selling price per nt reflects price declines in the broader North American steel markets which saw market price at significant low levels. The decline in revenue also resulted from our change in sales

product mix as sales of higher-priced coated steel products to automotive customers declined by approximately 131 knt. The decrease in automotive customer sales was driven by the USS plant loading allocation decision in late 2015 which reallocated automotive customer production and sales from the Company to other USS plants located in the United States. The Company partially mitigated the decrease in revenue from lost automotive customer orders with an increase in volume of hot-rolled coil sales in the spot market. Hot-rolled coil shipping volume increased by 306 knt from an approximate average of 63% of the sales product mix in fiscal year 2015 to an approximate average of 73% in fiscal year 2016.

#### *Gross profit*

Gross profit increased by \$108 million, or 116%, from \$(93) million in fiscal year 2015 to \$15 million in fiscal year 2016, due to a decrease in cost of goods sold per nt, a higher shipping volume of approximately 163 knt and a \$17 million inventory write down to net realizable value in fiscal year 2015, offset partially by a decrease in the selling price per nt during 2016. The lower cost of goods sold was primarily due to a decrease in raw material input costs, consisting of an approximate 23% decrease in the cost per nt of iron ore and an approximate 21% decrease in the cost per nt of metallurgical coal. At the end of fiscal year 2015, an inventory write-down to net realizable value of \$17 million was recorded in cost of goods sold. The written down inventory was subsequently sold in fiscal year 2016, thereby recognizing \$17 million less in cost of goods sold in fiscal year 2016 due to its previous recognition in fiscal year 2015.

#### *Selling, general and administrative expenses*

SG&A expenses decreased by \$4 million, by 14%, from \$28 million in fiscal year 2015 compared to \$24 million in fiscal year 2016. The decrease is related to cost containment initiatives under the October 2015 Cash Preservation Order.

#### *Finance costs*

Finance costs decreased by \$39 million, or 17%, from \$236 million in fiscal year 2015 to \$197 million in fiscal year 2016, primarily due to a \$56 million foreign exchange gain relating to U.S. dollar denominated receivables and liabilities, offset partially by a \$17 million increase in interest expense, a reflection of compounding interest on unpaid USS debt. The foreign exchange gain was primarily due to the strengthening of the Canadian dollar relative to the U.S. dollar at year end.

#### *Finance income*

Finance income remained at approximately \$1 million in fiscal year 2015 and fiscal year 2016, and primarily represents the accumulation of interest income on overnight deposits of cash held in the bank.

#### *Share of loss of joint ventures*

Share of loss of joint ventures remained at approximately \$1 million in fiscal year 2015 and in fiscal year 2016 and represents the Company's share of the profit or loss from its two joint ventures, Baycoat and D.C. Chrome.

#### *Gain on disposal of assets*

Gain on disposal of assets increased by \$2 million, from approximately \$0 million in fiscal year 2015 to \$2 million in fiscal year 2016 due to a deferred gain recognized in the period.

#### *Restructuring costs*

Restructuring costs increased by \$3 million, or 9%, from \$33 million in fiscal year 2015 to \$36 million in fiscal year 2016 due to the continued proceedings under the CCAA.

### *Other income*

Other income relates to miscellaneous items that are not directly related to the operation of the business. Other income increased by \$3 million from \$1 million in fiscal year 2015 to \$4 million in fiscal year 2016, and was mainly the result of tax compliance filings and the results of assessments and reassessments.

### *Income tax expense*

Income tax expense for fiscal years 2015 and 2016 were nil due to losses from continuing operations in 2015 and claiming prior period losses in 2016. 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 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.

### *Loss for the period*

Loss for the year decreased by \$153 million, or 39%, from \$389 million in fiscal year 2015 to \$236 million in fiscal year 2016 due to a \$153 million decrease in cost of goods sold in 2016 driven by declines in raw material input costs as well as a \$56 million foreign exchange gain in 2016. Partially offsetting those favourable variances was lower revenue, which decreased \$45 million from 2015 to 2016 largely due to market steel price declines, and a \$17 million increase in interest expense on USS debt.

### *EBITDA*

EBITDA increased by \$116 million, or 91%, from \$(127) million in fiscal year 2015 to \$(11) million in fiscal year 2016 due to a \$153 million decrease in cost of goods sold (excluding depreciation) in 2016 driven by declines in raw material input costs, partially offset by lower revenue, which decreased \$45 million from 2015 to 2016 largely due to market steel price declines.

### *Adjusted EBITDA*

Adjusted EBITDA consisted of the following non-routine, non-recurring, and/or non-cash items: Gain related to emergence from CCAA, restructuring costs related to CCAA, provision on pension and other post-employment benefits, separation costs related to USS support services, and acquisition related costs.

Adjusted EBITDA increased by \$220 million, from \$(132) million in fiscal year 2015 to \$88 million in fiscal year 2016 due to a \$151 million decrease in cost of goods sold (excluding depreciation) in 2016 driven by declines in raw material input costs, partially offset by lower revenue, which decreased \$45 million from 2015 to 2016 largely from market steel price declines. A \$98 million improvement in Adjusted EBITDA year-over-year is attributed to the provision on pension and other post-employment benefits. These cash contributions ceased after October 2015 under the Order. As a result, the Company has removed these non-cash expenses from the calculation of Adjusted EBITDA beginning in the period after cash contributions had ceased.

### *Adjusted EBITDA per net ton*

Adjusted EBITDA per nt improved by \$117 per nt, from \$(73) per nt in fiscal year 2015 to \$45 per nt in fiscal year 2016 due to Adjusted EBITDA improving from \$(132) million in 2015 to \$88 million in 2016.

### *Selling price per net ton*

Selling price per nt decreased by \$84 per nt, from \$742 per nt in fiscal year 2015 to \$659 per nt in fiscal year 2016, primarily due to the decline in North American steel market prices. The decline in revenue per nt also resulted from our change in sales product mix, with higher priced coated steel products volumes declining 131 knt year-over-year. The decrease in automotive customer sales was driven by USS' central planning function, which reallocated automotive customer production and sales from the Company to other USS plants located in the United States in the last quarter of fiscal year 2015. The Company partially mitigated the decrease in revenue per nt from lost automotive customer orders by increasing sales volume of hot-rolled coil sales in the spot market. Hot-rolled coil shipping volume increased by 306 knt year-over-year, which increased hot-rolled

coil sales as a percentage of total sales from approximately 63% in fiscal year 2015 to approximately 73% in fiscal year 2016. Overall, shipping volume increased by approximately 9% (163 knt) due to the improvement of market conditions.

#### *Shipping Volume*

Shipping volume increased from 1,814 knt in fiscal year 2015 to 1,977 knt in fiscal year 2016, due to the improvement of market conditions. Hot-rolled coil shipments increased from 1,140 knt in fiscal year 2015 to 1,446 knt in fiscal year 2016. Coated shipments decreased from 468 knt in fiscal year 2015 to 412 knt in fiscal year 2016. Cold-rolled coil shipments decreased from 110 knt in fiscal year 2015 to 14 knt in fiscal year 2016. Other shipments increased from 96 knt in fiscal year 2015 to 104 knt in fiscal year 2016.

#### *Fiscal 2015 Compared to Fiscal 2014*

The following section provides an overview of our financial performance for the fiscal years ending December 31, 2015 and December 31, 2014.

#### *Revenue*

Revenue decreased by \$546 million, or 29%, from \$1,893 million in fiscal year 2014 to \$1,347 million in fiscal year 2015 primarily due to decreased shipping volume and the decline in the selling price per nt. Lower shipping volume was due to the weakness in North American steel markets, compounded by our steel shipments to USS of approximately 140 knt in 2014. The \$70 decline in the selling price per nt was primarily due to the decline in North American steel pricing throughout the year, offset partially by higher priced coated product for existing automotive customer contracts. In fiscal year 2014, USS made a one-time order of steel from the Company for approximately 140 knt in order to compensate for a shutdown at one of USS's steel plants. Once the Company fulfilled the steel slab order in fiscal year 2014, no further steel slab orders were made thereafter.

#### *Gross profit*

Gross profit decreased by \$131 million, or 345%, from \$38 million in fiscal year 2014 to \$(93) million in fiscal year 2015, primarily due to a \$70 decrease in selling price per nt and a 515 knt decrease in shipping volume, offset partially by a decrease in cost of goods sold per nt. The lower cost of goods sold was primarily due to a decrease in raw material input costs, which was primarily due to an approximate 9% decrease in the cost per nt of iron ore and an approximate 32% decrease in the cost per nt of purchased scrap, offset partially by a 4% increase in cost per nt of metallurgical coal.

#### *Selling, general and administrative expenses*

SG&A expenses decreased by \$16 million, or 36%, from \$44 million in fiscal year 2014 to \$28 million in fiscal year 2015, primarily due to a \$7 million decrease in USS corporate overhead cost allocation as well as a reduction of \$9 million in SG&A cost. In February 2014, Stelco recorded a provision for termination benefits pursuant to a restructuring plan issued by USS involving the termination of employees, which was announced to the employees of Stelco in February 2014.

#### *Finance costs*

Finance costs increased by \$36 million, or 18%, from \$200 million in fiscal year 2014 to \$236 million in fiscal year 2015, primarily due to a \$39 million increase in foreign exchange loss relating to U.S. dollar denominated assets and liabilities and a \$3 million decrease in interest expense on U.S. dollar denominated USS debt. The increase in foreign exchange loss is primarily due to the weakening of the year end foreign exchange rate of the Canadian dollar against the U.S. dollar. The decrease in interest expense is primarily due to the weakening of the average foreign exchange rate of the Canadian dollar against the U.S. dollar.

#### *Impairment loss*

In fiscal year 2014, an impairment loss of \$14 million was recorded, while fiscal year 2015 did not have an impairment. In fiscal year 2014, the Company identified an indicator of impairment related to losses on scrap

metals for its investment in Baycoat, which significantly affected the future cash flows of this equity method investee. The Company conducted an impairment test and recorded an impairment loss for the excess of the carrying amount of the investment over its recoverable value.

#### *Finance income*

Finance income remained at \$1 million in fiscal year 2014 and fiscal year 2015, and primarily represents the accumulation of interest income on overnight deposits of cash held in the bank.

#### *Share of loss of joint ventures*

Share of loss of joint ventures decreased by \$1 million, from \$2 million in fiscal year 2014 to \$1 million in fiscal year 2015 and represents the Company's share of the profit or loss from its two joint ventures, Baycoat and D.C. Chrome.

#### *Gain or loss on disposal of assets*

Gain or loss on disposal of assets was nil in fiscal year 2014 and fiscal year 2015.

#### *Restructuring costs*

Restructuring costs increased by \$20 million, or 154%, from \$13 million in fiscal year 2014 to \$33 million in fiscal year 2015 due to the Company filing for CCAA creditor protection on September 16, 2014.

#### *Other income*

Other income remained at \$1 million in fiscal year 2014 and fiscal year 2015 and mainly represents non-recurring vendor refunds, tax credits and other related credits that are not directly related to the current year operation of the Company's business.

#### *Income tax expense*

Income tax expense for fiscal years 2014 and 2015 were nil due to losses from continuing operations in each year. 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 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.

#### *Loss for the year*

Loss for the year increased by \$156 million, or 67%, from \$233 million in fiscal year 2014 to \$389 million in fiscal year 2015 primarily due to decreased shipping volume and the decline in the selling price per nt. Lower shipping volume was due to the weakness in North American steel markets. Gross profit decreased from \$38 million in fiscal year 2014 to \$(93) million in fiscal year 2015, due to a \$70 decrease in selling price per nt and a 515 knt decrease in shipping volume, offset partially by a decrease in cost of goods sold per nt. The lower cost of goods sold was primarily due to a decrease in raw material input costs, which was due to an approximate 9% decrease in the cost per nt of iron ore and an approximate 32% decrease in the cost per nt of purchased scrap, offset partially by a 4% increase in cost per nt of metallurgical coal. SG&A expenses decreased from \$44 million in fiscal year 2014 to \$28 million in fiscal year 2015, primarily due to a \$7 million decrease in USS corporate overhead cost allocation as well as a reduction of \$9 million in SG&A cost.

#### *EBITDA*

EBITDA decreased by \$118 million, from \$(9) million in fiscal year 2014 to \$(127) million in fiscal year 2015 primarily due to the lower shipping volume due to the weakness in North American steel markets.

### *Adjusted EBITDA*

Adjusted EBITDA consisted of the following non-routine, non-recurring, and/or non-cash items: Restructuring costs related to CCAA, provision on pension and other post-employment benefits and asset impairments.

Adjusted EBITDA decreased by \$105 million, from \$(27) million in fiscal year 2014 to \$(132) million in fiscal year 2015, primarily due to the gross profit decrease from \$38 million in fiscal year 2014 to \$(93) million in fiscal year 2015, primarily due to a \$70 decrease in selling price per nt and a 515 knt decrease in shipping volume, offset partially by a decrease in cost of goods sold per nt. SG&A expenses decreased from \$44 million in fiscal year 2014 to \$28 million in fiscal year 2015, primarily due to a \$7 million decrease in USS corporate overhead cost allocation as well as a reduction of \$9 million in SG&A cost.

### *Adjusted EBITDA per nt*

Adjusted EBITDA per nt decreased by \$61 per nt, from \$(12) per nt in fiscal year 2014 to \$(73) per nt in fiscal year 2015.

### *Selling price per nt*

Selling price per nt decreased by \$70 per nt, from \$813 per nt in fiscal year 2014 to \$742 per nt in fiscal year 2015, primarily due to decreased shipping volume and the general decline in the North American steel market.

### *Shipping Volume*

Shipping volume decreased from 2,329 knt in fiscal year 2014 to 1,814 knt in fiscal year 2015, due to the weakness in North American steel markets. Hot-rolled coil shipments decreased from 1,398 knt in fiscal year 2014 to 1,140 knt in fiscal year 2015. Coated shipments decreased from 475 knt in fiscal year 2014 to 468 knt in fiscal year 2015. Cold-rolled coil shipments decreased from 213 knt in fiscal year 2014 to 110 knt in fiscal year 2015. Other shipments decreased from 244 knt in fiscal year 2014 to 96 knt in fiscal year 2015.

### **Cash Flow**

<u>For the period ended (millions of Canadian dollars)</u>	<u>Six months ended June 30</u>		<u>Fiscal year</u>	<u>Fiscal year</u>	<u>Fiscal year</u>
	<u>2017</u>	<u>2016</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Cash and cash equivalents, beginning of period . . . . .	188	162	162	199	42
Cash flows from (used in):					
Operating activities . . . . .	(169)	(13)	43	1	183
Investing activities . . . . .	(27)	(6)	(17)	(38)	(26)
Financing activities . . . . .	38	—	—	—	—
Cash and cash equivalents, end of period . . . . .	30	143	188	162	199

### *Analysis of Cash Flows — Six months ending June 30, 2017 compared to the six months ending June 30, 2016*

The following section provides an overview analysis of cash flows for the six months ended June 30, 2017 and June 30, 2016.

### *Cash Flows from Operating Activities*

For the first half of 2017, cash flows generated from operating activities totalled \$(169) million, compared to a use of cash of \$13 million for the first half of 2016, an increase in cash outflows of \$156 million. The increase in cash outflows from operating activities was primarily due to the cash paid to satisfy claims related to trade payables on closing of the CCAA of \$237 million, offset by a \$46 million improvement in income net of the gain on restructuring, a \$16 million change in working capital, and a \$19 million change in the items not affecting cash. The increase of cash generated from working capital is primarily due to an improvement in trade and other liabilities.

### *Cash Flows Used in Investing Activities*

For the first half of 2017, cash flows used in investing activities totalled \$27 million, compared to \$6 million for the first half of 2016, an increase in cash outflows of \$21 million. Due to cash conservation efforts throughout the CCAA restructuring process, non-essential capital expenditures were decreased to minimal levels over both periods. Primary capital expenditures included project spending related to information technology, blast furnace, zinc line and other projects relating to operations. The increase in capital spending year-over-year was primarily a result of the timing of scheduled capital spending.

### *Cash Flows Provided by Financing Activities*

For the first half of 2017, cash flows generated from financing activities totaled \$38 million compared to zero in the first half of 2016. The change is related to: the emergence from CCAA; Bedrock indirectly acquired all of Stelco's shares for cash proceeds of \$70 million; an advance against the Province of Ontario non-revolving loan in the amount of \$11 million and a draw on the ABL Credit Facility of \$68 million; and a full payment of secured claims relating to debt in the amount of \$111 million.

No cash was drawn from the available credit facility during the first half of 2016 and 2017, due primarily to the available cash on hand and cash generated from operations.

### ***Analysis of Cash Flows — Fiscal 2016 to Fiscal 2015***

The following section provides an overview analysis of cash flows for the fiscal years ended December 31, 2016 and December 31, 2015.

### *Cash Flows from Operating Activities*

For fiscal year 2016, cash flows generated from operating activities totaled \$43 million, compared to \$1 million for fiscal year 2015, an increase in cash inflows of \$42 million. The increase in cash from operating activities was primarily due to a lower loss for the year of \$153 million and higher non-cash adjustments of \$65 million, offset partially by a reduction in cash generated from working capital of \$176 million. The reduction of cash generated from working capital is due to higher trade and other receivables, higher inventories and prepaid expenses, offset partially by higher payables.

Due to cash conservation efforts during the restructuring process, the following payments were suspended as of October 2015, with the approval by the Court, thereby improving cash flows from operations; pension amounts in excess of normal cost contributions for current employees, other post-employment benefits and property taxes. The suspended payments represented approximately an \$80 million increase in cash flows from operating activities, year-over-year.

### *Cash Flows Used in Investing Activities*

For fiscal year 2016, cash flows used in investing activities totalled \$17 million, compared to \$38 million for fiscal year 2015, an increase in cash inflows of \$21 million. Due to cash conservation efforts throughout the CCAA restructuring process, non-essential capital expenditures were decreased to minimal levels over both fiscal years. Primary capital expenditures included project spending related to information technology, blast furnace, zinc line and other projects relating to operations. The decrease in capital spending year over year was primarily a result of the timing of scheduled capital spending.

### *Cash Flows Used in Financing Activities*

No cash was drawn from the available credit facility during fiscal year 2015 and 2016, due primarily to the available cash on hand and cash generated from operations.

### ***Analysis of Cash Flows — Fiscal 2015 to Fiscal 2014***

The following section provides an overview analysis of cash flows for the fiscal years ended December 31, 2015 and December 31, 2014.

### *Cash Flows from Operating Activities*

For fiscal year 2015, cash flows generated from operating activities totaled \$1 million, compared to \$183 million for fiscal year 2014, an increase of cash outflows of \$182 million. The increase in cash outflows from operating activities was primarily due to a higher loss for the year of \$156 million and a decrease in cash generated from working capital of \$43 million, offset primarily by higher non-cash adjustments of \$17 million. The reduction of cash generated from working capital includes lower payables, offset partially by lower receivables, prepaid expenses and inventories. Payables were higher in fiscal year 2014 than fiscal year 2015 due the stay of payables outstanding as of September 16, 2014, upon the commencement of the CCAA proceedings. Payables incurred after the filing of the CCAA proceedings continued to be paid in the ordinary course.

Due to cash conservation efforts during the restructuring process, the following payments were suspended as of October 2015, with the approval by the Court, thereby improving cash flows from operations; pension amounts in excess of normal cost contributions for current employees, OPEBs and property taxes. The suspended payments represented approximately a \$40 million increase in cash flows from operating activities, year-over-year.

### *Cash Flows Used in Investing Activities*

For fiscal year 2015, cash flows used in investing activities totaled \$38 million, compared to \$26 million for fiscal year 2014, an increase in cash outflows of \$12 million. Due to cash conservation efforts throughout the CCAA restructuring proceedings, non-essential capital expenditures were decreased to minimal levels over both fiscal years. Primary capital expenditures included project spending related to information technology, blast furnace, zinc line and other projects relating to operations. The increase in capital spending year over year was primarily a result of the timing of scheduled capital spending.

### *Cash Flows Used in Financing Activities*

No cash was drawn from the available credit facility during fiscal year 2014 and 2015, due primarily to the available cash on hand and cash generated from operations.

### **Restructuring Costs**

As a result of the CCAA proceedings, the Company incurred restructuring costs in 2014 through to 2017. The expenses primarily included legal fees, financial advisor fees, court-appointed monitor fees, interim financing fees and other related restructuring expenses.

	<b>Three months ended June 30</b>		<b>Six months ended June 30</b>		<b>Fiscal Year</b>	<b>Fiscal Year</b>	<b>Fiscal Year</b>
	<b>2017</b>	<b>2016</b>	<b>2017</b>	<b>2016</b>	<b>2016</b>	<b>2015</b>	<b>2014</b>
	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>
<b>Restructuring costs</b>							
Legal costs . . . . .	7	4	11	5	12	14	5
Consulting and monitor costs . . . . .	13	4	17	7	15	12	5
Financing fees and other payments . . . . .	4	2	4	5	9	7	3
<b>Total</b> . . . . .	<u>24</u>	<u>10</u>	<u>32</u>	<u>17</u>	<u>36</u>	<u>33</u>	<u>13</u>

### *Recent Operating Performance*

As previously noted, the blast furnace was taken out of service for a planned major repair and maintenance outage at LEW starting in mid-August 2017. The outage included the application of a protective shotcrete refractory to the walls of the blast furnace as well as repairs to extend the life of the blast furnace and improve production output. The repair and maintenance outage was successful and the blast furnace returned to service on September 9, 2017. The outage resulted in lost production of approximately 160,000 nt of hot-rolled coil, which negatively impacted sales and profits during the outage. The Company mitigated a portion of the

production and sales impact from the outage by increasing slab production prior to the shut down and purchasing steel slabs from third party suppliers.

Work completed during the outage is expected to result in improved blast furnace operational reliability and productivity. As an indication of the production improvements already experienced, from July 1, 2017 until entering the outage on August 14, 2017, the blast furnace averaged approximately 21 heats (production volume of liquid steel) per day. Since completing the outage and bringing the furnace back to full production on September 9, 2017, the blast furnace has averaged 29 heats per day over the 21 day period ending September 30, 2017 representing an increase of 38%.

As a result of this outage, production and sales for the quarter were lower and we expect to post a net loss for the three-month period ending September 30, 2017 and expect our Adjusted EBITDA for the quarter to be between \$0 and \$15 million. The following is a reconciliation of the foregoing non-IFRS measure to its most directly comparable measure calculated in accordance with IFRS using the midpoint of this estimated range.

**Reconciliation of Stelco Inc. estimated loss to estimated Adjusted EBITDA for the three months ending September 30, 2017 (mid-point of estimate range):**  
(millions of Canadian dollars)

Loss for the period . . . . .	(19)
Depreciation & amortization . . . . .	7
Finance costs . . . . .	8
Finance income . . . . .	0
Income tax expense . . . . .	0
<b>EBITDA</b> . . . . .	<b>(4)</b>
Adjustments to EBITDA:	
Costs associated with new collective agreements <sup>(1)</sup> . . . . .	9
Restructuring costs <sup>(2)</sup> . . . . .	1
Separation costs related to USS support services <sup>(3)</sup> . . . . .	2
<b>Adjusted EBITDA</b> . . . . .	<b>8</b>

**Notes:**

- (1) These costs relate to initial establishment of pre-retirement benefits associated with collective agreements established effective July 1, 2017.
- (2) Restructuring costs relate to the CCAA proceedings, which primarily included legal fees, financial advisor fees, court-appointed monitor fees, interim financing fees and other related restructuring expenses. The Company implemented its CCAA plan as of June 30, 2017.
- (3) The Company has received information system services from USS since USS acquired the Company in 2007, and continues to receive information system services from USS under Transition Services Agreements that will expire on June 30, 2019, unless cancelled earlier by the Company. The separation costs being adjusted here are expenses incurred by the Company in connection with implementation of its own standalone information systems, including an ERP system, as well as other operating and communication systems.

All figures and information indicated above with respect to the three-month period ended September 30, 2017 are preliminary, have not been reviewed by our auditors and are subject to change as our financial results are finalized. The preliminary results and information (including with respect to net income (loss) and Adjusted EBITDA) provided above constitute forward-looking information within the meaning of applicable securities laws, are based on a number of assumptions and are subject to a number of risks and uncertainties. See “*Forward-Looking Information*”.

We intend to report our finalized financial results for the three-month period ended September 30, 2017 within the required filing time period in November.

**Outlook**

Our strategy is to optimize our asset utilization and maintain our strong balance sheet to maximize profitability, cash flow generation, and shareholder returns. We believe that by the end of fiscal year 2022 an opportunity exists for us to grow our annual shipments to between 3.0 and 3.2 mnt. See “*Forward-Looking*

*Information*” for a discussion of the uncertainties, risks and assumptions associated with this statement. We believe we can achieve this growth organically by optimizing utilization of our assets and focussing our production and sales efforts on high-margin products and end markets that we consider having the greatest potential for profitability and growth. Historically, approximately one-third of sales by volume were made to the automotive market and approximately one-third of our sales by volume were coated and cold-rolled products. We are actively seeking to re-establish relationships with these customers and regain coated and cold-rolled volumes. Additionally, we are seeking to expand our product offering by investing in R&D and enhancing our technical capabilities in order to produce advanced steels. We are also seeking to re-start our temper line and install annealing furnaces to allow for the production of cold-rolled, fully-processed products, which we believe will enhance our profitability.

The Company’s debt and financial commitments related to pension and OPEBs obligations were reduced by \$1,387 million through the CCAA proceeding. The Company’s future funding commitments related to past employee service is limited to a series of fixed payments over twenty years, as well as potential payments tied to future financial performance. The estimated present value of the fixed and other potential funding commitments is \$317 million at June 30, 2017.

Cash generation may be enhanced in the coming years due to substantial tax attributes in the form of non-capital loss carry-forward deductions, UCC deductions, and SRED deductions which can shield approximately \$1,144 million of future pre-tax earnings from income taxation in Canada provided the requirements pursuant to the Tax Act to claim such amounts are satisfied. Pursuant to the Tax Savings Agreement, we may be required to make certain payments to the Main Pension Plans and the EHLTs to the extent our tax attributes reduce the amount of taxes otherwise payable by Stelco. Our annual maintenance capital expenditure is estimated to be in the range of \$30 million.

The foregoing description of our outlook is based on management’s current strategies and assumptions, and its assessment of the outlook for North American steel industry as a whole, and may be considered to be forward-looking information for purposes of applicable Canadian securities legislation. Readers are cautioned that actual results may vary. See “*Forward-Looking Information*” and “*Risk Factors*” for a description of the risks and uncertainties that impact the Company’s business and that could cause actual results to vary.

### **Contractual Obligations**

The following summarizes our significant contractual obligations and commitments as at June 30, 2017.

#### ***Employee Benefit Commitments***

- The Company entered into new funding commitments with certain pension and OPEB trusts. Stelco committed to pay up to a maximum of \$430 million to fund the Main Pension Plans which included a \$30 million payment made on June 30, 2017. See “*Our Business — Recent Restructuring of our Business — CCAA Restructuring and Acquisition by Bedrock — Pension Arrangements*”.
- Stelco committed to fixed contributions of approximately \$300 million over 20 years to independent trusts created, the ELHTs, for the purpose of receiving, holding and distributing funds on account of OPEBs for legacy employees of Stelco. In addition, Stelco agreed to pay a portion of its free cash flows and certain tax-related savings amounts to the ELHTs. See “*Our Business — Recent Restructuring of our Business — CCAA Restructuring and Acquisition by Bedrock — OPEB Arrangements*”.
- 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 our Company or Bedrock reaching \$300 million. See “*Our Business — Recent Restructuring of our Business — CCAA Restructuring and Acquisition by Bedrock — Pension Arrangements*”.

- Certain components of the employee benefit funding commitments are tied to the Company’s future cash flow generation and certain tax-related savings amounts. The carrying value of the employee benefit funding commitment liability recognized by the Company in its statement of financial position 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 funding 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 statement of profit or loss. Management will assess estimates of future cash flows related to these employee benefit funding arrangements each period.

#### **Ore Contract**

- Stelco committed to purchasing all of its iron ore requirements from USS through the 2021 shipping season. See “*Our Business — Recent Restructuring of our Business — CCAA Restructuring and Acquisition by Bedrock — USS Arrangements — Pellet Sale and Purchase Contract*”.

#### **Transition Services Agreements**

- USS agreed to continue to provide certain business and transition services to Stelco for a certain period of time. See “*Our Business — Recent Restructuring of our Business — CCAA Restructuring and Acquisition by Bedrock — USS Arrangements — Transition Services Agreements*”.

#### **Union Agreements**

- Stelco entered into new collective bargaining agreements with USW Local 8782, USW Local 8782(b) and USW Local 1005, each for a term of 5 years commencing March 31, 2017 and July 1, 2017 respectively. See “*Our Business — Recent Restructuring of our Business — CCAA Restructuring and Acquisition by Bedrock — Labour and Employment Matters*”.

The following table sets out a summary of our future contractual obligations as at June 30, 2017:

	<b>Payments Due by Period</b>			
	<b>Total</b>	<b>1 year</b>	<b>2 - 5 years</b>	<b>After 5 years</b>
	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>
<b>Contractual obligations</b>				
Trade payables . . . . .	94	94	—	—
Long term debt . . . . .	79	—	79	—
Capital lease obligations . . . . .	73	1	4	68
Purchase obligations — non capital <sup>(1)</sup> . . . . .	557	379	100	78
Purchase obligations — capital . . . . .	11	11	—	—
Employee benefit commitment . . . . .	734	50	159	525
<b>Total contractual obligations . . . . .</b>	<b><u>1,548</u></b>	<b><u>535</u></b>	<b><u>342</u></b>	<b><u>671</u></b>

**Note:**

(1) Purchase Obligations — Non-Capital includes contractual commitments for the purchase of raw materials, energy and material processing.

#### **Commitments and Contingencies**

##### **Operating Leases**

The Company has entered into operating leases on its machinery and equipment, with lease terms between three and five years. Additionally, in connection with the Company’s emergence from CCAA, the Company sold and leased back on a 25 year operating lease the land on which HW and LEW are situated on.

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

	June 30, 2017	2016	2015	2014
	\$	\$	\$	\$
Within 1 year . . . . .	4	4	4	—
2 to 5 years . . . . .	25	8	12	1
Over 5 years . . . . .	142	—	—	—
<b>Total</b> . . . . .	<u>171</u>	<u>12</u>	<u>16</u>	<u>1</u>

***Finance Leases***

The Company leases equipment and, as of June 30, 2017, buildings under finance lease arrangements. As a result, an asset and a corresponding obligation representing the net carrying amount of \$23 million has been recognized.

***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 financial position, results of operations or cash flows.

**Related Party Transactions and Key Management Personnel Remuneration**

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

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

***Subsidiaries***

Transactions between Stelco and its subsidiaries meet the definition of related party transactions. These transactions are eliminated on consolidation and are not disclosed in these consolidated financial statements.

***Key Management Personnel***

Stelco's key management personnel, and persons connected with them, are also considered to be related parties for disclosure purposes. Key management personnel are defined as those individuals having authority and responsibility for planning, directing and controlling the activities of Stelco and comprise of the Executive Senior Leadership Team, expatriates in executive positions and also include costs for USS compensation allocations as well as contracted services provided by the Chief Restructuring Officer, General Counsel and Director of Corporate Services. Up until September 2014, USS executives overseeing the operations of the Company were also included.

During the year ended December 31, 2016, Stelco recorded \$4 million (2015: \$4 million; 2014: \$6 million) as an expense related to key management personnel salaries and benefits, post-employment pension and medical benefits, termination benefits, and share-based payment transactions.

During the six months ended June 30, 2017, Stelco recorded \$2 million (2016 — \$3 million) as an expense related to key management personnel salaries and benefits, post-employment pension, medical and termination benefits

### **Outstanding Share Capital**

The Company has authorized and issued 345 common shares with no par value. As at June 30, 2017, 345 common shares were outstanding with a balance of \$2,325 million.

### **Significant Accounting Judgments, Estimations and Assumptions**

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, the following judgments have been made that have the most significant effect on the amounts recognized in the consolidated financial statements:

#### ***Joint Arrangements***

The Company has classified its joint arrangements with Baycoat and D.C. Chrome as joint ventures. These joint arrangements have been structured through separate vehicles and the Company has assessed its rights and obligations arising from each of these arrangements taking into account the legal form of the separate vehicles, the terms of the contractual arrangements as well as other relevant facts and circumstances. The Company applies the equity method of accounting to each of these joint ventures.

#### ***Impairment***

Judgment is required in determining the aggregation of the Company's assets into cash generating units ("CGU"). Based on economic and commercial influences as well as the interdependence of cash flows of the Company's operating facilities, the Company determined that its operations comprise 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 Future 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. Refer to "*Consolidated Financial Statements, Note 20*" for further details about the assumptions used.

#### ***Valuation of Property, Plant and Equipment and Investment Property***

Upon adoption of IFRS, the Company performed a valuation on its property, plant and equipment as well as its investment property, for the purpose of applying the fair value as deemed cost exemption under IFRS 1. The Company engaged an independent valuation specialist to assess fair value as at January 1, 2014 and June 30,

2017. The property, plant and equipment and investment property were valued using two basic approaches to value: market, and cost. The valuation of properties (i.e. land and buildings) was based on market comparable transactions for properties of a similar nature, condition and location. Machinery and equipment was valued using a cost approach that was largely based on inflation adjusted historical costs, which were further adjusted for physical deterioration of the items as well as functional and economic obsolescence.

#### ***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 collectability of the related receivable balance based, in part, on the age of the specific receivable balance. An allowance is established when the likelihood of collecting the account has significantly diminished. Future collections of receivables that differ from management's current estimates would affect trade receivables and office and other operating expenses. Refer to note 8 for the carrying value of allowance for doubtful accounts.

#### ***Impairment and Impairment Reversals***

The Company evaluates each asset or CGU in each reporting period 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. Accordingly, it is possible that some or the entire carrying amount of the assets or CGUs may be further impaired or the impairment charge reversed with the impact recognized in the consolidated statements of loss and comprehensive loss.

#### ***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 19 for the carrying value of current and deferred income tax assets and liabilities.

#### **Financial Instruments**

The Company's financial assets and liabilities ("**financial instruments**") include cash and cash equivalents, restricted cash, trade and other receivables, trade and other payables as well as current and long-term debt.

The Company classifies its financial instruments into the following categories:

- Financial assets at fair value through profit or loss
- Loans and receivables
- Financial liabilities carried at amortized cost

Appropriate classification of financial instruments is determined at the time of initial recognition or when reclassified in the consolidated statements of financial position.

Financial instruments are recognized on the trade date, being the date on which the Company becomes a party to the contractual provisions of the instrument.

Receivables are categorized as loans and receivables and include originated and purchased non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Assets in this category are included within trade and other receivables in the consolidated statements of financial position as well as other non-current assets. Loans and receivables are initially recognized at fair value plus transaction

costs. They are subsequently measured at depreciated cost using the effective interest method less any impairment.

The Company's financial liabilities include trade and other payables as well as loans and borrowings comprising long-term debt (including the current portion of long-term debt). Interest-bearing loans and borrowings are subsequently measured at depreciated cost using the effective interest rate method. Depreciated 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 loss. The Company derecognizes a financial liability when its contractual obligations are discharged or cancelled.

## **Other Disclosures**

### ***Liquidity and Capital Resources***

#### *Overview*

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 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 the credit facilities (see “— *Credit Facilities*”) will be sufficient to meet our future operating expenses, capital expenditures, and future debt service costs.

The Corporation has a significant requirement for working capital related primarily 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. As of June 30, 2017, we had cash of \$30 million and operating line availability of \$223 million that we expect to utilize, along with cash flow from operations, to provide capital to support the growth of our business (primarily through working capital and capital expenditures), repay short-term obligations and for general corporate purposes. We believe that cash from operations, together with our cash balance and our available operating line will be enough to meet ongoing capital expenditures, working capital requirements and other cash needs.

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

The Company expects to have sufficient working capital for the next 12 months based on the following:

- the Company's overall working capital position was significantly improved as a result of the CCAA restructuring;
- the Company has negotiated improved payment terms with its vendors, thereby enhancing its working capital without the need for additional funding;
- as at June 30, 2017, the Company had a cash balance of approximately \$30 million and approximately \$223 million available under its ABL Credit Facility; and
- approximately \$ ● million of the Net Proceeds of the Offering will be available for general corporate purposes and working capital.

## *Credit Facilities*

### *ABL Credit Facility*

In connection with the restructuring of Stelco, the Company entered into a revolving loan agreement on June 30, 2017 with a syndicate of lenders for a maximum revolver amount of \$375 million. The interest on Canadian/US dollar denominated funds is the Canadian/US prime rate plus 1%-1.5%, depending on the amount that has been drawn under the facility, and is payable monthly. However, the Company also has the option to index the interest rate to CDOR/LIBOR plus a margin of 2%-2.5%, and may elect this in the event that it results in a lower rate of interest on its draws under the revolver. Additionally, the Company is subject to payment of an unused line fee ranging from 0.25%-0.375% on the unused portion of the revolver, depending on the amount undrawn, and is payable monthly. The Company can obtain letters of credit under the facility at a rate of 2%-2.5%. The revolver matures on June 30, 2022.

### *Province Advance*

On June 30, 2017, Stelco entered into the OPEB Advance Payment Loan in connection with the funding of future OPEB commitments. The OPEB Advance Payment Loan permits Stelco to borrow up to \$22 million, comprised of up to \$10.5 million (the “**First Advance**”) on June 30, 2017 and up to \$2.875 million on each of June 30, 2018, October 1, 2018, January 1, 2019 and April 1, 2019 (the “**Second Advances**”). The First Advance is due on June 30, 2020, and the Second Advances are due on June 30, 2021. The OPEB Advance Payment Loan is subject to an interest rate of the Province’s costs of funds for a four year non-amortizing bond as at June 30, 2017 plus 1%. Interest is compounded semi-annually and payable on the maturity dates of the First Advance and Second Advances, respectively. We intend to use a portion of the Net Proceeds of the Offering to repay the First Advance.

### *Estimations and assumptions*

The preparation of the Company’s consolidated financial statements requires management 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.

### *Employee future 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. As of June 30, 2017, these obligations were cancelled and discharged from the Company’s balance sheet. The Company concurrently entered into new funding commitments with pension and OPEB trusts.

### *Valuation of property, plant and equipment and investment properties*

Upon adoption of IFRS, the Company has performed a valuation on its property, plant and equipment as well as its investment property, for the purpose of applying the fair value as deemed cost exemption under IFRS 1. The Company engaged an independent valuation specialist to assess fair value as at January 1, 2014 and June 30, 2017. The property, plant and equipment and investment property were valued using two basic approaches to value: market, and cost. The valuation of properties (i.e. land and buildings) was based on market comparable transactions for properties of a similar nature, condition and location. Machinery and equipment was valued using a cost approach that was largely based on inflation adjusted historical costs, which were further adjusted for physical deterioration of the items as well as functional and economic obsolescence.

### ***Valuation of accounts receivables***

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 collectability of the related receivable balance based, in part, on the age of the specific receivable balance. An allowance is established when the likelihood of collecting the account has significantly diminished. Future collections of receivables that differ from management's current estimates would affect trade receivables and office and other operating expenses.

### ***Impairment and impairment reversals***

The Company evaluates each asset or CGU in each reporting period 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. Accordingly, it is possible that some or the entire carrying amount of the assets or CGUs may be further impaired or the impairment charge reversed with the impact recognized in the consolidated statements of loss and comprehensive loss.

### ***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.

### ***Going concern***

We believe that there is currently no uncertainty with respect to the Company's ability to continue as a going concern. The successful completion of emergence from CCAA, the sale of the Company to Bedrock, cash flow from operations and available liquidity from an asset backed facility support the Company's ability to continue as a going concern and finance its near-term capital programs.

### ***Inventory valuation***

Inventories are measured at the lower of cost and net realizable value. Net realizable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and the estimated costs necessary to make the sale. Costs to complete are based on management's best estimate as at the consolidated statements of financial position date. A net realizable value impairment may be reversed in a subsequent period if the circumstances that triggered the impairment no longer exist.

The cost of raw materials, semi-finished products and finished products are determined based on a first in, first out basis. Any provision for obsolescence is determined by reference to specific items. A regular review is undertaken to determine the extent of any provision for obsolescence. Costs of finished products include direct costs of materials, an appropriate share of production overhead, and labour related directly to processing activities. Abnormal costs are expensed in the period incurred.

### ***Environmental matters***

On June 30, 2017, the Province of Ontario was paid US\$61 million for the purposes of addressing historical environmental contamination, if any.

Going forward, environmental expenditures are capitalized if the costs mitigate or prevent future contamination or if the costs improve existing assets' environmental safety or efficiency. The Company provides for remediation costs and penalties when the responsibility to remediate is probable and the amount of associated costs is reasonably estimable. The timing of remediation accruals typically coincides with completion of studies defining the scope of work to be undertaken or when it is probable that a formal plan of action will be

approved by the oversight agency. Remediation liabilities are accrued based on estimates of believed environmental exposure and are discounted if the amount and timing of the cash disbursements are readily determinable.

### ***Significant Accounting Policies***

Our consolidated financial statements have been prepared in accordance with IFRS.

Our significant accounting policies are described in Note 3 in the accompanying notes of our annual audited financial statements for the year ended December 31, 2016.

### ***Accounting Pronouncements Issued But Not yet Effective***

New accounting pronouncements are issued periodically that affect our current and future operations. We intend to adopt these standards when they become effective.

#### ***IFRS 9 Financial instruments***

In July 2014, the International Accounting Standards Board issued the final version of IFRS 9, *Financial Instruments*. IFRS 9 is effective for annual periods beginning on or after January 1, 2018, with early adoption permitted. The standard contains requirements in the following areas: Classification and Measurement; Impairment; Hedge Accounting and De-recognition. The actual impact of adopting IFRS 9 on the Company's consolidated financial statements in 2018 is not known and cannot be reliably estimated because it will be dependent on the financial instruments that the Company holds and economic conditions at that time as well as accounting elections and judgments that it will make in the future. The new standard will require the Company to revise its accounting processes and internal controls related to the reporting of financial instruments and these changes are not yet complete. The Company is currently in the process of evaluating the consolidated financial statement implications of adopting IFRS 9.

#### ***IFRS 15 Revenue from Contracts with Customers***

IFRS 15 was issued in May 2014 and additionally clarified in April 2016. It 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 new revenue standard will supersede all current revenue recognition requirements under IFRS. Either a full retrospective application or a modified retrospective application is required for annual periods beginning on or after January 1, 2018. Early adoption is permitted. The Company is currently in the process of evaluating the consolidated financial statement implications of adopting IFRS 15.

#### ***IFRS 16 Leases***

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*, 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. The Company is currently in the process of evaluating the consolidated financial statement implications of adopting IFRS 16.

#### ***IFRIC 23 Uncertainty over Income Tax Treatments***

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 is currently assessing the impact of IFRIC 23 on its consolidated financial statements.

### ***Risk Factors***

The Company is exposed to market risk including foreign interest rate risk, market risk, credit risk and liquidity risk. See “*Risk Factors*”. The Company’s senior management oversees the management of these risks

#### *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.

#### *Market risk — commodities*

The Company is exposed to price risk related to purchases of certain commodities used as raw materials. The Company may use fixed price contracts with suppliers to mitigate commodity price risk.

#### *Concentration of credit and business risks*

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 in the event of non-payment by customers, principally within the container, construction, automotive and steel service center industries) 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. Changes in the industries in which the Company’s customers operate 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.

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. An analysis for uncollectible amounts is performed as at each reporting date on an individual basis for major clients. In addition, a large number of minor receivables are categorized into homogeneous groups and assessed for impairment collectively. The calculation is largely based on historical experience of the Company.

#### *Insurance*

The Company maintains insurance for certain property damage, equipment, business interruption, product transportation and general liability exposures; however, insurance is applicable only after certain deductibles and retainers are paid. The Company is self-insured for certain other exposures including workers’ compensation and automobile liability (where permitted by law). Liabilities are recorded for workers’ compensation and personal injury obligations. Other costs resulting from losses under deductible or retainer amounts or not otherwise covered by insurance are charged against income upon occurrence.

#### *Market risk — 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.

On July 28, 2017, the Company entered into forward hedging arrangements to hedge the conversion of a portion of USD denominated revenue. Under the terms of the hedging arrangements, the Company agreed to sell an aggregate of up to \$45 million U.S. dollar calls and Canadian dollar puts and purchase up to \$90 million in U.S. dollar puts and Canadian dollar calls in specified tranches between August 30, 2017 and July 30, 2018.

#### *Cash deposits*

Credit risk from balances with banks and financial institutions is managed by the Company in accordance with the Company's policy. Investments of surplus funds are made only with approved counterparties and within credit limits assigned to each counterparty.

#### *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, that 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. In addition, the Company prepares a quarterly cash flow analysis to identify any potential shortfall of funds and the mitigation strategy in such circumstances.

### PRINCIPAL SHAREHOLDER

The following table sets forth information regarding ownership of the Common Shares as at the time period indicated by each person or company who, to the Issuer's knowledge, beneficially owns, or controls or directs, directly or indirectly, Common Shares carrying 10% or more of the voting rights attaching to all issued and outstanding Common Shares.

Name	Prior to the Offering			Following the Offering	
	Number of Common Shares Owned, Controlled or Directed	Percentage of Common Shares	Type of Ownership	Number of Common Shares Owned, Controlled or Directed	Percentage of Common Shares
Bedrock Industries B.V. <sup>(1)(2)(3)</sup>	75,283,887	100%	Registered and beneficial	75,283,887	86.5%

#### Notes:

- (1) Assuming that the Over-Allotment Option is not exercised and based on the midpoint of the estimated price range set forth on the cover page of this prospectus.
- (2) Immediately prior to the Offering, Bedrock Industries will be the registered owner of 100% of the outstanding Common Shares. See "Pre-Closing Transactions".
- (3) As of the date of this prospectus, Bedrock Industries is wholly-owned by Bedrock. The principal limited partners of Bedrock are (i) LG Bedrock Holdings LP, a Delaware limited partnership ("LG Bedrock"); and (ii) AK Bedrock LLC, a Delaware limited liability company wholly owned by Mr. Kestenbaum ("AK Bedrock"). LG Bedrock is entitled to 70.75% of the proceeds Bedrock realizes from the indirect ownership of Common Shares (the "Bedrock Proceeds"). Alan Kestenbaum, directly and indirectly through holding companies and immediate family members, is entitled to 26.75% of the Bedrock Proceeds. David Cheney is entitled to the remaining 2.5% of the Bedrock Proceeds. See "Directors and Management of our Company". 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 (the "LG GP"). Alan E. Goldberg and Robert D. Lindsay are the executive managers of the LG GP and, through a series of affiliated investment funds and vehicles, share ownership and voting control of the LG GP. Messrs. Goldberg and Lindsay, by virtue of this relationship, may be deemed to have or share indirect beneficial ownership of Common Shares held by Bedrock Industries. Each of Messrs. Goldberg and Lindsay expressly disclaims beneficial ownership of such securities in excess of his pecuniary interest in the securities.

Bedrock is a privately funded company focused on owning and operating metals, mining and natural resources assets and companies. Its philosophy is to operate assets to maximize value to its stakeholders through a differentiated approach to acquisitions, asset optimizations, operational enhancements and restructuring, as well as an active and collaborative partnership with key constituents. Bedrock's Founder and Executive Chairman is Alan Kestenbaum, our Executive Chairman and Chief Executive Officer. See "Directors and Management of our Company".

Investment funds managed by affiliates of Lindsay Goldberg LLC (collectively “**Lindsay Goldberg**”), certain of which investment funds have invested directly or indirectly in LG Bedrock, focus on partnering with family-owned and entrepreneur-led enterprises to help actively build their businesses in industries such as industrial manufacturing and metals, healthcare services, food and consumer, and government and business services. Lindsay Goldberg invests the majority of its capital in North America and also invests in Western Europe. Currently investing out of its fourth fund, Lindsay Goldberg manages approximately \$13 billion of committed capital with terms of commitment that are consistent with its long-term approach to business building and value creation. Lindsay Goldberg’s team of investment professionals has invested US\$9.1 billion across 44 platform businesses and 190 follow-on acquisitions.

## AGREEMENTS WITH PRINCIPAL SHAREHOLDER

### Investor Rights Agreement

Effective at Closing, the Issuer will enter into an investor rights agreement (the “**Investor Rights Agreement**”) between it and Bedrock Industries and certain of its affiliates (Bedrock Industries, together with any of its affiliates, the “**Bedrock Group**”) with respect to certain director nomination rights, governance matters, registration rights and pre-emptive rights.

The following is a summary of the material terms of the Investor Rights Agreement. This description is not complete, and is qualified by reference to the terms of the Investor Rights Agreement, which will be filed with the Canadian securities regulatory authorities. Investors are encouraged to read the full text of the agreement. See “*Material Contracts*”.

### Board of Directors

Immediately following the Closing, our Board shall consist of seven directors, namely Alan Kestenbaum (Chairman), Jeffrey Bunder, Michael Dees, Thomas Ludwig, Peter Bowie, Brian Levitt, and one additional director to be designated for election to our Board by the Bedrock Group. This director may be elected to our Board immediately prior to the Closing and will not be liable as a director under this prospectus. Pursuant to the terms of the Investor Rights Agreement, the number of directors on our Board shall not be increased from seven without the consent in writing of the Bedrock Group, provided that at the relevant time the Bedrock Group holds at least 40% of our outstanding Common Shares (calculated on a non-diluted basis).

For so long as the Bedrock Group beneficially owns a specified percentage of our Common Shares, the Bedrock Group will be entitled to designate a number of the nominees for election as directors (“**Nominees**”), as set out in the table below.

Percentage of Common Shares outstanding held by the Bedrock Group (on a non-diluted basis)	Greater of <sup>(1)</sup>
Greater than or equal to 50% . . . . .	5 Nominees and 60% of all Nominees
Less than 50% but not less than 40% . . . . .	4 Nominees and 50% of all Nominees
Less than 40% but not less than 30% . . . . .	3 Nominees and 37.5% of all Nominees
Less than 30% but not less than 20% . . . . .	2 Nominees and 25% of all Nominees
Less than 20% but not less than 10% . . . . .	1 Nominee and 12.5% of all Nominees
Less than 10% . . . . .	None

**Note:**

(1) The percentage of all Nominees is rounded up to the nearest whole number.

If the size of our Board is increased between our meetings of shareholders, then as long as the Bedrock Group has the right to designate one or more Nominees pursuant to the Investor Rights Agreement, the Bedrock Group shall be entitled to designate that number of Nominees such that the Bedrock Group’s proportionate nomination rights under the Investor Rights Agreement are satisfied in respect of such larger Board.

Our Board or, if so determined by our Board, our Compensation, Governance and Nominating Committee (as defined herein), shall select all Nominees other than the Nominees designated by the Bedrock Group, provided that the Nominees as a group include:

- at least 2 Nominees that would be Independent Directors; provided that no later than one year after the date of the receipt for the final prospectus relating to the Offering, at least 3 Nominees are Independent Directors;
- at least 3 Directors that are qualified independent for the purpose of the Audit Committee (provided that the Company may temporarily rely upon the exemption available in Section 3.2(2) of NI 52-110 for one year) (See “*Directors and Management of our Company — Committees of our Board — Audit Committee*” and “*Exemptions*”); and
- at least 25% of the Nominees as a group are resident Canadians as defined in the CBCA (rounding up to the nearest whole number).

Each individual proposed by the Bedrock Group to be a Nominee shall, as a condition to their nomination (in the case of Nominees to be elected at a meeting) or appointment (in the case of Nominees to be appointed as a Director between meetings), execute and deliver to the Bedrock Group their irrevocable undertaking to resign upon written request by the Bedrock Group.

#### ***Committee Nomination***

For so long as it has the right to designate one or more Nominees, the Bedrock Group shall be entitled at any time and from time to time to designate one of its Nominees for appointment to each committee of our Board; provided that in respect of the Audit Committee such right will expire one year after the date of the receipt for the final prospectus relating to the Offering, at which time the Bedrock Group will be entitled to designate one of its Nominees to attend, but not participate in, each meeting of the Audit Committee as an observer.

#### ***Chairman of our Board***

Immediately following the Closing, Alan Kestenbaum shall serve as the initial Chairman of our Board. The Chairman of our Board shall be elected by the Board as a whole.

#### ***Registration Rights***

Pursuant to the Investor Rights Agreement, the Bedrock Group shall have the right to make demand registration requests that will require us to file a Canadian prospectus (and otherwise assist with public offerings) for our Common Shares held by the Bedrock Group in accordance with Canadian securities laws and the terms and conditions of the Investor Rights Agreement. We may participate in the offering initiated by the Bedrock Group, subject to prescribed priorities in the event of an underwriters’ cutback.

At any time following the Closing Date, if we propose to qualify or distribute any of our securities in a form and manner that would permit qualification of Common Shares held by the Bedrock Group, we will be required to give prompt notice to the Bedrock Group and the Bedrock Group will have the right to participate in any such offering, subject to prescribed priorities in the event of an underwriters’ cutback (a “**piggyback registration**”).

We will be entitled to postpone or suspend a demand registration request for a period of up to 60 days during any 12-month period where our Board has determined in its good faith judgment that the filing of a prospectus would require us to disclose any material non-public information that we have a *bona fide* purpose for preserving as confidential and the disclosure of which would have a material adverse effect on our business. We are also not obligated to take any action to effect a registration request (i) in any particular calendar year after having effected two demand registrations pursuant to the Investor Rights Agreement in such calendar year; or (ii) if such a request or a piggyback registration was effected within the previous 90 days.

All costs and expenses associated with any demand registration or piggyback registration will be borne by us other than underwriting commissions and the fees of counsel of the Bedrock Group. We will also be required to

provide indemnification and contribution for the benefit of the Bedrock Group and its affiliates and representatives in connection with any demand registration or piggyback registration.

Our by-laws will be amended to include provisions relating to the director nomination and other governance rights of the Bedrock Group that are in substance equivalent to the provisions relating to those rights included in the Investor Rights Agreement.

### ***Subscription Rights***

At any time the Bedrock Group owns or exercises control or direction over an aggregate of 10% or more of our outstanding Common Shares (assuming the exercise or conversion of securities directly or indirectly convertible into, exchangeable for or exercisable to acquire Common Shares or other voting or participating securities of the Issuer (“**Convertible Securities**”) owned or controlled or directed by the Bedrock Group, but otherwise calculated on a non-diluted basis), if the Issuer allots or issues any Common Shares or Convertible Securities (the “**New Securities**”) to any non-Bedrock Group person (a “**Third Party**”) subject to certain exceptions, then the Issuer shall offer to the Bedrock Group the opportunity and right to subscribe for such number of securities (the “**Offered Securities**”) of the same class as (or otherwise having attributes identical to) the securities comprising the new issue such that the ratio that the Offered Securities bears to the sum of the New Securities and the Offered Securities is the same as the ratio that (i) the aggregate of the Common Shares then owned by or over which control or direction is exercised by the Bedrock Group (assuming the exercise or conversion of Convertible Securities owned or controlled or directed by the Bedrock Group but otherwise calculated on a non-diluted basis), bears to (ii) all Common Shares then outstanding (assuming the exercise or conversion of Convertible Securities owned or controlled or directed by the Bedrock Group but otherwise calculated on a non-diluted basis).

Such Offered Securities shall be offered and, if applicable, issued to the Bedrock Group on the same terms and conditions (including price) as the terms and conditions on which the New Securities are to be or were allotted and issued to the Third Party; provided that, if the structure of the offering of the New Securities does not permit (or does not practically permit, including with respect to the time periods contemplated or otherwise) the Bedrock Group to participate directly, then such Offered Securities may be offered by way of a separate concurrent private placement to the Bedrock Group or by way of a separate private placement to the Bedrock Group completed as soon as practicable thereafter, but in accordance with the time periods set out in the Investor Rights Agreement.

### ***Termination***

The Investor Rights Agreement terminates, subject to the survival of certain provisions, on the date that the Bedrock Group no longer holds any of our Common Shares.

### ***Other Agreements***

In addition to the Investor Rights Agreement, we are a party to other agreements with Bedrock and Bedrock Industries as described elsewhere in this prospectus. See “*Our Business — Recent Restructuring of Our Business — CCAA Restructuring and Acquisition by Bedrock*”.

## **USE OF PROCEEDS**

The estimated net proceeds of the Offering will be approximately \$ ● , after deducting the Underwriters’ fee and the estimated expenses of the Offering (the “**Net Proceeds of the Offering**”) assuming no exercise of the Over-Allotment Option. We intend to use the Net Proceeds of the Offering as follows:

- (i) to fund certain capital expenditures including:
  - a. the enhancement of our capabilities to produce advanced steels in the amount of \$40 to \$45 million;
  - b. the restart of the temper mill and installation of annealing furnaces in the amount of \$20 to \$25 million; and

c. the upgrade of the LEW dock facility in the amount of up to \$10 million; and

(ii) to pay \$50 million to certain pension and OPEB trusts and to pay the Provincial OPEB Advance;

with the balance being used for general corporate purposes and working capital, which may include additional capital investments.

While the Company intends to spend the Net Proceeds of the Offering as stated above, there may be circumstances where funds may be re-allocated at the discretion of the Board or management. See “*Risk Factors — Risks Related to the Company — We may not use the proceeds as described in this prospectus*”.

### **Business Objectives and Milestones**

The primary business objectives that the Company expects to pursue using the Net Proceeds of the Offering are based on its business strategies to (i) optimize production from its assets; (ii) maintain its strong balance sheet; (iii) maximize profitability and cash flows; and (iv) grow its business.

The Company plans to use a portion of the Net Proceeds of the Offering to finance selective capital expenditure programs and investments aimed at improving the Company’s product mix to focus on more advanced steel products, including AHSS and UHSS grades. To accomplish this, the Company plans to invest in research and development to develop the techniques and know-how to produce a wider spectrum of steel grades over the next 12-24 months. In addition, the Company plans to upgrade the bearings at the LEW hot strip mill over the next 12-24 months to allow it to process advanced steel products and make upgrades at the Z-Line to finish those steels into advanced products. The Company is also seeking to re-start its temper line and install annealing furnaces in 2018 to allow for the production of cold-rolled, fully-processed products, which it believes will enhance its profitability.

The Company’s business strategy also includes making additional near-term capital investments over the next 4-6 months in order to support increased volumes from improved utilization. Central to this strategy is the plan to upgrade the LEW dock facility to allow for direct receiving of third-party slabs as well as loading of hot-rolled coils for shipping to customers. The Company believes this upgrade will provide it with the opportunity to access the U.S. markets via low cost barge transportation. Improved utilization at LEW will also benefit HW where in 2016 the Company had excess capacity at the HW cold mill (0.8 mnt), No. 3 CGL (0.1 mnt), and Z-Line (0.2 mnt).

The near-term \$50 million payment to certain pension and OPEB trusts and the repayment of the Provincial OPEB Advance is aimed at (i) maintaining our strong balance sheet in paying back the Provincial OPEB Advance, (ii) underscoring the Company’s commitment to a cooperative and productive relationship with the its employees and unions, and (iii) removing restrictions under certain of the post-CCAA agreements and the ABL Credit Agreement that apply until such payments are made.

The remaining Net Proceeds of the Offering will be used to fund the Company’s general corporate and working capital expenses following completion of the Offering for an anticipated period of approximately 12 to 18 months.

Our operations currently have substantial excess capacity and we believe this excess capacity is accessible with limited capital investment. See “*Our Business — Business Overview*”.

### **DIVIDEND POLICY**

Our 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. These policies may include initiating payment of a dividend on our Common Shares at some point in the future. Any determination to pay dividends in the future will be at the discretion of our Board 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 may deem relevant.

## DESCRIPTION OF SHARE CAPITAL

The following describes the material terms of our share capital after completion of the Offering. The following description may not be complete and is subject to, and qualified in its entirety by reference to, the terms and provisions of our articles.

### Authorized Share Capital

Our authorized share capital consists of (i) an unlimited number of Common Shares and (ii) an unlimited number of preferred shares, issuable in series. Except as required by law or as provided for in any special rights or restrictions attaching to any series of preferred shares issued from time to time, the preferred shares will not be entitled to receive notice of, attend or vote at any meeting of the Shareholders.

### Common Shares

Holders of Common Shares are entitled to one vote in respect of each Common Share held at all meetings of holders of shares, other than meetings at which only the holders of another class or series of shares are entitled to vote separately as a class or series. The holders of the Common Shares are entitled to receive any dividend declared by our Board in respect of the Common Shares, subject to the rights of the holders of other classes of shares. The holders of the Common Shares will be entitled to receive, subject to the rights of the holders of other classes of shares, the remaining property and assets of our Company available for distribution, after payment of liabilities, upon the liquidation, dissolution or winding-up of our Company, whether voluntary or involuntary. For a description of our dividend policy, see “*Dividend Policy*” above.

### Preferred Shares

The preferred shares may at any time and from time to time be issued in one or more series, each series to consist of such number of preferred shares as may, before the issue thereof, be determined by resolution of our Board. Subject to the provisions of the CBCA, our Board may, by resolution, fix from time to time before the issue thereof the designation, rights, privileges, restrictions and conditions attaching to the preferred shares of each series including, without limitation, any right to receive dividends (which may be cumulative or non-cumulative and variable or fixed) or the means of determining such dividends, the dates of payment thereof, any terms or conditions of redemption or purchase, any conversion rights, any voting rights, any retraction rights and any rights on the liquidation, dissolution or winding up of our Company, any sinking fund or other provisions, the whole to be subject to the issue of a certificate of amendment setting forth the designation, rights, privileges, restrictions and conditions attaching to the preferred shares of the series. Except as required by law or as provided for in any special rights or restrictions attaching to any series of preferred shares, the holders of preferred shares will not be entitled to receive notice of, attend or vote at any meeting of Shareholders.

Generally, preferred shares of each series, if and when issued, will, with respect to the payment of dividends, rank on parity with the preferred shares of every other series and be entitled to preference over the Common Shares and any other shares of our Company ranking junior to the preferred shares with respect to payment of dividends. If any amount of cumulative dividends (whether or not declared) or any amount payable on any such distribution of assets constituting a return of capital in respect of the preferred shares of any series is not paid in full, the preferred shares of such series shall participate rateably with the preferred shares of every other series in respect of all such dividends and amounts.

In the event of liquidation, dissolution or winding up of our Company, whether voluntary or involuntary, the holders of preferred shares will generally be entitled to preference with respect to distribution of the property or assets of our Company over the Common Shares and any other shares of our Company ranking junior to the preferred shares with respect to the repayment of paid-up capital remaining after payment of all outstanding debts on a *pro rata* basis, and the payment of any and all declared but unpaid cumulative dividends, or any and all declared but unpaid non-cumulative dividends, on the preferred shares. We currently anticipate that there will be no pre-emptive, subscription, redemption or conversion rights attaching to any series of preferred shares issued from time to time.

## **Nomination of Directors**

We have included certain advance notice provisions in our by-laws with respect to the election of Directors (the “**Advance Notice Provisions**”). The Advance Notice Provisions are intended to: (i) facilitate orderly and efficient annual general or, where the need arises, special meetings; (ii) ensure that all Shareholders receive adequate notice of Board nominations and sufficient information with respect to all nominees; and (iii) allow Shareholders to register an informed vote. Only persons who are nominated by Shareholders in accordance with the Advance Notice Provisions will be eligible for election as Directors. Nominations of persons for election to our Board may be made for any annual meeting of Shareholders, or for any special meeting of Shareholders if one of the purposes for which the special meeting was called was the election of Directors.

Under the Advance Notice Provisions, a Shareholder wishing to nominate a Director would be required to provide notice in the prescribed form within the prescribed time periods. These time periods include: (i) in the case of an annual meeting of Shareholders (including annual and special meetings), not less than 30 days prior to the date of the annual meeting; provided, however, that in the event that the annual meeting of Shareholders is to be held on a date that is less than 50 days after the date on which the first public announcement of the date of the annual meeting was made (the “**Notice Date**”), notice by the Shareholder may be received not later than the close of business on the 10<sup>th</sup> day following the Notice Date; and (ii) in the case of a special meeting (which is not also an annual meeting) of Shareholders called for the purpose which includes electing Directors, not later than the close of business on the 15<sup>th</sup> day following the Notice Date.

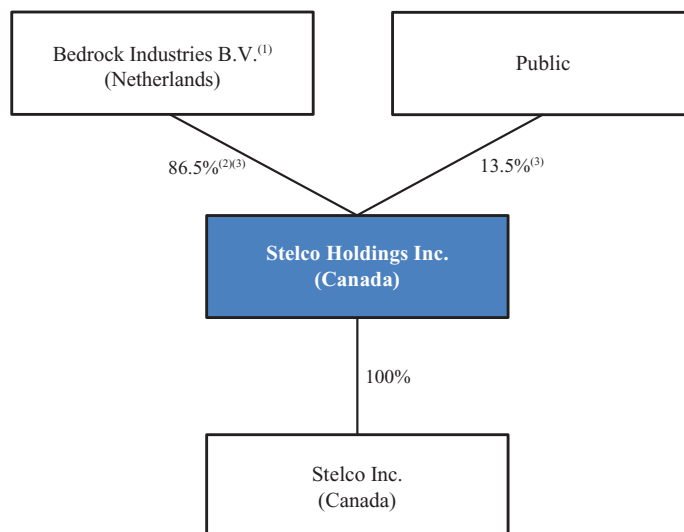
The chairperson of the meeting shall have the power and duty to determine whether a nomination was made in accordance with the procedures set forth in the foregoing provisions and, if any proposed nomination is not in compliance with such foregoing provisions, the discretion to declare that such defective nomination shall be disregarded.

Notwithstanding the foregoing, the Directors may, in their sole discretion, waive any requirement in the Advance Notice Provisions.

## PRE-CLOSING TRANSACTIONS

Prior to Closing, the Issuer will complete a series of transactions that will result in, among other things, the acquisition by the Issuer of all of the issued and outstanding shares of the Company.

After the pre-closing transactions, the Issuer will own all of the issued and outstanding shares of Stelco Inc. The following chart identifies our structure immediately after Closing, assuming no exercise of the Over-Allotment Option.



### Notes:

- (1) As of the date of this prospectus, all of the outstanding shares of Stelco Inc. are held by Bedrock Industries. Bedrock Industries is wholly owned by Bedrock. See “*Principal Shareholder*”.
- (2) Immediately prior to Closing, Bedrock Industries will own 100% of the Issuer and is not selling any Common Shares that it holds in the Offering.
- (3) Based on the midpoint of the estimated price range set forth on the cover of this prospectus.

As a result of the pre-closing transactions, Bedrock Industries will cease to own all of the issued and outstanding shares of the Company. Bedrock Industries, together with the Company, is a party to the USS Agreements and obliged under those agreements to cause the performance by the Company of its obligations under those agreements. Bedrock Industries will continue to be subject to those obligations following completion of the pre-closing transactions. Accordingly, concurrent with the completion of the pre-closing transactions, the Issuer will enter into the Indemnity Agreement with Bedrock Industries pursuant to which the Issuer will indemnify and hold harmless Bedrock Industries for any obligations that it may have from time to time pursuant to its obligations under the USS Agreements. The Issuer has guaranteed to USS all obligations of Bedrock Industries under the USS Agreements.

## CONSOLIDATED CAPITALIZATION

The following table sets forth the consolidated capitalization of the Issuer (i) on a pro forma basis as at June 30, 2017 (see the unaudited pro forma financial statements of the Issuer contained elsewhere in this prospectus) and (ii) on a pro forma basis as at June 30, 2017 after giving effect to the completion of the Offering, as more fully described under “*Use of Proceeds*”.

Our consolidated capitalization following this Offering will be adjusted based on the actual terms of this Offering determined at pricing, including the amount by which actual Offering expenses are higher or lower than estimated. This table should be read in conjunction with the information contained in “*Use of Proceeds*”, “*Selected Summary Financial Information*” and “*Management’s Discussion and Analysis of Financial Condition and Results of Operations of Stelco Inc.*”, as well as our audited annual and unaudited consolidated financial statements and the related notes thereto and the unaudited pro forma consolidated financial statements and the related notes thereto included elsewhere in this prospectus.

	Pro Forma as at June 30, 2017 (in millions of dollars)	Pro Forma of the Offering as at June 30, 2017 <sup>(1)(2)</sup> (in millions of dollars)
Cash and Cash Equivalents . . . . .	\$ 30	\$163
<b>Debt</b>		
ABL Credit Facility . . . . .	\$ 68	\$ 68
OPEB Advance Payment Loan . . . . .	\$ 11	—
<b>Total Debt</b> . . . . .	\$ 79	\$ 68
<b>Total Equity</b> . . . . .	\$297	\$480
<b>Total Capitalization</b> . . . . .	\$376	\$548

**Notes:**

- (1) Assuming no exercise of the Over-Allotment Option.
- (2) After giving effect to the completion of the Offering, the payment of estimated offering costs and the payment of \$50 million to certain pension and OPEB trusts and to pay the Provincial OPEB Advance. It does not reflect all of the uses set out in the “*Use of Proceeds*” section. See “*Use of Proceeds*”.

## PRIOR ISSUANCES

On September 25, 2017, in connection with the incorporation of the Issuer, the Issuer issued 10 common shares to Bedrock Industries for \$10 per common share.

### DIRECTORS AND MANAGEMENT OF OUR COMPANY

The following table sets forth information regarding the Directors and executive officers of our Company.

<u>Name, Province or State and Country of Residence</u>	<u>Age</u>	<u>Position/Title</u>	<u>Independent<sup>(5)</sup></u>	<u>Principal Occupation</u>
Alan Kestenbaum . . . . . Florida, USA	55	Executive Chairman and Chief Executive Officer	No	Executive Chairman and Chief Executive Officer of our Company and Chairman and Chief Executive Officer of Bedrock
Michael W. Dees <sup>(4)</sup> . . . . . New York, USA	43	Director	No	Partner, Lindsay Goldberg
Jeffrey B. Bunder <sup>(2)</sup> . . . . . New York, USA	52	Director	No	Partner and Chief Financial Officer, Lindsay Goldberg
Dr. Thomas Ludwig . . . . . Düsseldorf, Germany	69	Director	No	Managing Partner of Lindsay Goldberg Vogel, an affiliate partner of Lindsay Goldberg
Brian Levitt <sup>(2)(3)</sup> . . . . . Quebec, Canada	69	Lead Director	Yes	Chairman of the board of directors of The Toronto-Dominion Bank
Peter Bowie <sup>(1)</sup> . . . . . Ontario, Canada	71	Director	Yes	Corporate director
David Cheney . . . . . New Jersey, USA	41	Chief Business Development Officer	N/A	Chief Business Development Officer of our Company and President of Bedrock
Michael McQuade . . . . . Ontario, Canada	60	President	N/A	President of our Company
Don P. Newman . . . . . Utah, USA	53	Chief Financial Officer	N/A	Chief Financial Officer of our Company
Sujit Sanyal . . . . . Ontario, Canada	61	Chief Operating Officer	N/A	Chief Operating Officer of our Company
Paul Simon . . . . . Ontario, Canada	40	General Counsel and Corporate Secretary	N/A	General Counsel and Corporate Secretary of our Company

**Notes:**

- (1) Chair of the Audit Committee.
- (2) Member of the Audit Committee.
- (3) Chair of the Compensation, Governance and Nominating Committee.
- (4) Member of the Compensation, Governance and Nominating Committee.
- (5) Based on information provided by each director concerning his background, employment and affiliations, our Board has determined that Mr. Levitt and Mr. Bowie, representing two of the current six members of our Board, are “independent” as that term is defined under National Instrument 52-110 — *Audit Committees* (“NI 52-110”). Pursuant to NI 52-110, an independent director is a director who is free from any direct or indirect relationship which could, in the view of our Board, be reasonably expected to interfere with a director’s independent judgment. Mr. Kestenbaum is considered not independent by reason of the fact that he is our Chief Executive Officer and his relationship with Bedrock and LG Bedrock. Mr. Cheney is considered not independent by reason of the fact that he is our Chief Business Development Officer and his relationship with Bedrock and LG Bedrock. Mr. Dees, Mr. Bunder and Mr. Ludwig are considered not independent by reason of their relationships with LG Bedrock.

Immediately after Closing, the Directors and our executive officers, as a group, will beneficially own, or control or direct, directly or indirectly, ● Common Shares, representing approximately ● % of the issued and outstanding Common Shares (approximately ● % if the Over-Allotment Option is exercised in full).

The mandate of our Board, substantially in the form set out under Appendix A to this prospectus, is to manage and supervise the management of our business and affairs. In fulfilling its mandate, our Board will adopt a written charter setting out its responsibility for, among other things, (i) participating in the development of and approving a strategic plan for our Company; (ii) supervising the activities and managing the affairs of our Company; (iii) reviewing and approving the business objectives to be met by management; (iv) assessing the performance of and overseeing management; (v) identifying and managing risk exposure; (vi) ensuring the integrity and adequacy of our internal controls and management information systems; (vii) succession planning; (viii) establishing committees of our Board, where required or prudent and subject to the terms of the Investor Rights Agreement, and defining their mandate; (ix) providing reports to Shareholders; (x) ensuring effective and adequate communication with Shareholders, other stakeholders and the public; and (xi) monitoring the integrity and ethics of our Company.

Our Board will adopt written position descriptions for the Executive Chair and Lead Director of our Board, which will set out the Executive Chair's and Lead Director's key responsibilities, including, as applicable, duties relating to setting Board or Independent Director meeting agendas, chairing Board, Independent Director and Shareholder meetings and fostering ethical and responsible decision making by the Board and Independent Directors. The Lead Director will take a leadership role with respect to the activities of the independent directors, which will entail, among other things, setting agendas and presiding at their meetings, and serving as liaison between the independent directors and the Executive Chair and Chief Executive Officer. While the Executive Chair will take the primary role in the governance of the Board, the Lead Director will provide independent leadership to the Board to ensure it works independently from senior executives in an open and productive manner and will collaborate with the Executive Chair with respect to Board governance and processes, including in preparing Board meeting agendas. Our Board will also adopt a written position description for each of the committee chairs which will set out each of the committee chair's key responsibilities, including duties relating to setting committee meeting agendas, chairing committee meetings and working with the respective committee and management to ensure, to the greatest extent possible, the effective functioning of the committee.

Our Board will also adopt a written position description for the Chief Executive Officer which will set out the key responsibilities of the Chief Executive Officer. The primary functions of the Chief Executive Officer will be to lead management of the business and affairs of our Company, to lead the implementation of the resolutions and the policies of our Board, to provide leadership, in conjunction with the Board, in establishing our Company's strategic direction and to supervise management day to day.

We will also adopt a written code of business conduct and ethics (the "**Code of Conduct**") that will apply to all Directors, officers, and management of our Company and our subsidiaries. The objective of the Code of Conduct will be to provide guidelines for maintaining the integrity, reputation, honesty, objectivity and impartiality of our Company and our subsidiaries. The Code of Conduct will address conflicts of interest, protection of our assets, confidentiality, fair dealing with security holders, competitors and employees and compliance with laws. As part of the Code of Conduct, any person subject to the Code of Conduct will be required to avoid or fully disclose material interests or relationships that are expected to give rise to a conflict of interest. Our Board will have the ultimate responsibility for the stewardship of the Code of Conduct. Our Compensation, Governance and Nominating Committee is responsible for reviewing and evaluating the Code of Conduct periodically and will recommend any necessary or appropriate changes thereto to our Board for consideration. The Compensation, Governance and Nominating Committee will also assist our Board with the monitoring of compliance with the Code of Conduct, and will be responsible for considering any waivers of the Code of Conduct (other than waivers applicable to our directors or executive officers, which shall be subject to review by our Board as a whole). The Code of Conduct will also be filed with the Canadian securities regulatory authorities on SEDAR.

Our Board is currently comprised of six Directors and one additional Director to be designated for appointment to our Board by the Bedrock Group immediately following the Closing, two of whom are

Independent Directors under Canadian securities laws, and pursuant to the Investor Rights Agreement, our Board shall not be comprised of more than seven directors unless agreed upon by Bedrock Industries provided that, at the relevant time the Bedrock Group holds at least 40% of the Common Shares outstanding (on a non-diluted basis). No later than one year after the date of the receipt for the final prospectus relating to the Offering, three of our members of our Board will be Independent Directors. The Directors will be elected by Shareholders at each annual meeting of Shareholders, and all Directors will hold office for a term expiring at the close of the next annual meeting or until their respective successors are elected or appointed and will be eligible for re-election or re-appointment. The nominees for election by Shareholders as Directors will be determined by our Board after considering the recommendation of the Compensation, Governance and Nominating Committee in accordance with the provisions of applicable corporate law, the Investor Rights Agreement, the mandate of our Board and the charter of the Compensation, Governance and Nominating Committee, in each case for election by Shareholders as Directors in accordance with applicable corporate law and will be included in the proxy-related materials to be sent to Shareholders prior to each annual meeting of Shareholders. Pursuant to the Investor Rights Agreement, Bedrock Industries will have the right to designate such number of directors for election to the Board as is provided for in the terms of the Investor Rights Agreement which means that the Compensation, Governance and Nominating Committee will only nominate the directors that are not nominated by Bedrock Industries under terms of the Investor Rights Agreement. See “— *Committees of our Board — Audit Committee*”, “— *Committees of our Board — Compensation, Governance and Nominating Committee*” and “*Agreements with Principal Shareholder*”.

We do not impose term limits on our Directors as we take the view that term limits are an arbitrary mechanism for removing Directors which can result in valuable, experienced Directors being forced to leave our Board solely because of length of service. Instead, we believe that Directors should be assessed based on their ability to continue to make a meaningful contribution. Our annual performance review of Directors assesses the strengths and weaknesses of Directors and, in our view, together with annual elections by the Shareholders, is a more meaningful way to evaluate the performance of Directors and to make determinations about whether a Director should be removed due to under-performance.

#### ***Biographical Information Regarding the Directors of our Company***

*Alan Kestenbaum, Executive Chairman and Chief Executive Officer* — Alan Kestenbaum has served as the Executive Chairman of our Board and our Chief Executive Officer since September 25, 2017. Mr. Kestenbaum has over 30 years of experience in the metals and mining production, trading, distribution and finance business. Mr. Kestenbaum founded Bedrock in 2015 in partnership with Lindsay Goldberg. He was also the founder of Globe Specialty Metals and was the former Executive Chairman of Ferroglobe PLC (NASDAQ: GSM). Prior to forming Globe Specialty Metals, Mr. Kestenbaum founded Marco International, a leading international metals trader and investor, and led its expansion in North America and around the globe. He has extensive investing and operating experience in the natural resources sectors as well as a successful track record in turnarounds and restructurings. Mr. Kestenbaum is the Chairman and Chief Executive Officer of Bedrock where he is responsible for setting the vision, strategy, investment objectives and providing direction to achieve the strategic objectives of the company. In addition, he serves as an independent consultant to Ferroglobe PLC, advising on matters relating to international trade, contract negotiations, legacy customer relationships and business development opportunities.

*Michael W. Dees, Director* — Michael W. Dees has served as a member of our Board since September 25, 2017. Mr. Dees has been with Lindsay Goldberg since 2004, serving as a Principal before becoming a Partner in 2009. Previously, he worked at Morgan Stanley in the private equity and real estate private equity groups in New York and Tokyo. He earned his M.B.A. from Harvard Business School, where he was a George F. Baker Scholar, and his B.A. in Economics from Harvard College. Mr. Dees currently serves as a Director of Bell Nursery Holdings, Crane & Co., Dealer Tire, Odfjell Terminals, Schur Flexibles, VDM Group and Bedrock. He has previously served as the director of various private and public companies, including Aviv REIT and Klöckner & Co SE.

*Jeffrey B. Bunder, Director* — Jeffrey B. Bunder has served as a member of our Board since September 25, 2017. Mr. Bunder is a partner at Lindsay Goldberg and serves as CFO for Lindsay Goldberg. He previously worked for over 25 years at Ernst & Young, most recently as the Global Private Equity Leader. He also formerly

served as a Transaction Advisory Services Partner at Ernst & Young where he managed relationships with a number of private equity funds and led transaction diligence engagements around the world. He earned his M.B.A. from New York University and his B.A. from Emory University and is a Certified Public Accountant.

*Dr. Thomas Ludwig, Director* — Thomas Ludwig has served as a member of our Board since September 25, 2017. Dr. Ludwig is Managing Partner of Lindsay Goldberg Vogel, an affiliate partner of Lindsay Goldberg in Düsseldorf, Germany, and has served in this role since 2010. He also serves as Chairman of the Supervisory Boards of TRIMET Aluminium SE and VDM Metals GmbH and as Deputy Chairman of Schur Flexibles GesmbH. Furthermore, Dr. Ludwig is Chairman of the Advisory Board of Bandstahl Schulte & Co. GmbH and member of the Advisory Board of Grünenthal GmbH. Dr. Ludwig has more than 30 years of experience as a business leader. He began his career at Klöckner Werke AG and moved to Klöckner & Co AG as member of the Executive Board. Dr. Ludwig subsequently joined the Thyssen group (now ThyssenKrupp) and became Chief Executive Officer of ThyssenKrupp Serv AG. From 2003 to 2009, he was CEO of Klöckner & Co SE. Dr. Ludwig studied Mathematics and Business Administration at the Universities of Göttingen, Freiburg, Glasgow and Bonn and holds a diploma in Mathematics and a doctoral degree from the University of Bonn.

*Brian Levitt, Director* — Brian Levitt has served as a member of our Board since September 25, 2017. Mr. Levitt is the chairman of the board of directors of The Toronto-Dominion Bank. Mr. Levitt is also a director of Domtar Corporation and serves as Chair of the Finance Committee and is a member of the Human Resources and Governance Committees. He is the former President and Chief Executive Officer of Imasco Limited, a Canadian consumer goods and services company. Mr. Levitt also previously served in various executive and non-executive leadership positions at the law firm Osler, Hoskin & Harcourt LLP. Mr. Levitt holds a law degree from the University of Toronto, where he also completed his Bachelor of Applied Science degree in Civil Engineering.

*Peter Bowie, Director* — Peter Bowie has served as a member of our Board since September 25, 2017. Mr. Bowie is a corporate director who most recently served as the Chief Executive Officer of Deloitte China from 2003 to 2008, as well as a senior partner and a member of the board and the management committee of Deloitte China until his retirement from the firm in 2010. Mr. Bowie was Chairman of Deloitte Canada, a member of the firm's management committee and a member of the board and governance committees of Deloitte International. He is a past member of the board of the Asian Corporate Governance Association and has served on a variety of boards in the private and non-governmental organization sectors. Mr. Bowie has a B. Comm. (St. Mary's), as well as an MBA (Ottawa) and has an honorary doctorate (Ottawa). Mr. Bowie completed the Advanced Management Program (Harvard) and is a Fellow of the Institute of Chartered Accountants of Ontario as well as a Fellow of the Australian Institute of Corporate Directors. Mr. Bowie is a director of Magna International Inc. and is a member of its audit committee.

#### ***Biographical Information Regarding the Executive Officers of our Company***

*Alan Kestenbaum, Executive Chairman and Chief Executive Officer* — Please see above under “— Biographical Information Regarding the Directors of our Company”.

*Michael McQuade, President* — Michael McQuade has been our President since 2014. Mr. McQuade has grown and evolved within the Company since he joined in 1981, where he held a number of different roles acquiring exceptional skills, knowledge and leadership abilities. From leadership positions in accounting and operations at Stelwire and Stelco Inc., Mr. McQuade rose to the position of Vice President and Chief Financial Officer at USSC, before being appointed to his position as President and General Manager of USSC in 2014. Mr. McQuade will be retiring from active employment with Stelco Inc. effective December 31, 2017.

*Don P. Newman, Chief Financial Officer* — Don P. Newman has been our Chief Financial Officer since August 2017. Mr. Newman brings over 30 years of corporate finance and accounting experience within the energy, drilling services and materials industries. Prior to joining the Company, Mr. Newman was Chief Financial Officer at Headwaters Incorporated, a manufacturer of building products and construction materials. Prior to Headwaters Incorporated, Mr. Newman was Interim Chief Financial Officer and Vice President-Corporate Controller of Boart Longyear Limited, an ASX-listed public company (ASX:BLY) and the world's leading core drilling company. Prior to Boart Longyear Limited, Mr. Newman was Chief Accounting Officer and Vice President Controller of ACI Worldwide, Inc., a leader in transactional software and services. Prior to ACI

Worldwide, Inc., Mr. Newman held a number of finance and accounting leadership roles with NRG Energy, Inc. a global leader in energy. Mr. Newman started his career with Deloitte LLP in its assurance practice.

*Sujit Sanyal, Chief Operating Officer* — Sujit Sanyal has been our Chief Operating Officer since September 2017. Mr. Sanyal is an accomplished senior executive with more than 38 years of management and leadership distinctions in the steel industry. He has a track record of success in achieving revenue, profit and business growth objectives through strategic planning, budgeting, cost and financial control and capital project execution. Prior to joining the Company, Mr. Sanyal was the President and Chief Executive Officer of Arcelor Mittal Long Products Canada located in Contrecoeur, Quebec. He has held various positions, including General Manager, VP (Operations), and Chief Operating Officer at Arcelor Mittal Long Products Canada (“**AML**”). Mr. Sanyal holds a Master of Technology degree in Metallurgical Engineering from the Indian Institute of Technology and completed the Executive Management program at the Wharton School, University of Pennsylvania.

*David Cheney, Chief Business Development Officer* — David Cheney has been our Chief Business Development Officer since June 30, 2017. Mr. Cheney has extensive advisory, capital markets and restructuring expertise, with a focus on the metals and mining sector. Prior to joining Stelco, Mr. Cheney was an investment banker with roles at J.P. Morgan, Deutsche Bank and most recently he was responsible for the metals and mining practice at Wells Fargo Securities. Mr. Cheney has also been with Bedrock since its formation in 2015.

#### ***Penalties or Sanctions***

None of the Directors or executive officers of our Company and no Shareholder holding a sufficient number of securities to affect materially the control of our Company, is or has been, within the ten years prior to the date of this prospectus, subject to any penalties or sanctions imposed by a court relating to securities legislation or by a securities regulatory authority or has entered into a settlement agreement with a securities regulatory authority or been subject to any other penalties or sanctions imposed by a court or regulatory body that would likely be considered important to a reasonable investor making an investment decision.

#### ***Individual Bankruptcies***

None of the Directors or executive officers of our Company and no Shareholder holding a sufficient number of securities to affect materially the control of our Company, is, as at the date of this prospectus or has, within the ten years prior to the date of this prospectus, become bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency, or become subject to or instituted any proceedings, arrangement or compromise with creditors, or had a receiver, receiver manager or trustee appointed to hold the assets of that individual.

#### ***Corporate Cease Trade Orders and Bankruptcies***

Other than as set out below, none of the Directors or executive officers of our Company and no Shareholder holding a sufficient number of securities to affect materially the control of our Company is, as at the date of this prospectus, or has been within the ten years before the date of this prospectus, (a) a Director, chief executive officer or chief financial officer of any company that was subject to an order that was issued while the Director or executive officer was acting in the capacity as Director, chief executive officer or chief financial officer, or (b) was subject to an order that was issued after the Director or executive officer ceased to be a Director, chief executive officer or chief financial officer and which resulted from an event that occurred while that person was acting in the capacity as Director, chief executive officer or chief financial officer, or (c) a Director or executive officer of any company that, while that person was acting in that capacity, or within a year of that person ceasing to act in that capacity, became bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency or was subject to or instituted any proceedings, arrangement or compromise with creditors or had a receiver, receiver manager or trustee appointed to hold its assets. For the purposes of this paragraph, “order” means a cease trade order, an order similar to a cease trade order or an order that denied the relevant company access to any exemption under securities legislation, in each case, that was in effect for a period of more than 30 consecutive days.

Mr. Kestenbaum is a former director of Wolverine Tube, Inc. Wolverine Tube, Inc. filed for protection under Chapter 11 of the United States Bankruptcy Code on October 31, 2010. Wolverine Tube, Inc. emerged from bankruptcy protection on June 28, 2011.

Mr. McQuade was the President of USSC on September 16, 2014, when USSC filed for and received protection under the CCAA in the form of a general stay of proceedings. On June 30, 2017, USSC was acquired by Bedrock and emerged from creditor protection.

### *Other Proceedings*

Mr. Kestenbaum is a former director and executive Chairman of Ferroglobe PLC. In connection with the business combination transaction (the “**Globe Transaction**”) between Globe Specialty Metals, Inc. (“**Globe**”) and Grupo FerroAtlantica, S.A.U., a stockholder litigation class action was commenced on behalf of Globe stockholders challenging the Globe Transaction in the Court of Chancery of the State of Delaware (“**Court of Chancery**”) (In Re Globe Specialty Metals, Inc. Stockholders Litigation, Consol. C.A. No. 10865) (the “**Class Action**”). The Class Action alleged that the directors of Globe, breached their fiduciary duties to Globe stockholders in connection with the Globe Transaction by allegedly failing to engage in adequate decision-making process in recommending that Globe stockholders vote in favour of the Globe Transaction and thereby breaching their fiduciary duties. The Class Action also alleged that Globe aided and abetted in such conduct. Pursuant to an order of the Court of Chancery dated February 15, 2016, the Court of Chancery issued a final order and judgement approving the settlement of the Class Action. Accordingly, pursuant to the order, the Court of Chancery approved the settlement of the Class Action, dismissed the Class Action and, *inter alia*, ordered the release of all claims against the defendant parties, including Mr. Kestenbaum, without prejudice. The Class Action settlement included a payment of US\$32.5 million to the plaintiff class.

### **Committees of our Board**

Our Board has established the following committees: the audit committee (“**Audit Committee**”), the compensation, governance and nominating committee (“**Compensation, Governance and Nominating Committee**”) and the environment, health and safety committee (“**Environment, Health and Safety Committee**”). Pursuant to the Investor Rights Agreement, for so long as Bedrock Industries holds at least 10% of the outstanding Common Shares of the Company, Bedrock Industries shall be entitled at any time and from time to time to designate one Director for appointment to each committee of the Board other than in the case of the Audit Committee in respect of which such right will expire one year after the date of the receipt for the final prospectus relating to the Offering, although, after such expiry the Bedrock Group will be entitled to designate one of its Nominees to attend, but not participate in, each meeting of the Audit Committee as an observer.

### *Audit Committee*

In reliance on the phase-in period afforded by Section 3.2 of NI 52-110, the Audit Committee currently consists of a majority of Independent Directors. The Audit Committee is currently comprised of three Directors, two of whom are persons determined by our Company to be Independent Directors and each of whom are persons determined by our Company to be financially literate within the meaning of NI 52-110. The Audit Committee is comprised of Peter Bowie, who will act as Chair of this committee, Brian Levitt and Jeffrey Bunder. Each of the Audit Committee members has the ability to read and understand a set of financial statements that present a breadth and level of complexity of accounting issues that are generally comparable to the breadth and complexity of the issues that can reasonably be expected to be raised by the Company’s financial statements, as well as an understanding of the internal controls and procedures necessary for financial reporting. No later than one year after the date of the receipt for the final prospectus relating to the Company’s initial public offering of Common Shares, the Board will constitute the Audit Committee with no less than 3 directors, each of which is independent for purposes of National Instrument 52-110 — Audit Committees. From and after such time, and for so long as it has the right to designate one or more Nominees, the Bedrock Group is entitled to designate one of its Nominees to attend, but not participate in, each meeting of the Audit Committee as an observer.

Our Board has adopted a written charter for the Audit Committee, in the form set out under Appendix B to this prospectus, which sets out the Audit Committee’s responsibilities. The Audit Committee’s responsibilities will include: (i) reviewing and approving the engagement of the auditors; (ii) reviewing annual and quarterly financial statements and all other material continuous disclosure documents, including our annual information form and management’s discussion and analysis; (iii) assessing our accounting policies; (iv) reviewing our risk management procedures; (v) reviewing any significant transactions outside our ordinary course of business and any legal matters that may significantly affect our financial statements; (vi) overseeing the work and confirming the independence of the external auditors; and (vii) reviewing, evaluating and approving the internal control procedures that are implemented and maintained by management, including, without limitation, the whistleblower policy.

The Audit Committee will have direct communication channels with the Chief Financial Officer and the external auditors of our Company to discuss and review such issues as the Audit Committee may deem appropriate.

For fiscal years ended December 31, 2015 and December 31, 2016, our Company incurred the following fees by our external auditor:

<b>(in thousands of dollars)</b>	<b>Fiscal year ended December 31, 2015</b>	<b>Fiscal year ended December 31, 2016</b>
Audit Fees <sup>(1)</sup> . . . . .	\$ 0	\$ 0
Audit Related Fees <sup>(2)</sup> . . . . .	\$ 0	\$ 0
Tax Fees <sup>(3)</sup> . . . . .	\$146	\$210
All Other Fees <sup>(4)</sup> . . . . .	<u>\$ 0</u>	<u>\$ 0</u>
<b>Total Fees Paid</b> . . . . .	<b>\$146</b>	<b>\$210</b>

**Notes:**

- (1) Fees for audit service.
- (2) Fees for assurance and related services not included in audit service above.
- (3) Fees for tax compliance, tax advice and tax planning.
- (4) All other fees not included above.

During the fiscal years ended December 31, 2015 and December 31, 2016, our Company did not incur any audit fees because it was a wholly-owned indirect subsidiary of USS. During the years ended December 31, 2015 and December 31, 2016, our Company engaged KPMG LLP to provide tax compliance and tax advisory services, and paid \$146,000 and \$210,200 in those years, respectively.

***Compensation, Governance and Nominating Committee***

The Compensation, Governance and Nominating Committee is comprised of two Directors, one of whom is a person determined by our Company to be an Independent Director and will be charged with reviewing, overseeing and evaluating the corporate governance, compensation and nominating policies of our Company. The Compensation, Governance and Nominating Committee is comprised of Brian Levitt, who will act as Chair of this committee, and Michael Dees. No member of our Compensation, Governance and Nominating Committee will be one of our officers, and as such, our Board believes that our Compensation, Governance and Nominating Committee will be able to conduct its activities in an objective manner.

Our Board will adopt a written charter for the Compensation, Governance and Nominating Committee setting out its responsibilities for: (i) assessing the effectiveness of our Board, each of its committees and individual Directors; (ii) overseeing the recruitment and selection of candidates as Directors; (iii) organizing an orientation and education program for new Directors; (iv) considering and approving proposals by the Directors to engage outside advisors on behalf of our Board as a whole or on behalf of the Independent Directors; (v) reviewing and making recommendations to our Board concerning any change in the number of Directors composing our Board; (vi) considering questions of management succession; (vii) administering any compensation incentive programs of our Company; (viii) assessing the performance of management of our

Company; and (ix) reviewing and making recommendations to our Board concerning the level and nature of the compensation payable to Directors and officers of our Company.

In identifying new candidates for our Board that are not nominated by Bedrock Industries pursuant to the terms of the Investor Rights Agreement, the Compensation, Governance and Nominating Committee will consider what competencies and skills our Board, as a whole, should possess and assess what competencies and skills each existing Director possesses, considering our Board as a group, and the personality and other qualities of each Director, as these may ultimately determine the boardroom dynamic. However, pursuant to the Investor Rights Agreement, Bedrock Industries will have the right to designate such number of directors for election to the Board as is provided for in the terms of the Investor Rights Agreement which means that the Compensation, Governance and Nominating Committee will only nominate the directors that are not nominated by Bedrock Industries under terms of the Investor Rights Agreement. See “*Agreements with Principal Shareholder*”.

Following Closing, it is expected that the Compensation, Governance and Nominating Committee will put in place an orientation program for new Directors under which a new Director will meet with the Chair of our Board and members of the executive management team of our Company. It is anticipated that a new Director will be provided with comprehensive orientation and education as to the nature and operations of our Company and its business, the role of our Board and its committees, and the contribution that an individual Director is expected to make. The Compensation, Governance and Nominating Committee will be responsible for coordinating development programs for continuing Directors to enable the Directors to maintain or enhance their skills and abilities as Directors as well as ensuring that their knowledge and understanding of our Company and its business remains current. Current and new Board members are encouraged to: (i) communicate with management and auditors; (ii) keep themselves current with industry trends and developments and changes in legislation with management’s assistance; and (iii) visit the Company’s operations.

The Compensation, Governance and Nominating Committee will take reasonable steps to evaluate and assess, on an annual basis, Directors’ performance and effectiveness of our Board, Board committees, individual members, our Board Chair and committee Chairs. The assessment will address, among other things, individual Director independence, individual Director and overall Board skills, and individual Director financial literacy. Our Board will receive and consider the recommendations from the Compensation, Governance and Nominating Committee regarding the results of the evaluation of the performance and effectiveness of our Board, Board committees and individual members.

The Directors believe that the members of the Compensation, Governance and Nominating Committee individually and collectively possess the requisite knowledge, skill and experience in governance and compensation matters, including human resource management, executive compensation matters and general business leadership, to fulfill the committee’s mandate.

#### ***Environment, Health and Safety Committee***

The Board intends to establish the Environment, Health and Safety Committee following Closing. The Board anticipates that such committee will be comprised of a majority of Independent Directors. The primary role of the Environment, Health and Safety Committee will be to assist the Board in fulfilling certain of its oversight responsibilities by, among other things, overseeing the establishment and administration of the environmental, health and safety policies, programs, procedures and initiatives for the Company, including those as will promote the safety and health of its employees, contractors, customers, the public and the environment, and reviewing periodically the reputation of the Company as a responsible corporate citizens and efforts to employ sustainable business practices consistent with the purpose and values of the business.

#### **Directors’ and Officers’ Liability Insurance**

In addition to indemnification from the Company, our Directors and officers are covered by directors’ and officers’ liability insurance. Under this insurance coverage, we will be reimbursed for insured claims where payments have been made under indemnity provisions on behalf of our Directors and officers, subject to a deductible for each loss, which will be paid by us. Individual Directors and officers of our Company and our subsidiaries will also be reimbursed for insured claims arising during the performance of their duties for which

they are not indemnified by our Company or our subsidiaries. Illegal acts, acts which result in personal profit and certain other acts are excluded from this insurance coverage.

## **Diversity**

The Compensation, Governance and Nominating Committee believes that having a diverse Board and senior management team offers a depth of perspective and enhances Board and management operations. The Compensation, Governance and Nominating Committee identifies candidates to our Board and our management that possess skills with the greatest ability to strengthen our Board and management and we are focused on continually increasing diversity within our Company.

The Compensation, Governance and Nominating Committee does not specifically define diversity, but considers diversity of experience, perspective, education, race, gender and national origin as part of its overall annual evaluation of Director nominees for election or re-election as well as candidates for management positions. Recommendations concerning Director nominees are, foremost, based on merit and performance, but diversity is taken into consideration, as it is beneficial that a diversity of backgrounds, views and experiences be present at our Board and management levels.

As we carry on business in foreign jurisdictions we attempt to recruit and select Board and management candidates that represent both gender diversity and global business understanding and experience. However, our Board does not support fixed percentages for any selection criteria, as the composition of our Board and management is based on the numerous factors established by the selection criteria and it is ultimately the skills, experience, character and behavioral qualities that are most important to determining the value which an individual could bring to our Board or management of our Company.

We do not have any female executive officers, directors or senior managers. We do not have a formal policy or targets on the representation of women on our Board or senior management. The Compensation, Governance and Nominating Committee already takes gender into consideration as part of its overall recruitment and selection process in respect of our Board and senior management. Bedrock Industries has determined the present composition of the Board. On the closing of the Offering, pursuant to the Investor Rights Agreement, Bedrock Industries will have the right to nominate such number of directors for election to the Board as is provided for in the terms of the Investor Rights Agreement such that Bedrock Industries will initially have the right to nominate all but two of the Directors, assuming a Board size of seven. See “*Agreements with Principal Shareholder*”. As and when the Compensation, Governance and Nominating Committee attains the right to independently recommend additional candidates for the board, in searches for new Directors, the Compensation, Governance and Nominating Committee will consider the level of female representation and diversity on our Board and management and this will be one of several factors used in its search process.

## **Director Independence and Conflicts of Interest**

A majority of our Board consists of members who are regarded as not being independent of the Company. However, our Board believes that it is able to facilitate independent judgment in carrying out its responsibilities and will continue to do so following Closing. A majority of the Audit Committee is composed of independent directors. The Audit Committee will consist of three independent directors no later than one year after the date of the receipt for the final prospectus relating to the Offering. While our Board does not have an independent Chair, Brian Levitt was appointed as Lead Director by our Board and is responsible for ensuring that the directors who are independent have opportunities to meet without management and non-independent directors present, as necessary. Discussions among independent directors will be led by the Lead Director who will provide feedback subsequently to the Chair of the Board and to the Board.

A Director who has a material interest in a matter before our Board or any committee on which he or she serves is required to disclose such interest as soon as the Director becomes aware of it. In situations where a Director has a material interest in a matter to be considered by our Board or any committee on which he or she serves, such Director may be required to absent himself or herself from the meeting while discussions and voting with respect to the matter are taking place. Directors will also be required to comply with the relevant provisions of the CBCA regarding conflicts of interest.

## **Majority Voting Policy**

In accordance with the requirements of the TSX, our Board will adopt a majority voting policy (“**Majority Voting Policy**”) to the effect that a nominee for election as a Director who does not receive a greater number of votes “for” than votes “withheld” with respect to the election of Directors by Shareholders shall tender his or her resignation to the Chair promptly following the meeting of Shareholders at which the Director was elected. Our Compensation, Governance and Nominating Committee will consider such offer and make a recommendation to our Board whether to accept it or not. Our Board will promptly accept the resignation unless it determines, in consultation with our Compensation, Governance and Nominating Committee, that there are exceptional circumstances that should delay the acceptance of the resignation or justify rejecting it. Our Board will make its decision and announce it in a press release within 90 days following the meeting of Shareholders. A Director who tenders a resignation pursuant to the Majority Voting Policy will not participate in any meeting of our Board or our Compensation, Governance and Nominating Committee at which the resignation is considered.

## **Management Services Agreement**

Stelco Inc. and Bedrock Industries Management Co, Inc. (“**Bedrock Management**”), an affiliate of Bedrock, entered into a Management Services Agreement dated June 30, 2017 (the “**Management Agreement**”). Pursuant to the Management Agreement, Bedrock Management provides certain management and other administrative services to the Company, including senior management services, financial, managerial, operational and administrative advice, and advice and counsel in connection with strategic transactions. Messrs. Kestenbaum’s and Cheney’s compensation for their role as Chief Executive Officer and Chief Business Development Officer, respectively, are reimbursed through the Management Agreement. See “—*Executive Compensation — Summary Compensation Table*”.

Bedrock Management invoices for the services it provides under the Management Agreement on a monthly basis, in an amount of 1.02 multiplied by the costs incurred by Bedrock Management for the provision of services under the Management Agreement, including travel costs (including private flying services used by Bedrock Management employees for Stelco business) and an allocation of overhead expenses and employee expenses (collectively, “**Incurred Costs**”). If the aggregate Incurred Costs for a year exceed \$5 million, an amount equal to 0.02 multiplied by the amount by which the aggregate Incurred Costs exceed \$5 million will be reimbursed to us by Bedrock Management. Stelco anticipates that Incurred Costs will average approximately \$7.5 million per year, but such expenses could vary depending on what services Bedrock Management provides to Stelco in any given year. Stelco anticipates that Incurred Costs in connection with the Offering will be approximately \$2 million.

## **Termination**

We may terminate the Management Agreement (a) immediately upon the bankruptcy, insolvency or change of control of Bedrock Management, or (b) upon five days’ written notice. The Company shall automatically cease to be a party to the Management Agreement in the event that Bedrock ceases to have, directly or indirectly, the right to appoint a majority of the members of the board of directors of the Company.

Bedrock Management may terminate the Management Agreement at any time in the event of a material breach of the Management Agreement by the Company, provided that the Company shall have 30 days after receiving notice of such breach from Bedrock Management to cure or remedy such breach.

## REMUNERATION OF DIRECTORS

### Directors' Compensation

The Directors' compensation program is designed to attract and retain the most qualified individuals to serve on our Board. Our Board, through the Compensation, Governance and Nominating Committee, will be responsible for reviewing and approving any changes to the Directors' compensation arrangements. In consideration for serving on our Board, each Director that is not an employee of our Company or one of our affiliates or a partner, principal, member, director, officer, employee or equity holder of Bedrock Industries, Bedrock or Lindsay Goldberg will be compensated as indicated below:

<u>Type of Fee</u>	<u>Amount</u>
Director Annual Retainer . . . . . Board Member / Committee Member	\$150,000/year
Additional Retainers . . . . . Lead Director <sup>(1)</sup>	\$100,000/year
	Audit Committee Chair
	\$50,000/year
	Compensation, Governance and Nominating Committee
	Chair
	\$30,000/year
	Environment, Health and Safety Committee Chair
Meeting Fees . . . . . Board/Committee Meeting	\$30,000/year
	Nil

**Note:**

(1) Lead Director to receive no additional fee for acting as committee chair.

In addition, Directors will be entitled to receive remuneration for services rendered to our Company in any other capacity, except in respect of their service as Directors of any of our subsidiaries. Directors, including our Chief Executive Officer, who are employees of and who receive a salary from our Company or one of our affiliates or subsidiaries, or a partner, principal, member, director, officer, employee or equity holder of Bedrock Industries, Bedrock or Lindsay Goldberg will not be entitled to receive any remuneration for their services in acting as Directors. All Directors, including Directors nominated by the Bedrock Group, will be reimbursed for their reasonable out of pocket expenses incurred in acting as Directors.

Other than for reimbursement of their reasonable out-of-pocket expenses incurred while acting as Directors, our Executive Chairman and non-independent Directors will not receive compensation for their role as Directors of our Company.

## EXECUTIVE COMPENSATION

### Introduction

The following discussion describes the significant elements of our executive compensation program with particular emphasis on the process for determining compensation payable to the Chief Executive Officer of our Company and the Chief Financial Officer of our Company, and other than the Chief Executive Officer of our Company and the Chief Financial Officer of our Company, each of the three most highly compensated executive officers, or the three most highly compensated individuals acting in a similar capacity (collectively, the “**named executive officers**” or “**NEOs**”). Where relevant, the discussion below also reflects certain contemplated changes to our compensation structure that would be implemented in connection with, and contingent upon, the completion of the Offering.

Our anticipated 2017 NEOs are:

- Alan Kestenbaum, Executive Chairman and Chief Executive Officer;
- Michael McQuade, President;
- Don P. Newman, Chief Financial Officer;
- Sujit Sanyal, Chief Operating Officer; and
- David Cheney, Chief Business Development Officer.

## **Compensation Discussion and Analysis**

### ***Overview***

Our executive compensation program has been designed to motivate, reward, attract and retain a highly talented team of executive officers. The program seeks to align executive compensation with our annual and longer term business objectives. Our executive compensation program is designed to achieve the following objectives:

- provide competitive compensation opportunities in order to attract and retain talented, high-performing and experienced executive officers, whose knowledge, skills and performance are critical to our success;
- motivate our executive officers to achieve our business and financial objectives;
- align the interests of our executive officers with those of our Shareholders by tying a meaningful portion of compensation directly to the long-term value and growth of our business; and
- provide incentives that encourage appropriate levels of risk-taking and do not encourage excessive risk-taking behaviour by our executive officers.

### ***Compensation of Alan Kestenbaum and David Cheney***

Each of Alan Kestenbaum and David Cheney are employed by Bedrock Management which provides management services to us pursuant to the Management Agreement. We do not directly pay any salary compensation to either of Messrs. Kestenbaum or Cheney. Pursuant to the terms of the Management Agreement, costs incurred by Bedrock Management for the provision of services under the Management Agreement including, among other things, the cost to Bedrock Management of a portion of the compensation paid to Messrs. Kestenbaum and Cheney plus a certain small percentage amount is paid to Bedrock Management.

Bedrock Management determines the total salary compensation paid to Messrs. Kestenbaum and Cheney, and the amount attributable to estimated time dedicated to our business and affairs and then invoices us on a monthly basis for such salary plus other expenses in accordance with the terms of the Management Agreement. See “*Directors and Managers of Our Company—Management Services Agreement*”. In determining this compensation, Bedrock Management considers, among other things, Bedrock Management’s business, results of operations and financial condition taken as a whole.

A portion of the salary compensation paid by Bedrock Management to Messrs. Kestenbaum and Cheney is attributable to time spent on our activities. Salary compensation disclosed and discussed in the Executive Compensation section in respect of Messrs. Kestenbaum and Cheney represents salary compensation received from Bedrock Management that is attributable to the management services provided to and reimbursed by the Company.

### ***Determination of Compensation***

The Compensation, Governance and Nominating Committee will be responsible for assisting our Board in fulfilling its governance and supervisory responsibilities, and overseeing our human resources, succession planning, and compensation policies, processes and practices. The Compensation, Governance and Nominating Committee will also be responsible for ensuring that our compensation policies and practices provide an appropriate balance of risk and reward consistent with our risk profile and do not encourage excessive risk-taking behaviour by our executive officers.

Following Closing, our Board will adopt a written charter for the Compensation, Governance and Nominating Committee setting out its responsibilities for administering our compensation programs and reviewing and making recommendations to our Board concerning the level and nature of the compensation payable to Directors and officers. The Compensation, Governance and Nominating Committee oversight will include reviewing objectives, evaluating performance and ensuring that total compensation paid to executive officers, personnel who report directly to the Chief Executive Officer and various other key executive officers and managers is fair, reasonable and consistent with the objectives of our philosophy and compensation

program. See also “*Directors and Management of our Company — Committees of our Board — Compensation, Governance and Nominating Committee*”.

### ***Compensation Risk***

In reviewing our compensation policies and practices each year, the Compensation, Governance and Nominating Committee will seek to ensure the executive compensation program provides an appropriate balance of risk and reward consistent with the risk profile of our Company. The Compensation, Governance and Nominating Committee will also seek to ensure our compensation practices do not encourage excessive risk-taking behaviour by the executive team. Our long-term incentive plan (“**Long-Term Incentive Plan**”) has been designed to focus on our long-term performance which should discourage executives from taking excessive risks in order to achieve short-term, unsustainable performance.

All of our executives, other employees and directors will be subject to our insider trading policy, which will prohibit trading in our securities while in possession of material undisclosed information about us. Under this policy, such individuals will also be prohibited from entering into hedging transactions involving our securities, such as short sales, puts and calls. Furthermore, we will permit executives, including the NEOs, to trade in our securities only during prescribed trading windows.

### ***Principal Elements of Compensation***

The compensation of our NEOs will include the following elements: (i) base salary (other than in respect of Messrs. Kestenbaum and Cheney whose salary is paid by Bedrock Management — see “— *Compensation of Alan Kestenbaum and David Cheney*” above), (ii) short-term incentives, consisting of an annual bonus, and (iii) long-term incentives, consisting of share appreciation rights (“**SARs**”), restricted share units (“**RSUs**”) and deferred share units (“**DSUs**”) granted from time to time under the Long-Term Incentive Plan.

Perquisites and personal benefits are not a significant element of compensation of our NEOs.

*Base Salaries.* Base salary is provided as a fixed source of compensation for our NEOs (other than in respect of Messrs. Kestenbaum and Cheney whose salary is paid by Bedrock Management — see “— *Compensation of Alan Kestenbaum and David Cheney*” above). Adjustments to base salaries are expected to be determined annually and may be increased based on the executive officer’s success in meeting or exceeding individual objectives, as well as to maintain market competitiveness. Additionally, base salaries can be adjusted as warranted throughout the year to reflect promotions or other changes in the scope of breadth of an executive officer’s role or responsibilities.

*Annual Bonuses.* Annual bonuses are designed to motivate our NEOs to meet our business and financial objectives generally and our annual financial performance targets in particular. Annual bonuses are earned and measured with reference to an individual’s overall performance and contribution to the Company’s financial results and the Company achieving various financial results target for the fiscal year.

*Long Term Incentives.* Following Closing, the Company will implement the Long Term Incentive Plan, under which new grants of awards may be made. The key features of the Long-Term Incentive Plan are described under “— *Long-Term Incentive Plan*”.

## **Long-Term Incentive Plan**

### ***Overview***

The Long-Term Incentive Plan is designed to promote alignment of senior management with shareholder interests and creation of sustainable shareholder value, and facilitate recruitment, motivation and retention of executives and key talent. Pursuant to the Long-Term Incentive Plan, the Company may grant SARs, RSUs and DSUs to eligible participants. SARs track the price of the Common Shares but shall not be entitled to receive dividends. RSUs and DSUs will also track the price of the Common Shares and the number of RSUs and DSUs held by a participant will be adjusted for any dividends declared and paid on the Common Shares, in accordance with the provisions of the Long-Term Incentive Plan.

### ***Shares Subject to the Long-Term Incentive Plan***

The Company will limit the number of SARs, RSUs and DSUs available to be granted to a maximum number equal to an amount equivalent to 5% of the issued and outstanding Common Shares.

#### ***RSUs***

Under the terms of the Long-Term Incentive Plan, the Compensation, Governance and Nominating Committee may grant RSU awards to our senior management or any other eligible participant. One-third of the RSUs subject to an award will vest on each anniversary of the grant date, although the Compensation, Governance and Nominating Committee will have discretion to approve an alternative vesting period, provided that the vesting period and payment of awards shall be no later than the end of the third calendar year after each grant date. Vested awards will be paid in cash on the expiry date, less applicable statutory deductions and subject to active employment on the third vesting date. Unvested and unpaid awards will be forfeited upon the termination or resignation of an employee although the Board will have discretion to determine any vested entitlements. Awards will vest immediately and the distribution amount will be paid if employment is terminated without cause within 12 months following a change of control of the Company. Upon retirement of a participant, the RSUs will continue to vest following retirement provided that the participant agrees to enter into a non-competition and non-solicitation agreement with the Company. Upon the death of a participant, all vested RSUs will be paid out within three months of the participant's death, and any unvested RSUs will expire immediately on the date of the participant's death. Each RSU will entitle the holder thereof to receive a cash distribution from the Company in an amount equal to the volume-weighted five day average trading price of the Common Shares on the TSX immediately preceding the distribution date.

#### ***SARs***

The Compensation, Governance and Nominating Committee may grant SAR awards under the Long-Term Incentive Plan to our senior management or any other eligible participant. Under the terms of the Long-Term Incentive Plan, a SAR permits the participant to receive an amount in cash equal to the number of SARs exercised by the participant, multiplied by the amount by which the fair market value of the Common Shares on the exercise date exceeds the fair market value of the Common Shares on the date the applicable SARs were granted. The Compensation, Governance and Nominating Committee will have the authority to determine the terms and conditions of each SAR and the manner and time payment of amounts attributable to a SAR; provided that one-third of the SARs subject to an award will vest on each anniversary of the grant date and will expire no later than five years after the grant date. SARs may be granted on a stand-alone basis or in tandem with other awards under the Long-Term Incentive Plan.

The Long-Term Incentive Plan provides that no portion of the SARs may vest prior to the first anniversary of the grant date, except in the case of (i) death, disability, retirement, or involuntary termination of employment or service without cause or on account of good reason or (ii) the occurrence of a change of control of the Company.

#### ***DSUs***

Under the terms of the Long-Term Incentive Plan, the Compensation, Governance and Nominating Committee may grant DSUs to eligible directors to provide such directors with the opportunity to participate in the long-term success of the Company and to promote a greater alignment of interests between directors and shareholders. Under the Long-Term Incentive Plan, eligible directors can elect to receive all or a portion their retainer and fees in the form of DSUs.

On the date of any payment in respect of retainer or fees to eligible directors who have elected to receive all or a portion of such payment in DSUs, each such director will be granted such number of DSUs equal to the amount of the payment so elected to be received in DSUs divided by the fair market value of the Common Shares on the date of such payment.

Each DSU represents the right to receive, on a deferred payment basis, the cash equivalent of the fair market value of one Common Share on the Settlement Date (as defined herein), on the terms contained in the

Long-Term Incentive Plan. The amount will not be paid out until such time as the director's service to the Corporation terminates (the "Settlement Date"). All DSU awards will be settled in cash. An eligible director cannot redeem the DSUs until he or she ceases to be a member of the Board.

### Summary Compensation Table

The following table sets out information concerning the expected fiscal 2017 compensation to be earned by, paid to, or awarded to our NEOs.

Name and principal position	Year	Salary (\$)	Share- based Awards (\$)	Option- based Awards (\$)	Non-equity incentive plan compensation (Bonus) (\$)		All other compensation (\$)	Total compensation (\$)
					Annual incentive plans (\$)	Long- term incentive plans (\$)		
Alan Kestenbaum, Chairman and Chief Executive Officer <sup>(2)</sup> . . . . .	2017	1,247,800 <sup>(1)(9)</sup>	Nil	Nil	Nil	Nil	Nil	1,247,800 <sup>(9)</sup>
Don P. Newman, Chief Financial Officer <sup>(3)</sup> . . . . .	2017	224,347 <sup>(9)</sup>	Nil	Nil	277,764 <sup>(9)</sup>	320,496 <sup>(9)</sup>	208,383 <sup>(6)(9)</sup>	1,030,990 <sup>(9)</sup>
David Cheney, Chief Business Development Officer <sup>(2)</sup> . . . . .	2017	499,120 <sup>(1)(9)</sup>	Nil	Nil	Nil	Nil	Nil	499,120 <sup>(9)</sup>
Sujit Sanyal, Chief Operating Officer <sup>(4)</sup> . . . . .	2017	170,958	Nil	Nil	113,973	Nil	50,000 <sup>(7)</sup>	334,931
Michael McQuade, President <sup>(5)</sup> . . . . .	2017	415,000	Nil	Nil	638,573 <sup>(8)</sup>	Nil	Nil	1,053,573

#### Notes:

- (1) Messrs. Kestenbaum and Cheney are employees of Bedrock Management, and we bear no direct cost with respect to their salary. Compensation attributable to estimated time dedicated to our business and affairs is paid by Bedrock Management in accordance with Bedrock Management's obligation under the Management Agreement to provide senior management services to the Company which is then reimbursed by the Company. These figures represent an estimate of the portions of salary paid or to be paid by Bedrock Management, out of the fees payable by the Company to Bedrock Management, attributable to time spent on activities of the Company and reflect prorated expected annual compensation for fiscal 2017 for the period of July 1 to December 31, 2017.
- (2) Commenced effective July 1, 2017 and reflects prorated expected annual compensation for fiscal 2017.
- (3) Commenced effective August 28, 2017 and reflects prorated expected annual compensation for fiscal 2017.
- (4) Commenced effective September 18, 2017 and reflects prorated expected annual compensation for fiscal 2017.
- (5) Mr. McQuade is retiring from the Company effective as of December 31, 2017.
- (6) Represents one-time relocation payment. Amount based on estimated gross up at Mr. Newman's applicable marginal tax rate.
- (7) Represents one-time relocation payment. In addition, Mr. Sanyal is entitled to reimbursement for a lease of a vehicle, including fuel and maintenance expenses.
- (8) Includes annual bonus and key employee retention plan bonus paid following Stelco Inc.'s emergence from CCAA creditor protection.
- (9) Amounts paid in US dollars and converted to Canadian dollars for reporting purposes. On October 19, 2017, the exchange rate for United States dollars expressed in Canadian dollars (as reported by the Bank of Canada) was US\$1.00 = C\$1.2478.

### Employment Agreements, Termination Benefits and Change of Control Benefits

We have written employment agreements with each of our President, chief financial officer and chief operating officer and each executive is entitled to receive compensation established by us as well as other benefits in accordance with plans available to the most senior employees.

On February 21, 2017 which was subsequently amended effective September 6, 2017, we entered into an agreement of continued employment with Michael McQuade setting forth the terms and conditions of his employment, which provides for his base salary, short-term incentive bonus and participation in our benefit programs, and which includes, among other things, provisions regarding confidentiality and non-disclosure. In the case of termination for cause, Mr. McQuade's employment agreement provides that he is not entitled to notice or any payment in lieu thereof. In the case of termination without cause, Mr. McQuade will be entitled to entitlements determined in accordance with the common law.

On August 25, 2017, we entered into an employment agreement with Don P. Newman setting forth the terms and conditions of his employment, which provides for his base salary, short-term incentive bonus and participation in our benefit programs, and which includes, among other things, provisions regarding confidentiality and non-disclosure. In the case of termination for cause, Mr. Newman's employment agreement provides that he is not entitled to severance. In the case of termination without cause, Mr. Newman will be entitled to all outstanding base salary, any short-term incentive bonus and/or long-term incentive bonus awarded in respect of a preceding year that has not yet been paid, short-term incentive bonus and long-term incentive bonus, if any, paid out at target for the year of termination prorated to the date of termination, any awarded and unvested long-term incentive and option awards and base salary, bonus and benefits for a period of 12 months. In addition, in the event Mr. Newman's employment is terminated within 12 months following a change of control of the Company or his remuneration is reduced by more than 15% (unless related to change in bonus due to reduction in Company's performance) or there is a material diminution in his title, status, position, reporting relationship to the Board, job duties, authority or responsibilities, a relocation of his regular place of employment by more than 50 miles or a material breach by the Company, he will be entitled to the same entitlements as outlined immediately above provided that the severance period shall be extended to a period of 18 months.

On July 23, 2017, we entered into an employment agreement with Sujit Sanyal setting forth the terms and conditions of his employment, which provides for his base salary, short-term incentive bonus and participation in our benefit programs, and which includes, among other things, provisions regarding confidentiality, non-disclosure, non-compete and non-solicitation (for a period of 24 months following the terminate date). In the case of termination for cause, Mr. Sanyal's employment agreement provides that he is not entitled to severance. In the case of termination without cause, Mr. Sanyal will be entitled to all outstanding base salary, any short-term incentive bonus awarded in respect of a preceding year that has not yet been paid, short-term bonus paid out at target for the year of termination, base salary, bonus and benefits for a period of 12 months.

The table below shows the incremental payments that would be made to NEOs with whom we have an employment agreement, under the terms of their employment agreements upon the occurrence of certain events, if such events were to occur immediately following the completion of the Offering.

<u>Name and principal position</u>	<u>Event</u>	<u>Severance (\$)</u>	<u>Options (\$)</u>	<u>Other Compensation (\$)</u>	<u>Total (\$)</u>
Don P. Newman, Chief Financial Officer <sup>(1)</sup> . . . . .	Termination without Cause	655,095 <sup>(3)</sup>	Nil	811,070 <sup>(3)</sup>	1,466,165 <sup>(3)</sup>
Sujit Sanyal, Chief Operating Officer <sup>(2)</sup> . . . . .	Termination without Cause	600,000	Nil	400,000	1,000,000

**Notes:**

- (1) In the event of a termination following a change of control of the Company, Mr. Newman's severance entitlement would be \$982,643 (US\$787,500) and other compensation, in the form of short term incentive payment entitlements, would be \$1,216,605 (US\$975,000).
- (2) In the event Mr. Sanyal secures alternate employment during the 12 months following his termination, the severance and other compensation entitlements under his employment agreement shall cease effective as of the date he secures such alternate employment and he shall be entitled to a lump sum payment equal to 50% of the severance and other compensation entitlements that would otherwise be payable to for the remaining term.
- (3) Amounts paid in US dollars and converted to Canadian dollars for reporting purposes. On October 19, 2017, the exchange rate for United States dollars expressed in Canadian dollars (as reported by the Bank of Canada) was US\$1.00 = C\$1.2478.

**INDEBTEDNESS OF DIRECTORS AND OFFICERS**

None of the Directors, executive officers, employees, former Directors, former executive officers or former employees of our Company or any of our subsidiaries, and none of their respective associates, is or has within 30 days before the date of this prospectus or at any time since the beginning of the most recently completed financial year been indebted to our Company or any of our subsidiaries or another entity whose indebtedness is the subject of a guarantee, support agreement, letter of credit or other similar agreement or understanding provided by our Company or any of our subsidiaries.

## PLAN OF DISTRIBUTION

### General

Pursuant to an underwriting agreement dated ●, 2017 between us and the Underwriters (the “**Underwriting Agreement**”), our Company has agreed to sell and the Underwriters have severally agreed to purchase on Closing an aggregate of ● Common Shares at a price of \$ ● per Common Share payable in cash to us against delivery of the Common Shares for aggregate gross proceeds to us of \$ ●. In consideration for their services in connection with the Offering, our Company has agreed to pay the Underwriters a fee equal to \$ ● per Common Share.

The Offering Price of \$ ● per Common Share was determined by negotiation between us and the Underwriters and the Underwriters propose to offer the Common Shares initially at the Offering Price. After the Underwriters have made a reasonable effort to sell all of the Common Shares at the price specified on the cover page of this prospectus, the Offering Price may be decreased and may be further changed from time to time to an amount not greater than that set out on the cover page of this prospectus, and the compensation realized by the Underwriters will be decreased by the amount that the aggregate price paid by the purchasers for the Common Shares is less than the price paid by the Underwriters to us. The Underwriters may form a sub-agency group including other qualified investment dealers and determine the fee payable to the members of such group, which fee will be paid by the Underwriters out of their fees. The obligation to pay the sub-underwriting fee is an obligation of the Underwriters and we are not responsible for ensuring that any dealer receives this payment from the Underwriters.

The Company has granted to the Underwriters the Over-Allotment Option, which is exercisable in whole or in part and at any time for a period of 30 days after Closing to purchase from the Company up to an additional 15% of the aggregate number of Common Shares issued under the Offering on the same terms as set forth above solely to cover over-allocations, if any, and for market stabilization purposes. This prospectus also qualifies the grant of the Over-Allotment Option and the distribution of the Common Shares to be delivered upon the exercise of the Over-Allotment Option. A purchaser who acquires Common Shares forming part of the Underwriters’ over-allocation position acquires such Common Shares under this prospectus, regardless of whether the Underwriters’ over-allocation position is ultimately filled through the exercise of the Over-Allotment Option or secondary market purchases.

Under the terms of the Underwriting Agreement, the Underwriters may, at their discretion terminate their obligations under the Underwriting Agreement upon the occurrence of certain stated events. The termination provisions in the Underwriting Agreement include customary “regulatory proceedings out”, “disaster out”, “market out”, “material change out” and “non-compliance with conditions out” clauses. The Underwriters are, however, subject to certain closing conditions severally (and not jointly or jointly and severally) obligated to take up and pay for all of the Common Shares that they have agreed to purchase if any of the Common Shares are purchased under the Underwriting Agreement.

We have applied for listing of the Common Shares on the TSX under the symbol “STLC”. Listing is subject to approval by the TSX of our listing application and the fulfillment by us of all of the initial listing requirements and conditions of the TSX. The TSX has not approved the listing of the Common Shares on the TSX and there is no assurance that the TSX will do so.

There is currently no market through which the Common Shares may be sold. This may affect the pricing of the Common Shares in the secondary market, the transparency and availability of trading prices, the liquidity of the Common Shares and the extent of issuer regulation. See “*Risk Factors*”. Subscriptions for Common Shares will be received subject to rejection or allocation in whole or in part and the right is reserved to close the subscription books at any time without notice. The Closing is expected to occur on ●, 2017 or such other date as we and the Underwriters may agree, but in any event not later than ●, 2017. Closing of the Offering is conditional on the Common Shares being approved for listing on the TSX.

Oppenheimer & Co. Inc. is not registered to sell securities in any Canadian jurisdiction and, accordingly, will only sell Common Shares outside of Canada.

The Company has agreed to indemnify the several Underwriters and their directors, officers, employees and agents against certain liabilities, including, without restriction, civil liabilities under Canadian securities legislation, and to contribute to any payments that the Underwriters may be required to make in respect thereof.

The Common Shares have not been, and will not be, registered under the U.S. Securities Act or the securities laws of any state of the United States and may not be offered, sold or delivered, directly or indirectly, in the United States, except pursuant to an exemption from the registration requirements of the U.S. Securities Act and applicable state securities laws. Each Underwriter has agreed that it will not offer or sell the Common Shares within the United States, except in transactions exempt from the registration requirements of the U.S. Securities Act and applicable state securities laws. The Underwriting Agreement provides that the Underwriters may re-offer and re-sell the Common Shares that they have acquired pursuant to the Underwriting Agreement in the United States to persons the Underwriters reasonably believe to be “qualified institutional buyers” (as defined in Rule 144A under the U.S. Securities Act) in accordance with Rule 144A under the U.S. Securities Act. The Underwriting Agreement also provides that the Underwriters may offer and sell the Common Shares outside the United States in accordance with Regulation S under the U.S. Securities Act.

In addition, until 40 days after the commencement of the Offering, an offer or sale of the Common Shares within the United States by any dealer (whether or not participating in the Offering) may violate the registration requirements of the U.S. Securities Act if such offer or sale is made otherwise than in accordance with an exemption from registration under the U.S. Securities Act.

Sales of shares made outside of the United States may be made by affiliates of the Underwriters.

### **Price Stabilization, Short Positions and Passive Market Making**

In connection with the Offering, the Underwriters may, subject to applicable law, over-allocate or effect transactions which stabilize or maintain the market price of the Common Shares at levels other than those which otherwise might prevail on the open market, including: stabilizing transactions; short sales; purchases to cover positions created by short sales; and syndicate covering transactions.

Stabilizing transactions consist of bids or purchases made for the purpose of preventing or retarding a decline in the market price of the Common Shares while the Offering is in progress. These transactions may also include making short sales of the Common Shares, which involve the sale by the Underwriters of a greater number of Common Shares than they are required to purchase in the Offering. Short sales may be “covered short sales”, which are short positions in an amount not greater than the Over-Allotment Option, or may be “naked short sales”, which are short positions in excess of that amount.

The Underwriters may close out any covered short position either by exercising the Over-Allotment Option, in whole or in part, or by purchasing Common Shares in the open market. In making this determination, the Underwriters will consider, among other things, the price of Common Shares available for purchase in the open market compared with the price at which they may purchase Common Shares from the Company, or an affiliate thereof, as applicable, through the Over-Allotment Option. If, following Closing, the market price of the Common Shares decreases, the short position created by the over-allocation position in Common Shares may be filled through purchases in the market, creating upward pressure on the price of the Common Shares. If, following Closing, the market price of Common Shares increases, the over-allocation position in Common Shares may be filled through the exercise of the Over-Allotment Option in respect of Common Shares at the Offering Price.

The Underwriters must close out any naked short position by purchasing Common Shares in the open market. A naked short position is more likely to be created if the Underwriters are concerned that there may be downward pressure on the price of the Common Shares in the open market that could adversely affect investors who purchase in the Offering. Any naked short sales will form part of the Underwriters’ over-allocation position. A purchaser who acquires Common Shares forming part of the Underwriters’ over-allocation position resulting from any covered short sales or naked short sales will, in each case, acquire such Common Shares under this prospectus, regardless of whether the Underwriters’ over-allocation position is ultimately filled through the exercise of the Over-Allotment Option or secondary market purchases.

In addition, in accordance with rules and policy statements of certain Canadian securities regulatory authorities, the Underwriters may not, at any time during the period of distribution, bid for or purchase Common Shares. The foregoing restriction is, however, subject to exceptions where the bid or purchase is not made for the purpose of creating actual or apparent active trading in, or raising the price of, the Common Shares. These exceptions include a bid or purchase permitted under the by-laws and rules of applicable regulatory authorities and the TSX, including the Universal Market Integrity Rules for Canadian marketplaces, relating to market stabilization and passive market making activities and a bid or purchase made for and on behalf of a customer where the order was not solicited during the period of distribution.

As a result of these activities, the price of the Common Shares may be higher than the price that otherwise might exist in the open market. If these activities are commenced, they may be discontinued by the Underwriters at any time. The Underwriters may carry out these transactions on any stock exchange on which the Common Shares are listed, in the over-the-counter market, or otherwise.

### **Non-Certificated Inventory System**

No certificates representing the Common Shares to be sold in the Offering will be issued to purchasers under this prospectus. Registration will be made in the depository service of CDS, or to its nominee, and electronically deposited with CDS on the Closing Date. Each purchaser of Common Shares will typically only receive a customer confirmation of purchase from the participants in the CDS depository service (“**CDS Participants**”) from or through which such Common Shares are purchased, in accordance with the practices and procedures of such CDS Participant. Transfers of ownership of Common Shares will be effected through records maintained by the CDS Participants, which include securities brokers and dealers, banks and trust companies. Indirect access to the CDS book-entry system is also available to other institutions that maintain custodial relationships with a CDS Participant, either directly or indirectly.

### **Lock-Up Arrangements**

Pursuant to the Underwriting Agreement, each of us and our executive officers and directors, as well as Bedrock Industries, have agreed that he, she or it will not, directly or indirectly, without the prior written consent of the Joint Bookrunners, on behalf of the Underwriters, such consent not to be unreasonably withheld, issue, offer or sell or grant any option, warrant or other right to purchase or agree to issue or sell or otherwise lend, transfer, assign or dispose of any of our equity securities, or other securities convertible or exchangeable into or otherwise exercisable into our equity securities or enter into any swap or other arrangement that transfers to another, in whole or in part, any of the economic consequences of ownership of our equity securities, or agree or publicly announce any intention to do any of the foregoing for a period commencing on the date hereof and ending 180 days after the Closing Date, subject to certain limited exceptions, including the sale of our securities pursuant to the exercise of the Over-Allotment Option.

### **Relationship Between our Company and Certain of the Underwriters**

The Underwriters and their respective affiliates are full service financial institutions engaged in various activities, which may include sales and trading, commercial and investment banking, advisory, investment management, investment research, principal investment, hedging, market making, brokerage and other financial and non-financial activities and services. Certain of the Underwriters and their respective affiliates have provided, and may in the future provide, a variety of these services to the Issuer and the Company (as well as Bedrock, Lindsay Goldberg, Alan Kestenbaum and their respective affiliates) and to persons and entities with relationships with the Issuer and the Company, for which they received or will receive customary fees and expenses.

In particular, BMO Capital Markets and J.P. Morgan are affiliates of banks that are part of a syndicate of lenders that has made the ABL Credit Facility available to our subsidiary, Stelco Inc. Consequently, we may be considered a “connected issuer” of BMO Capital Markets and J.P. Morgan under applicable Canadian securities laws. The decision to issue the Common Shares and the determination of the terms of the Offering were made through negotiation between us and the Underwriters. The banks of which BMO Capital Markets and J.P. Morgan are affiliates did not have any involvement in such decision or determination, although such banks

may be advised of the Offering and the terms thereof. As a consequence of the Offering, BMO Capital Markets and J.P. Morgan will each receive their proportionate share of the Underwriters' fee.

In the ordinary course of their various business activities, the Underwriters and their respective affiliates, officers, directors and employees may purchase, sell or hold a broad array of investments and actively trade securities, derivatives, loans, commodities, currencies, credit default swaps and other financial instruments for their own account and for the accounts of their customers, and such investment and trading activities may involve or relate to assets, securities and/or instruments of our Company (directly, as collateral securing other obligations or otherwise) and/or persons and entities with relationships with our Company. The Underwriters and their respective affiliates may also communicate independent investment recommendations, market color or trading ideas and/or publish or express independent research views in respect of such assets, securities or instruments and may at any time hold, or recommend to clients that they should acquire, long and/or short positions in such assets, securities and instruments.

#### **Notice to Prospective Investors in the European Economic Area**

In relation to each Member State of the European Economic Area which has implemented the Prospectus Directive, as defined herein (each, a “**Relative Member State**”) an offer to the public of our Common Shares may not be made in that Relevant Member State, except that an offer to the public in that Relevant Member State of our Common Shares may be made at any time under the following exemptions under the Prospectus Directive:

- To any legal entity which is a qualified investor as defined in the Prospectus Directive;
- To fewer than 150 natural or legal persons (other than qualified investors as defined in the Prospectus Directive), subject to obtaining the prior consent of the relevant Underwriter or Underwriters for any such offer; or
- In any other circumstances falling within Article 3(2) of the Prospectus Directive;

provided that no such offer or shares of our common stock shall result in a requirement for the publication by us or any Underwriter of a prospectus pursuant to Article 3 of the Prospectus Directive.

For the purposes of this provision, the expression an “offer to public” in relation to our Common Shares in any Relevant Member State means the communication in any form and by any means of sufficient information on the terms of the offer and our Common Shares to be offered so as to enable an investor to decide to purchase our Common Shares, as the same may be varied in that Member State by any measure implementing the Prospectus Directive in that Member State, the expression “**Prospectus Directive**” means Directive 2003/71/EC (as amended), including by Directive 2010/73/EU and includes any relevant implementing measure in the Relative Member State.

#### **Notice to Prospective Investors in the United Kingdom**

In the United Kingdom, this prospectus is only addressed to and directed as qualified investors who are (i) investment professionals falling within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (the “**2005 Order**”); or (ii) high net worth entities and other persons to whom it may lawfully be communicated, falling within Article 49(2)(a) to (d) of the 2005 Order (all such persons together being referred to as “relevant persons”). Any investment or investment activity to which this prospectus relates is available only to relevant persons and will only be engaged with relevant persons. Any person who is not a relevant person should not act or rely on this prospectus or any of its contents.

#### **Notice to Prospective Investors in Hong Kong**

Our Common Shares may not be offered or sold in Hong Kong by means of any document other than (i) in circumstances which do not constitute an offer to the public within the meaning of the Companies (Winding Up and Miscellaneous Provisions) Ordinance (Cap. 32 of the Laws of Hong Kong) (“**Companies (Winding Up and Miscellaneous Provisions) Ordinance**”) or which do not constitute an invitation to the public within the meaning of the Securities and Futures Ordinance (Cap. 571 of the Laws of Hong Kong) (“**Securities and Futures**

**Ordinance**”), or (ii) to “professional investors” as defined in the Securities and Futures Ordinance and any rules made thereunder, or (iii) in other circumstances which do not result in the document being a “prospectus” as defined in the Companies (Winding Up and Miscellaneous Provisions) Ordinance, and no advertisement, invitation or document relating to our Common Shares may be issued or may be in the possession of any person for the purpose of issue (in each case whether in Hong Kong or elsewhere), which is directed at, or the contents of which are likely to be accessed or read by, the public in Hong Kong (except if permitted to do so under the securities laws of Hong Kong) other than with respect to Common Shares which are or are intended to be disposed of only to persons outside Hong Kong or only to “professional investors” in Hong Kong as defined in the Securities and Futures Ordinance and any rules made thereunder.

#### **Notice to Prospective Investors in Singapore**

This prospectus has not been registered as a prospectus with the Monetary Authority of Singapore. Accordingly, this prospectus and any other document or material in connection with the offer or sale, or invitation for subscription or purchase, of our Common Shares may not be circulated or distributed, nor may our Common Shares be offered or sold, or be made the subject of an invitation for subscription or purchase, whether directly or indirectly, to persons in Singapore other than (i) to an institutional investor (as defined under Section 4A of the Securities and Futures Act, Chapter 289 of Singapore (the “SFA”)) under Section 274 of the SFA, (ii) to a relevant person (as defined in Section 275(2) of the SFA) pursuant to Section 275(1) of the SFA, or any person pursuant to Section 275(1A) of the SFA, and in accordance with the conditions specified in Section 275 of the SFA or (iii) otherwise pursuant to, and in accordance with the conditions of, any other applicable provision of the SFA, in each case subject to conditions set forth in the SFA.

Where our Common Shares are subscribed or purchased under Section 275 of the SFA by a relevant person which is a corporation (which is not an accredited investor (as defined in Section 4A of the SFA)) the sole business of which is to hold investments and the entire share capital of which is owned by one or more individuals, each of whom is an accredited investor, the securities (as defined in Section 239(1) of the SFA) of that corporation shall not be transferable for six months after that corporation has acquired our Common Shares under Section 275 of the SFA except: (1) to an institutional investor under Section 274 of the SFA or to a relevant person (as defined in Section 275(2) of the SFA), (2) where such transfer arises from an offer in that corporation’s securities pursuant to Section 275(1A) of the SFA, (3) where no consideration is or will be given for the transfer, (4) where the transfer is by operation of law, (5) as specified in Section 276(7) of the SFA, or (6) as specified in Regulation 32 of the Securities and Futures (Offers of Investments) (Shares and Debentures) Regulations 2005 of Singapore (“**Regulation 32**”).

Where our Common Shares are subscribed or purchased under Section 275 of the SFA by a relevant person which is a trust (where the trustee is not an accredited investor (as defined in Section 4A of the SFA)) whose sole purpose is to hold investments and each beneficiary of the trust is an accredited investor, the beneficiaries’ rights and interest (howsoever described) in that trust shall not be transferable for six months after that trust has acquired the shares under Section 275 of the SFA except: (1) to an institutional investor under Section 274 of the SFA or to a relevant person (as defined in Section 275(2) of the SFA), (2) where such transfer arises from an offer that is made on terms that such rights or interest are acquired at a consideration of not less than US\$200,000 (or its equivalent in a foreign currency) for each transaction (whether such amount is to be paid for in cash or by exchange of securities or other assets), (3) where no consideration is or will be given for the transfer, (4) where the transfer is by operation of law, (5) as specified in Section 276(7) of the SFA, or (6) as specified in Regulation 32.

#### **Notice to Prospective Investors in Japan**

Our Common Shares have not been and will not be registered under the Financial Instruments and Exchange Act of Japan (Act No. 25 of 1948, as amended) (the “FIFA”). Our Common Shares may not be offered or sold, directly or indirectly, in Japan or to or for the benefit of any resident of Japan (including any person resident in Japan or any corporation or other entity organized under the laws of Japan) or to others for reoffering or resale, directly or indirectly, in Japan or to or for the benefit of any resident of Japan, except pursuant to an exemption from the registration requirements of the FIFA and otherwise in compliance with any relevant laws and regulations of Japan.

## DESCRIPTION OF MATERIAL INDEBTEDNESS

### The ABL Credit Agreement

On June 30, 2017, Stelco Inc. entered into a credit agreement with a syndicate of lenders including an affiliate of BMO Capital Markets (the “**ABL Credit Agreement**”). The ABL Credit Agreement is comprised of a revolving credit facility in the principal amount of \$375 million, including a \$25 million swingline facility (the “**ABL Credit Facility**”), maturing on June 30, 2022. The maximum amount that may be drawn under the ABL Credit Facility is subject to a borrowing base. In connection with entering into the ABL Credit Agreement, advances under the ABL Credit Facility were used to fund a portion of the payments contemplated by the CCAA plan, including repayment in full of Stelco Inc.’s obligations under its then existing DIP credit facility, including the fees and expenses in connection therewith, and to pay the fees and expenses in connection with the ABL Credit Agreement. Advances under the ABL Credit Facility may be used for their lawful and permitted purposes consistent with the terms and conditions of the ABL Credit Agreement. As at June 30, 2017, the aggregate amount outstanding under the ABL Credit Facility was approximately \$68 million and the amount available to be drawn was approximately \$223 million. The ABL Credit Facility may be increased by an additional \$75 million in incremental facilities subject to the terms and conditions contained in the ABL Credit Agreement.

Under the ABL Credit Facility, Stelco Inc. may borrow in Canadian dollars, by way of Canadian base rate advances and CDOR rate advances and in United States dollars, by way of U.S. base rate advances and LIBOR rate advances, in each case, plus the applicable margin in effect from time to time. Stelco Inc.’s obligations under the ABL Credit Agreement are secured by substantially all of its present and future assets, undertaking and property.

The ABL Credit Agreement contains covenants customary for credit facilities of this nature, including restrictions on Stelco Inc., subject to certain exceptions (including obtaining prior consent of the lenders), as to incurring indebtedness, granting liens, merging, amalgamating or consolidating with other companies, disposing of all or any part of its property, making investments, entering into any hedge arrangements, entering into a sale leaseback transactions, ensuring pension plan compliance, issuing shares or making any hostile acquisitions. Stelco Inc. is currently in compliance in all material respects with all covenants contained in the ABL Credit Agreement, and no material breach of the provisions of the ABL Credit Agreement has occurred or been waived.

Pursuant to the terms of the ABL Credit Agreement, Stelco is not permitted to make dividend payments to its shareholders until the Advance OPEB Payment and the Advance Pension Payment are paid in full. A portion of the Net Proceeds of the Offering will be used to pay such amounts at Closing. Thereafter, pursuant to the terms of the ABL Credit Facility, distributions by Stelco to us (including dividends) will be subject to the following conditions: (i) no distributions may be made prior to the date that is six (6) months following June 30, 2017; (ii) between the date that is six (6) months following June 30, 2017 and June 30, 2018, dividend payments (together with all other payments that are restricted under the terms of the ABL Credit Facility) must not exceed \$40 million in the aggregate so long as certain payment conditions are satisfied; and (iii) from and after June 30, 2018, dividends may be paid so long as the payment conditions are satisfied.

Under the terms of the ABL Credit Agreement, the applicable payment conditions noted above include (a) Stelco must not be in default under the ABL Credit Agreement; (b) Stelco must have certain excess availability under the terms of in the ABL Credit Facility that at all times during the 30 consecutive days immediately preceding the date of any such dividend payment and after giving effect to any such dividend payment must not be less than \$125 million; and (c) Stelco’s fixed charge coverage ratio (being a ratio of EBITDA to fixed charges as more fully defined in the ABL Credit Facility) must be equal to or greater than 1.1 to 1.00 for the most recent four fiscal quarters calculated on a pro forma basis as if such dividend payment was made on the last day of such period.

Stelco Inc. will be entering into an amendment to the ABL Credit Agreement on or prior to the Closing in order to facilitate the Offering.

### **The Province of Ontario Credit Agreement**

Stelco Inc. is also a party to the OPEB Advance Payment Loan with the Province of Ontario. The first draw of \$10.5 million is repayable by June 30, 2020 under the OPEB Advance Payment Loan. Subsequent draws are repayable by June 30, 2021. The amounts drawn bear interest at the Province of Ontario's cost of funds for a four year non-amortizing bond plus 1% per annum. The OPEB Advance Payment Loan is secured by a General Security Agreement with the Province of Ontario whereby we granted a security interest in substantially all of our present and future assets, undertaking and property.

A portion of the Net Proceeds of the Offering will be used to repay the drawn amount of \$10.5 million and no further amounts will be drawn and the loan will be terminated and discharged. See "*Use of Proceeds*" and "*Our Business — Recent Restructuring of Our Business — CCAA Restructuring and Acquisition by Bedrock — OPEB Arrangements*".

### **Additional Financing Arrangements**

Stelco Inc. is in the process of negotiating an inventory financing arrangement whereby it will sell certain of its raw material inventory, including coal and iron ore, in order to better manage its working capital needs and free up liquidity. Under the contemplated terms of such arrangement, Stelco will be required to post a cash collateral margin to the inventory financing party and agree to purchase the raw materials inventory at an agreed upon pricing formula as needed for its steel manufacturing processes and upon expiry of the term of the financing arrangement. There can be no assurance that Stelco Inc. will be able to reach a satisfactory agreement with the inventory financing party. Such party may be an affiliate of one of the Underwriters.

## RISK FACTORS

An investment in our Company and the Common Shares carries a number of risks, many of which are inherent in the business conducted by our Company, including the risk that the entire investment may be lost. In addition to all other information set out in this prospectus, the following specific factors could materially adversely affect us and should be considered when deciding whether to make an investment in our Company and the Common Shares. Other risks and uncertainties that we do not currently consider to be material, or of which we are not currently aware, may become important factors that affect our future financial condition and results of operations. The occurrence of any of the risks discussed below could materially adversely affect the business, prospects, financial condition, results of operations or cash flow of our Company. The Common Shares are only suitable for investors (i) who understand the potential risk of capital loss, and (ii) who understand and are willing to assume the risks involved in such an investment. Prospective purchasers of Common Shares should carefully consider the following risks before investing in our Company and the Common Shares.

### **Risk Factors Related to our Business and Industry**

#### ***Our industry is cyclical in nature and highly competitive***

The steel industry is cyclical in nature. The demand and pricing for North American steel fluctuates based on many factors, including the strength of the economies in North America, particularly the automotive sector, exchange rates and the influence of steel sourced from offshore. The steel industry is also extremely competitive. We compete with other steel producers locally and globally, many of which have greater resources and capabilities. Competition in the steel industry is primarily driven by (i) meeting ever changing demand trends, (ii) sourcing labour to efficiently operate steelmaking facilities and (iii) attaining scale to remain economically competitive. Competition may result in us being unable to supply customer demands in a profitable manner or to recruit or retain qualified employees. Our inability to compete with other steel companies could have a material adverse effect on our business, financial condition, results of operations or cash flows.

#### ***North American and global steel overcapacity may adversely impact our sales, financial results and cash flows***

Significant global steel capacity growth through new and expanded production in recent years has caused and continues to cause capacity to exceed global demand, which has and may continue to result in lower prices and shipments of products. Producers in the world steel market could pursue additional export opportunities as a result of the current abundance of ocean freight capacity. Furthermore, the addition of new capacity in the United States could exacerbate the issue of overcapacity domestically as well as globally. Also, some foreign economies, such as China, seem to be slowing relative to recent historical norms, resulting in an increased volume of steel products that cannot be consumed by industries in those foreign steel producers' own countries. Significant increases in production capacity by North American and global competitors have contributed to negative cash flows in the past. Further increases in North American and global capacity could adversely impact our sales, financial results and cash flows. Overcapacity has also led to greater protectionism as is evident in raw material and finished product border tariffs put in place by China, Brazil and other countries.

#### ***Existing and new trade laws and regulations in North America may be inadequate to prevent trade practices such as "dumping" or may impose duties on our products being sold in other jurisdictions which may adversely affect our business***

A number of foreign steel producers have in the past exported large quantities of steel to North America, impairing our ability to sell products and, accordingly, our profitability. This steel has often been sold at levels that are below cost or below home market price, a practice known as "dumping". Existing trade laws and regulations in North America may be inadequate to prevent such trade practices. Some foreign steel producers are owned, controlled or subsidized by foreign governments. Decisions by these foreign producers to continue production at marginal facilities may be influenced to a greater degree by political and economic policy considerations than by prevailing market conditions and may further contribute to excess global capacity. The North American market continues to support a significant level of imports, a condition which may lead to lower selling prices. Moreover, trade regulation in other countries, particularly in the United States, could materially adversely affect us through the imposition of duties or other trade barriers which would reduce or effectively eliminate access to certain steel markets.

In the United States, the most recent presidential and congressional elections could result in significant changes in, and uncertainty with respect to, legislation, regulation and government policy directly affecting our business (in particular exports into the United States) or indirectly affecting our Company because of impacts on our customers and suppliers. In particular, with the ongoing negotiations on NAFTA, it remains unclear what specifically the new United States administration and United States Congress will or will not do in this respect and what impact the outcome of the negotiations will have on the steel import/export market. In addition, the new United States administration earlier this year ordered an investigation under section 232 of the Trade Expansion Act of 1962 on steel imports into the United States. Section 232 allows the President of the United States to impose restrictions on imports into the United States for reasons of national security. If such investigation results in significant import duties on Canadian steel products being imported into the United States that could have a material adverse effect on our business, financial condition, results of operations or cash flows.

***Competition from other producers, imports or alternative materials along with industry demands may adversely affect our business***

The steel markets are highly competitive and a number of firms, North American and foreign, participate in the steel markets. We face strong competition from other steel producers and imports that compete with our products on price and service. Depending on a variety of factors, including cost and availability of raw materials, energy, technology and labour, capital costs, currency exchange rates and government subsidies of foreign steel producers, our business may be materially adversely affected by competitive forces. We could face risks related to cost competitiveness and access to large customers as a result of steel industry consolidation.

As a result of increasingly stringent regulatory requirements and other considerations, designers, engineers and industrial manufacturers, especially those in the automotive industry, are increasing their use of lighter weight and alternative materials, such as aluminum, composites, plastics, and carbon fiber. Use of such materials could reduce the demand for steel products which may reduce our profitability and cash flow. Additionally, we are subject to competition from new technological developments used by other steel producers.

Failure to meet the automotive industry's ever more demanding requirements for product quality and service, and failure to provide new grades of AHSS and UHSS, will seriously jeopardize our long-term participation in this market. Similarly, for us to maintain a competitive cost structure, we will require the ongoing selective implementation of new process technologies throughout our integrated steelmaking processes. There is no assurance that we will be able to improve our product and process technologies or that the improvements, once implemented, will meet the automotive market's quality and service requirements.

***Our cost reduction initiatives may not be successful or sufficient***

We are continuing with our efforts to lower costs in order to ensure our long-term viability including productivity initiatives and the implementation of a simplified organizational structure. We have identified specific cost reduction initiatives, including raw materials and supply management and improvements in maintenance planning which is expected to reduce repairs and maintenance costs, increase throughput and reduce electrical and mechanical delays. These cost reduction initiatives, along with strategic capital spending, are essential to achieving long-term viability. There can be no assurance that cost reduction initiatives will be successful or sufficient to sustain long-term viability.

***We may not be able to successfully implement our business strategy on a timely basis or at all***

Our future success depends, in part, on our ability to implement our growth strategy, including maximizing total shareholder returns while maintaining a conservative capital structure by focusing 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. Our ability to implement this business strategy depends, among other things, on our ability to: secure commitments or future orders from new and existing customers; realize higher margins on products that we produce; and maintain and enhance our relationships with customers.

***Changes in the availability and cost of raw materials, electricity and natural gas and the cost of such inputs relative to steel prices could adversely affect our business***

Our operations require substantial amounts of raw materials and energy, including coal, iron ore, coke, scrap, slab, natural gas, electricity and other inputs. If our suppliers increase the prices of our critical raw materials and energy or become unable to continue supplying them, or, for example, are no longer able to supply us as a result of mine closures, we may not have alternative sources of supply. In addition, to the extent that we have quoted prices to our customers and accepted customer orders for our products prior to purchasing necessary raw materials, we may be unable to raise the price of our products to cover all or part of the increased cost of the raw materials. Alternatively, we may be faced with having agreed to purchase raw materials and energy at prices that are above the then current market price or in greater volumes than required. For example, we have committed to purchasing all of our iron ore requirements from USS through 2021 up to a maximum amount. See “*Our Business — Recent Restructuring of Our Business — CCAA Restructuring and Acquisition by Bedrock — USS Arrangements — Pellet Sale and Purchase Contract*”.

The availability and prices of raw materials may also be negatively affected by new laws and regulations, allocation by suppliers, interruptions in production (including mining stoppages), accidents or natural disasters, changes in exchange rates, worldwide price fluctuations, and the availability and cost of transportation. If we are unable to obtain adequate and timely deliveries of our required raw materials, we may be unable to timely manufacture sufficient quantities of our products. In the event of an interruption of the supply of raw materials from our suppliers, alternative supply may not be available or may only be available at higher prices. This could cause us to lose sales, incur additional costs and suffer harm to our reputation.

Our steel mills are large consumers of electricity and natural gas. The prices for and availability of electricity and natural gas are subject to volatile market conditions. These market conditions often are affected by weather, political, regulatory and economic factors beyond our control, and we may be unable to raise the price of our products to cover increased energy costs. Disruptions in the supply of our energy requirements could impair our ability to manufacture our products for our customers. Increases in our energy costs resulting from regulations that are not equally applicable across the entire global steel market could materially adversely affect our business, results of operations, financial condition and cash flows.

Additionally, any future decreases in iron ore, natural gas and oil prices may place downward pressure on steel prices.

We also purchase certain raw materials in advance that are subject to long delivery times. If prior to the receipt of those raw materials there is a significant change in steel prices such that our input costs are at a level that lowers our margins on our products it could have a material adverse effect on our results of operations.

***Certain of our contracts that are important to our business contain provisions that allow the counterparty to terminate the contract upon a change of control or in a default scenario***

Various of our significant contracts that we rely on to run our business have change of control provisions (including the Pellet Sale and Purchase Contract) that if triggered, would trigger rights of third parties or government agencies under such contracts that could, among other things allow the third party to terminate such a contract. When we are a public company, we have no control over when or whether Bedrock Industries, our controlling shareholder, will sell its shares. If such a sale results in a change of control under the terms of those contracts or another transaction results in a change of control, such clauses could be triggered resulting in a termination of those contracts, which could have a material adverse effect on our business, financial condition and results of operations. In addition, the existence of such change of control clauses may discourage third parties from making a proposal as part of a significant corporate transaction, including a take-over bid or other going private transaction. Furthermore, if we or Bedrock breach any of the USS Agreements, USS may have the right to terminate all other USS Agreements (including the Pellet Sale and Purchase Contract). A termination of the Pellet Sale and Purchase Contract, whether as a result of change of control or otherwise, may have a material adverse effect on our business, results of operations, financial condition and cash flows.

***Our business could be harmed if we fail to maintain proper inventory levels***

We are required to maintain sufficient inventories to accommodate the needs of our customers including, in many cases, short lead times and just-in-time delivery requirements. We purchase raw materials on a regular basis in an effort to maintain our inventory at levels that we believe are sufficient to satisfy the anticipated needs of our customers based upon orders, customer volume expectations, historic buying practices and market conditions. Inventory levels in excess of customer demand may result in the use of higher-priced inventory to fill orders reflecting lower selling prices, if raw material prices have significantly decreased. These events could adversely affect our financial results. Conversely, if we underestimate demand for our products or if our suppliers fail to supply quality products in a timely manner, we may experience inventory shortages. Inventory shortages could result in unfilled orders, negatively impacting our customer relationships and resulting in lost revenues, which could harm our business and adversely affect our financial results. In addition, decreasing steel prices could also require us to write-down the value of our inventory to reflect current market pricing.

***Our facilities require continual capital investments that we may not be able to sustain and which may require an outage of certain of our facilities to complete***

We must make regular substantial capital investments in our facilities to maintain our steel production and finishing assets, lower production costs and remain competitive. Specifically, the LEW blast furnace was built in 1980 and is operating with its original hearth. We expect to make capital investments and incur maintenance expenses of \$65 to \$85 million or more in respect of the LEW blast furnace over the next three years, including a full reline scheduled to occur in 2020. In addition, we intend to proceed with repairs to the end flues of our LEW coke battery. It is anticipated that these repairs will begin next year and will be phased in over 5 years. We are in the process of finalizing the costing for this project and anticipate that the total cost will be approximately \$50 million. We cannot be certain that we will have sufficient internally generated cash or acceptable external financing to make necessary substantial capital expenditures in the future. The availability of external financing depends on many factors outside of our control, including capital market conditions and the overall performance of the economy. If funding is insufficient, we may be unable to continue to maintain or enhance our facilities, take advantage of business opportunities or respond to competitive pressures. Additionally, if our capital projects are not managed effectively, or are not allocated sufficient managerial resources, we may be unable to effectively manage the cost of construction, third-party contractors and the third-party consultants engaged in our capital projects. Furthermore, the maintenance and development of our facilities may require temporary production stoppages. A full reline of the LEW blast furnace requires an outage, or shut down, of the blast furnace for a period of time that could be weeks. Any such outage will result in lost production which will negatively impact sales and profits during such outage which we will attempt to mitigate with various advanced planning. If we are unsuccessful in mitigating such effects on sales and profits during such outage it could have a material adverse effect on our results from operations.

***Our operations are subject to scheduled maintenance, unplanned repairs or equipment outages and logistical disruptions***

Our manufacturing processes are dependent upon certain critical pieces of equipment, such as a blast furnace, steelmaking operations and rolling mills, which, on occasion, may be out of service due to routine scheduled maintenance or as a result of equipment failures. If replacement of certain critical parts is needed to address the equipment maintenance or failure, such critical parts may not be on hand and could take months to order. Our Company currently has a plan in place to address certain of these issues, however, no assurance can be given that all critical spare parts will be readily available. Such interruptions in our production capabilities could result in fluctuations in our sales and income. We do have a planned full reline of the LEW blast furnace scheduled to occur in 2020. See “— *Our facilities require continual capital investments that we may not be able to sustain and which may require an outage of certain of our facilities to complete*”. No assurance can be given that other significant shutdowns will not occur in the future or that such a shutdown will not have a material adverse effect on our business, financial condition, or results of operations or cash flows.

It is also possible that operations may be disrupted due to other unforeseen circumstances such as power outages, explosions, fires, floods, accidents and severe weather conditions. To the extent that lost production could not be compensated for at unaffected facilities and depending on the length of the outage, our sales and our unit production costs could be adversely affected. We are also exposed to similar risks involving major

customers and suppliers such as force majeure events of raw materials suppliers that have occurred and may occur in the future. Delivery of products to customers could be affected by logistical disruptions, such as shortages of barges, ocean vessels, rail cars or trucks, or unavailability of rail lines, highways or bodies of water.

***Our steelmaking facilities and other facilities are located on lands that we lease***

Our two main operating facilities, HW and LEW, are located on lands that we lease. As the lessee under a ground lease, we are exposed to the possibility of losing the leased property upon expiry, or an earlier breach by us, of the ground lease, which could result in the need to enter into a new lease at a higher rent or our inability to conduct business, any of which could have a material adverse effect on our business, financial condition, results of operations or cash flows. Pursuant to the Lease Agreements, if the lessee and the lessor are the same under both leases (which is the case today), then a default by us under one of the leases constitutes a default under the other one also, so we would be at risk of losing both facilities at the same time.

The Lease Agreements entitle us to possession of the HW Leased Premises and the LEW Leased Premises, respectively, for an initial term of 25 years, with the option to extend the term for two further periods of 10 years each and one further period of four years. However, because the term of the leases exceeds 21 years, we need to obtain consents under the Planning Act in order to sever the lands leased by us from the adjoining lands owned by the Land Vehicle and not leased by us and, until those consents have been obtained, the term of each of the Lease Agreements will be limited to 21 years less a day. See *“Our Business — Recent Restructuring of Our Business — CCAA Restructuring and Acquisition by Bedrock — Land Arrangements”*.

In order to operate, our HW and LEW facilities will also require the benefit of certain easements over and facilities that are located on the lands owned by the Land Vehicle that are not subject to the Lease Agreements. Those easements, rights and shared facilities will be set out in and governed by a reciprocal easement, operating, infrastructure and services agreement between us and the Land Vehicle. Although the principal terms of that agreement have been discussed with the Land Vehicle, the agreement itself has not been signed yet. If we are unable to finalize the agreement it could have a material adverse effect on our business.

The Lease Agreements only permit us to use the HW Leased Premises and the LEW Leased Premises for the fabrication, production, manufacturing, storage, sale and/or distribution of steel products and by-products from such activities and ancillary uses reasonably related thereto. This restricted use could impact our ability to assign a lease or sublease all or a portion of our facilities or the lands subject to the lease. Therefore, if we determine such an assignment or sublease is desirable, these permitted use restrictions could potentially limit the number of potential assignees or sublessors and the consideration that they may be willing to pay.

The assignment of the Water Lot Lease from us to the Land Vehicle and the sublease of the premises under the Water Lot Lease from the Land Vehicle to us pursuant to the LEW Lease Agreement required the consent of the Province of Ontario, which we are working on obtaining. If we do not obtain such consent, our access to the 1.2 kilometre dock on Lake Erie may be at risk.

Finally, our docks provide a convenient access point for receiving raw materials and shipping granular materials (and potentially shipping products in the future). However, the water surrounding the LEW dock is leased from the Province of Ontario, and the lease is subject to review by the provincial government before it can be renewed or extended. The current lease expires on December 31, 2025. There is no guarantee that the lease will be renewed or extended after such review. Failure to obtain an extension or approval could materially adversely affect our business, results of operations, financial condition and cash flows. See *“Our Business — Recent Restructuring of Our Business — CCAA Restructuring and Acquisition by Bedrock — Land Arrangements”*.

***Estimates of capital and operating costs may not reflect actual costs***

As a result of substantial expenditures involved in maintaining and/or improving our facilities, the need to project years into the future, the need to make assumptions and use models that may not adequately actual costs and conditions reality and the fluctuation of costs over time could cause variations between forecast and actual expenditures that are beyond management’s control. While we have an extensive history of operation, changing dynamics within the sector including but not limited to the cost of material, energy, labour and marketing means that forecast capital and operating costs may not reflect actual costs. If actual costs are significantly higher than our forecasted costs, that could have a material adverse effect on our business, financial condition, results of operations or cash flows.

***We have a history of cash flow volatility***

Steelmaking is a cyclical business with significant volatility in prices throughout the years. We have had a long and established history; however, we have also seen a high level of cash flow volatility with many years of negative cash flow. While some of the negative cash flow years have been a direct result of weak steel prices, we have also experienced years of negative cash flow in a rising steel price environment. There can be no assurance that we will operate profitably or provide a return on investment in the future.

***We may experience volatility in earnings due to financial reporting of cash-settled awards under our Long Term Incentive Plan***

Pursuant to the Long Term Incentive Plan, awards of SARs, RSUs and DSUs are settled in cash based on the fair market value of the Common Shares at the time of exercise or settlement, as applicable, of the award. Under IFRS, a liability is recognized for the services acquired and is recorded at the fair value of the SARs, RSUs or DSUs, as applicable, in other non-current liabilities, except for the current portion recorded in trade and other payables, with a corresponding expense recognized in selling, general and administration expenses over the period that the participants become unconditionally entitled to the payment under the awards. The fair value of the expense of the SARs is measured using the Black-Scholes pricing model, while the fair value of the RSUs and DSUs is measured based on the period end stock price. At the end of each reporting period until the liabilities are settled, the fair value of the liability is remeasured, with any changes in fair value recognized in the consolidated statement of earnings (loss) for the period. As a result, we may experience increased volatility in our reported earnings due to adjustments for changes in fair value of the awards outstanding under the Long Term Incentive Plan.

***We could incur significant cash expenses for temporary and potential permanent idling of facilities***

We perform strategic reviews of our business, which may include evaluating each of our plants and operating units to assess their viability and strategic benefits. As part of these reviews, we may idle, whether temporarily or permanently, certain of our existing facilities in order to reduce participation in markets where we determine that our returns are not acceptable. If we decide to permanently idle any facility or assets, we are likely to incur significant cash expenses, including those relating to labour benefit obligations, take-or-pay supply agreements and accelerated environmental remediation costs, as well as substantial non-cash charges for impairment of those assets. If we elect to permanently idle material facilities or assets, it could adversely affect our operations, financial results and cash flows. In the past, certain of our facilities have been idled as a result of poor profitability.

For any temporarily idled facilities, the Company may not be able to respond in an efficient manner when restarting these to fully realize the benefits from changing market conditions that are favourable to integrated steel producers. When we restart idled facilities, we incur certain costs to replenish raw material inventories, prepare the previously idled facilities for operation, perform the required repair and maintenance activities and prepare employees to return to work safely and resume production responsibilities. The amount of any such costs can be material, depending on a variety of factors, such as the period of time during which the facilities remained idle, necessary repairs and available employees, and is difficult to project.

***A large percentage of our sales volumes come from a limited number of large customers***

For the six month period ended June 30, 2017, the Company has derived approximately 69% of its revenue from its top five customers. If one or more of the larger customers of the Company were to cease doing business with the Company, or significantly reduced its business with the Company, the financial condition and results of operations of the Company could be materially adversely affected.

***The loss of significant volume from our key customers could adversely affect us***

A significant loss of, or decrease in, business from any of our key customers could have an adverse effect on our sales and financial results if we cannot obtain replacement business. Also, due to consolidation in the industries we serve, including the construction, automotive and steel service industries, our sales may be increasingly sensitive to deterioration in the financial condition of, or other adverse developments with respect

to, one or more of our top customers. In addition, certain of our top customers may be able to exert pricing and other influences on us, requiring us to produce, market, deliver and promote our products in a manner that may be more costly to us. We generally do not have long-term contracts with our customers. As a result, although our customers periodically provide indications of their product needs and purchases, they generally purchase our products on an order-by-order basis, and the relationship, as well as particular orders, can be terminated at any time.

***Changes in the automotive market could materially affect our financial condition and performance given our plan to increase our market share of the automotive market***

We currently sell to the automotive market primarily indirectly through steel service centers. However, we continue to focus on building relationships in and becoming a direct supplier of the automotive manufacturers. As we increase our market share of the automotive market, our sales will be increasingly affected by the performance of the automotive sector. Automotive production and sales are cyclical and sensitive to general economic conditions and other factors, including interest rates, consumer credit, and consumer spending and preferences. If automotive production and sales decline, our sales and shipments to the automotive market are likely to decline in a corresponding manner. Adverse impacts that we may sustain as a result include, without limitation, lower margins because of the need to sell our steel to less profitable customers and markets, higher fixed costs from lower steel production if we are unable to sell the same amount of steel to other customers and markets, and/or lower sales, shipments and margins generally as our competitors face similar challenges and compete vigorously in other markets. These adverse impacts would negatively affect our sales, financial results and cash flows. Moreover, competition for automotive business has intensified in recent periods, as steel producers and companies producing alternative materials have focused their efforts on capturing and/or expanding their market share of automotive business because of less favourable conditions in other markets for steel and other metals, including commodity products and steel for use in the oil and gas markets. As a result, the potential exists that we may not be able to increase our market share or that automotive manufacturers will take advantage of the intense competition among potential suppliers to pressure our pricing and margins in order to maintain or expand our market share with them, which could negatively affect our sales, financial results and cash flows. There is also a significant exposure of credit risk to the automotive industry and challenging economic conditions could result in financial difficulties in the customer base that could lead to bad debts.

***The closing or relocation of customer facilities could adversely affect us***

Our ability to meet delivery requirements and the overall cost of our products as delivered to customer facilities are important competitive factors. If customers close or move their production facilities further away from our manufacturing facilities which can supply them, it could have an adverse effect on our ability to meet competitive conditions, which could result in the loss of sales. Likewise, if customers move their production facilities outside North America, it could result in the loss of potential sales for us.

***Our products may not benefit from intellectual property protection and we must respect intellectual property rights of others***

Some information about Stelco's products including product chemistries and methods and processes of production are publically known. Thus, other mills could produce competitive products using such information. Other information related to products including product chemistries and methods and processes used to make them may be proprietary to third parties who may hold intellectual property rights such as patents or trade secrets therein. Our commercial success depends on our ability to operate without infringing the patents and other proprietary rights of third parties, and there can be no assurance that our operations, product chemistries and methods and processes of production do not or will not infringe the patents or proprietary rights of others. As a result, we may not be able to distinguish our products from competitors that use the same publically known chemistries, methods and processes that we use and if our competitors use their own proprietary intellectual property rights in their products that we do not have access to, such competitors may have an advantage over us which could have an adverse effect on our business. Also, Stelco has agreed with USS that it will not use USS proprietary information in its operations or make or sell certain grades of steel using any of the USS proprietary

information. While the Company intends to seek increased protection of its intellectual property, including registering the trademark for the use of its name in jurisdictions in which its products are sold outside of Canada, there is no assurance that it will be successful in obtaining registration.

***A change in our relationship with the other members of any of our joint ventures may have an adverse effect on that joint venture***

We have been successful in the development and operation of various joint ventures. We believe an important element in the success of any joint venture is a solid relationship between the members of that joint venture. If there is a change in ownership, a change of control, a change in management or management philosophy, a change in business strategy or another event with respect to a member of a joint venture that adversely impacts the relationship between the joint venture members, it could adversely impact that joint venture. In addition, joint ventures necessarily involve special risks. Whether or not we hold a majority interest or maintain operational control in a joint venture, our partners may have economic or business interests or goals that are inconsistent with our interests or goals. For example, our partners may exercise veto rights to block actions that we believe to be in our best interests, may take action contrary to our policies or objectives with respect to our investments, or may be unable or unwilling to fulfill their obligations or commitments to the joint venture.

***We are subject to legal proceedings and legal compliance risks***

We spend substantial resources ensuring that we comply with domestic and foreign laws and regulations, contractual obligations and other legal standards. Notwithstanding this, we are subject to a variety of legal proceedings and compliance risks in respect of various issues, including regulatory, safety, environmental, employment, transportation, intellectual property, contractual, import/export, international trade and governmental matters that arise in the course of our business and in our industry. A negative outcome in an unusual or significant legal proceeding or compliance investigation could adversely affect our financial condition and results of operations. While we believe that we have adopted appropriate risk management and compliance programs, the nature of our operations means that legal and compliance risks will continue to exist and additional legal proceedings and other contingencies, the outcome of which cannot be predicted with certainty, will arise from time to time. Notwithstanding the release from the Province of Ontario and agreement to not take any regulatory action against us for historical contamination in respect of the HW and LEW lands subject to certain exceptions and maintaining our monitoring obligations, we have no guaranteed protection from other parties in respect of historical claims. Any such successful claims could result in a material adverse effect on our financial position.

***Product Liability and Insurance***

The sale and use of the Company's products entail risk of product liability. The obligation to pay any product liability claim or a recall of a product could have a material adverse effect on the business, financial condition and future prospects of the Company. Although the Company currently has product liability insurance, which it believes to be adequate, it may require additional product liability insurance for certain of its products and customers. There can be no assurance that the Company will be able to obtain appropriate product liability insurance. An inability to obtain insurance on economically feasible terms or to otherwise protect against potential product liability claims could inhibit or prevent the commercialization of products developed by the Company.

***We are exposed to credit and business risks***

The Company is exposed to credit risk from its operating activities (primarily trade receivables in the event of non-payment by customers, principally within the container, construction, automotive and steel service center industries) 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. Changes in the industries in which the Company's customers operate 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. Customer credit risk is managed by the Company based on an established policy, procedures and controls relating to customer credit risk management. If a significant customer of the Company defaults on any payments that it owes to us and we have been able to properly mitigate against that exposure it could have a material adverse effect on our results of operations.

***Environmental compliance and remediation could result in substantially increased costs and materially adversely impact our competitive position***

We are subject to substantial and evolving environmental laws, regulations and other requirements relating to, among other things, emissions into the air, discharges to water or land, noise control, and the generation, handling, storage, transportation and disposal of hazardous substances. These laws, regulations and other requirements vary depending on the location of the facility and can fall within federal, provincial, or municipal jurisdictions. 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 the air emissions requirements. There is always the possibility, however, that unforeseen changes (such as in enforcement policies of relevant government bodies), or the discovery of circumstances (such as changed conditions on our real property or our operations), could result in an increase in the costs of environmental compliance that could result in a material adverse effect on our financial position or could materially affect the Company's operations, especially the ability to increase production.

Under Ontario's environmental requirements, we are subject to certain limits on the amount and degree of emissions that are emitted into the atmosphere at both LEW and HW. These limits are based on the total land area that our operations occupy and as such were set prior to the reduction of our land footprint resulting from the Lease Agreements (see "*Our Business — Recent Restructuring of Our Business — CCAA Restructuring and Acquisition by Bedrock — Land Arrangements*" above). These limits are currently based on a larger land area than we occupy today. Given our reduced land area footprint at both LEW and HW these limits may be reduced from current authorized levels. As a result, we may incur additional costs or be required to deploy mitigation measures or reduce our operations to ensure we comply with these revised limits. These costs may be significant and we may be required to modify our production processes to comply with these revised limits, which may have a material effect on our business and operations.

By way of an example of future costs to comply with environmental requirements, we currently estimate that it will cost us between \$40 million and \$50 million at each of LEW and HW coke ovens for a total \$80 million to \$100 million to comply a notice recently issued under subsection 56(1) of CEPA which requires us to prepare and implement pollution prevention plans in respect of specified toxic substances. See "*Our Business — Environmental, Health and Safety*". While currently we believe that these expected cost will not have a material adverse effect on our financial position, if our estimates are inaccurate or we discover additional changes or requirements that we are required to comply with the Notice, depending on the magnitude of such increased costs such increased costs could result in a material adverse effect on our financial position.

Our business is required to have environmental permits and approvals issued by governments. Any of these permits or approvals may be subject to denial, revocation or modification under various circumstances. Failure to obtain or comply with the conditions of permits or approvals may adversely affect our operations and may subject us to penalties. In addition, if environmental requirements are amended or are interpreted or enforced differently, or if new environmental requirements are enacted, we may be required to obtain additional operating permits or approvals, incur additional costs and our operations (including production) may be affected. There can be no assurance that we will be able to meet all applicable regulatory requirements or conduct our operations as we desire. In addition, we may be subject to fines, penalties or other liabilities arising from its actions imposed under environmental legislation or regulations. For example, construction and operation of new production facilities and modifications to existing facilities may require environmental permits and approvals from the appropriate regulatory agencies. Compliance with the environmental permitting and approval requirements may be costly and time consuming and could result in delays or other adverse impacts on planned projects, our results of operations and cash flows.

We could also incur material liability in connection with environmental contamination and stockpiled materials related to our past, present and future actions. We have tried to mitigate this exposure by obtaining the release from, and by entering into the Environmental Framework Agreement with, the Province of Ontario. Both the release and Environmental Framework Agreement impose obligations on Stelco Inc., including that it undertake any construction, maintenance or spill response that could impact such contamination or materials with due diligence and that Stelco Inc. not be negligent in its on-going operations. If Stelco Inc. does not fulfill its obligations or is not successful in establishing that certain contamination is historical in nature and therefore subject to the release in favour of Stelco Inc. pursuant to the Environmental Framework Agreement, it may be held liable by the MOECC to remediate or otherwise manage such contamination and materials at the HW and LEW lands. Such remediation and other work could result in material liability to Stelco Inc. See “*Our Business — Recent Restructuring of Our Business — CCAA Restructuring and Acquisition by Bedrock — Environmental Arrangements*”.

Notwithstanding, even if Stelco Inc. receives the intended benefit of the release and Environmental Framework Agreement with respect to historic contamination and stockpiled materials, we may still be subject to other significant environmental liabilities. For example, we may be subject to claims by other third parties (including neighbours or others affected by its contamination) as well as actions by regulators other than the Province of Ontario (such as, federal and municipal regulators). These claims and regulatory actions may relate to contamination that migrated from lands used by Stelco Inc. into other person’s lands, as well as into water (such as, Hamilton Harbour, where the approximately \$140 million Randle Reef Contaminated Sediment Remediation project is on-going, which was funded by, among others, Stelco Inc.). Also, the release and Environmental Framework Agreement only cover the HW and LEW lands and associated contaminant migration. As a result, we retain exposure for contamination in respect of any other formerly owned property. We could incur material liability related to remediating and otherwise managing contamination and stockpiled materials now or in the future which could have a material adverse effect on business and results of operation.

***Risks related to climate change and greenhouse gas (“GHG”) emissions could impose significant additional costs on both our steelmaking and metals recycling operations, as well as otherwise affect our operations***

The effects of climate change may adversely impact the operations of us, our suppliers and our customers, as well the transportation of the associated raw materials and products. In addition, government action to address climate change may, among other things, reduce the demand for our products. Although we have made efforts to mitigate the effects of climate change on our business, there can be no assurance that these efforts will be effective or that the effects of climate change will not adversely impact our operations.

The Province of Ontario has recently implemented a GHG emissions cap and trade regime that applies to us and puts a price on certain GHG emissions. Under this regime, we are required to have sufficient allowances to cover our GHG emissions during the applicable compliance period. For the first compliance period, we have been allocated a certain number of such allowances based on past production levels. If we do not have sufficient allowances, our options include modifying our operations (i.e., reducing our GHG emissions) and/or obtaining additional allowances, including by purchasing them from a person with surplus allowances or from the Ontario government’s periodic auctions of allowances. The first compliance period began on January 1, 2017 and will end on December 31, 2020, at which time, we will be required to have sufficient allowances to cover our GHG emissions during the compliance period. If a regulated person does not have sufficient allowances, such person is required to provide additional allowances in an amount equal to three times the shortfall of allowances and may otherwise be penalized. Estimating our costs to comply with this regime is currently uncertain due to the variables involved, including the quantity of our GHG emissions during the compliance period and assuming additional allowances are required, the cost to obtain them. With respect to future compliance periods, we do not know how many (if any) allowances will be allocated to us. Over time, we are likely to experience an increase in costs relating to our assets that emit significant amounts of GHGs as a result of this cap and trade regime, which will impact our operations directly and may also affect our suppliers or customers. While, at this point, we cannot definitively predict the effect of this regime on us, our financial condition, operations (including any plans to increase production) and ability to compete with companies outside of Ontario may be materially affected by this regime.

Further, any additional regulatory or other changes that are adopted in the future to address climate change and GHG emissions could negatively impact our ability (and that of our customers and suppliers) to compete with companies situated in areas not subject to such requirements.

***Some of our competitors may not face as much environmental regulation***

We believe that our major North American and many European integrated steel competitors are confronted with substantially similar environmental regulatory conditions and thus do not believe that our relative position with regard to such competitors will be materially affected by the impact of environmental laws and regulations. However, if future regulations do not recognize the fact that the integrated steel process involves a series of chemical reactions involving carbon that create GHG emissions without linking these emissions to steel scrap as well, our competitive position relative to mini-mills will be adversely impacted. Our competitive position compared to producers in developing nations such as China, Russia, Ukraine, Brazil and India, will be harmed unless such nations require commensurate reductions in GHG emissions. Competing materials such as plastics may not be similarly impacted. The specific impact on each competitor will vary depending on a number of factors, including the age and location of its operating facilities and its production methods. If such competitors face less or lower requirements than we do it may give such competitors an advantage in terms of pricing their products which could have a material adverse effect on our business, results or operations or financial results.

***Stelco is party to collective bargaining agreements. Labour difficulties, additional collective agreements and the loss of or inability to hire key employees may adversely affect our ability to successfully manage our operations and meet our strategic objectives***

Stelco is party to three collective bargaining agreements with trade unions representing approximately 75% of the Company's employees. The collective bargaining agreements were renewed and amended on June 30, 2017 to reflect a new five-year term, and the new pension and OPEBs arrangements between our Company and our employees. We believe we have a positive and constructive relationship with our labour unions, however, no assurance can be given that labour difficulties will not result in a significant loss of production and revenue and have a material adverse effect on our business, financial condition or results of operations. Furthermore, if certain of our salaried employees that are not currently covered by collective agreements decide to organize themselves as a bargaining unit and we enter into new collective agreements with them that could increase our labour cost.

Our future success depends, in large part, on the continued service of our officers and other key employees and our ability to continue to attract and retain additional highly qualified personnel. These employees are integral to our success based on their expertise and knowledge of our business and products. We compete for such personnel with other companies, including public and private company competitors who may periodically offer more favourable terms of employment. The loss or interruption of the services of a number of our key employees could reduce our ability to effectively manage our operations due to the fact that we may not be able to find appropriate replacement personnel in a timely manner should the need arise.

The operation of steelmaking facilities and production of steel take a high level of expertise and experience that may not always be readily available in the market or at costs that we are capable of incurring while remaining profitable. Our failure to recruit and retain personnel with the experience and knowledge required to operate our facilities may have a material adverse impact on our business, financial condition, results of operations and cash flows.

***Our operating results depend in part on continued successful research, development and marketing of new and/or improved products and services, and there can be no assurance that we will continue to successfully introduce new products and services***

The success of new and improved products and services depends on their initial and continued acceptance by our customers. Our business is affected, to varying degrees, by technological change and corresponding shifts in customer demand, which could result in unpredictable product transitions or shortened life cycles. We may experience difficulties or delays in the research, development, production, or marketing of new products and

services that may prevent us from recouping or realizing a return on the investments required to bring new products and services to market.

New technologies in the steel industry may: (a) improve cost competitiveness; (b) increase production capabilities; or (c) improve operational efficiency compared to our current production methods. However, we may not have sufficient capital to invest in such technologies or to make certain capital improvements, and may, from time to time, incur cost over-runs and difficulties adapting and fully integrating these technologies or capital improvements into our existing operations. We may also encounter control or production restrictions, or not realize the cost benefit from such capital-intensive technology adaptations or capital improvements to our current production processes. Customers continue to demand stronger and lighter products, among other adaptations to traditional products. We may not be successful in meeting these technological challenges and there may be increased liability exposure connected with the supply of additional products and services or an adverse impact to our results of operations and profitability.

***All of our manufacturing facilities are located in Hamilton and Nanticoke, Ontario, which increases the risk of a significant disruption to our business as a result of unforeseeable developments in this geographic area.***

It is possible that we could experience prolonged periods of reduced production due to unforeseen catastrophic events occurring in or around manufacturing facilities in Hamilton and Nanticoke, Ontario. As a result, we may be unable to shift manufacturing capabilities to alternate locations, accept materials from suppliers, meet customer shipment deadlines or address other significant issues, any of which could have a material adverse effect on our business, financial condition or results of operations.

We may not be able to successfully implement our business strategy and reach our revenue and profitability improvement targets. We may need to change our strategy. If we fail to implement our business strategy or if we invest resources in a growth strategy that ultimately proves unsuccessful, our business, financial condition and results of operations may be materially adversely affected.

***Bedrock or its affiliates will continue to have significant influence over us after the Closing of the Offering***

Bedrock, or its affiliates, will continue to have significant influence over us after the Closing of the Offering, including control over decisions that require the approval of Shareholders, which could limit your ability to influence the outcome of matters submitted to Shareholders for a vote.

We are currently controlled, and after the Offering is completed will continue to be controlled, by Bedrock. See “*Principal Shareholder*”. Upon Closing of the Offering, based on the midpoint of the estimated price range set forth on the cover page of this prospectus, Bedrock will have an approximate 86.5% interest in our Company through ownership of, or control or direction over, 75,283,887 Common Shares. If the Over-Allotment Option is exercised in full, Bedrock will have an approximate 84.8% interest in our Company through ownership of, or control or direction over, 75,283,887 Common Shares. As a result, Bedrock will have significant influence over us and our affairs. As long as Bedrock owns or controls at least a majority of our outstanding Common Shares, it will have the ability to exercise substantial control over all corporate actions requiring Shareholder approval, irrespective of how our other Shareholders may vote, including the election and removal of directors and the size of our Board, any amendment of our articles, or the approval of any significant corporate transaction. Even if such ownership falls below 50% of the Common Shares, Bedrock will continue to be able to strongly influence or effectively control our decisions.

Bedrock also has certain governance and other rights pursuant to the Investor Rights Agreement that will enable it to exert certain control or influence over us. See “*Agreements with Principal Shareholder — Investor Rights Agreement*”.

Additionally, Bedrock’s interests may not align with the interests of our other Shareholders. Bedrock is in the business of making investments in companies and may acquire and hold interests in businesses that compete directly or indirectly with us. Bedrock may also pursue acquisition opportunities that may be complementary to our business, and, as a result, those acquisition opportunities may not be available to us.

Bedrock’s shareholding may reduce the likelihood of transactions involving a change of control of the Company, including transactions in which an investor as a holder of the Common Shares might otherwise receive a premium for its Common Shares over the then-current market price.

Alan Kestenbaum and David Cheney will not spend their full business time on Stelco matters and, despite Stelco paying management fees pursuant to the Management Services Agreement for their salaries, could spend part of their business time pursuing other Bedrock business that competes directly or indirectly with us. In addition to his other obligations at Bedrock, Mr. Kestenbaum is a consultant for his former employer Ferroglöbe PLC.

***We are contractually required to make certain payments to various pension and OPEB trusts and establish new pension plans***

Our funding obligations with respect to the Main Pension Plans are limited to the contributions contemplated in the Plan, the Special Regulation, the Pension Agreement and related agreements. See “*Our Business — Recent Restructuring of Our Business — CCAA Restructuring and Acquisition by Bedrock — Pension Arrangements*”. However, in accordance with the Pension Agreement, our Company is required to establish the New Pension Plans effective January 1, 2018, which are defined benefit pension plans. Contribution to the New Pension Plans are fixed from January 1, 2018 to December 31, 2027; however, by no later than January 1, 2028, our Company will be required to fund the New Pension Plans in accordance with the general funding regime under the Pension Act, including any solvency funding obligations; actual amounts will depend on investment returns, changes in benefits and actuarial assumptions and may include additional voluntary contributions from time to time. Such changes could increase our cost for those obligations, which could have an adverse effect on our results and ability to meet those obligations.

***Potential use of derivative contracts to hedge commodity pricing volatility could adversely affect our financial results and cash flows***

In the future, we may consider using cash-settled commodity price swaps and options to reduce pricing volatility for a portion of our raw material, energy and other commodity purchases. We intend to employ a systematic approach in order to mitigate the risk of potential volatile price movements of certain commodities. However, engaging in the use of swaps, options and similar agreements for hedging entails a variety of risks. For example, if the price of an underlying commodity falls below the price at which we hedged the commodity, we will benefit from the lower market price for the commodity purchased, but may not realize the full benefit of the lower commodity price because of the hedged transaction. In certain circumstances we also could be required to provide collateral for a potential derivative liability or close our hedging transaction for the commodity. Additionally, there may be a timing lag between a decline in the price of a commodity underlying a derivative contract, which could require us to make payments in the short-term to provide collateral or settle the relevant hedging transaction, and the period when we experience the benefits of the lower cost input through physical purchases of the commodity the hedge covers. Each of these risks related to our hedging transactions could adversely affect our financial results and cash flows.

***Future acquisitions may require significant expenditures or dilution and may result in inadequate returns and may involve risks to our business***

We may seek to expand through future acquisitions; however, there can be no assurance that we will be able to identify attractive acquisition targets, or that we will be able to acquire such targets on economically acceptable terms, if at all, or that we will not be restricted from completing acquisitions pursuant to the terms and conditions from time to time of arrangements with third parties, such as our creditors. Future acquisitions may require us to expend significant amounts of cash, resulting in our inability to use these funds for other business or may involve significant issuances of equity. Future acquisitions may also require substantial management time commitments, and the negotiation of potential acquisitions and the integration of acquired operations could disrupt our business by diverting management and employee’s attention away from day-to-day operations. Future acquisitions also involve a high level of potential risks, including but not limited to (i) incorrect assumptions and expectations of the target’s operations, (ii) inability to successfully integrate any operation we acquire, (iii) inability to recruit, hire, retain, train or retrain qualified personnel to manage such acquired operations, (iv) assumption of unknown liabilities; (v) incorrect assumptions about the overall cost of equity or debt; (vi) unforeseen operational challenges of the acquired operations; (vii) potential significant additional capital expenditures and operating expenses to improve, coordinate or integrate managerial, operational, financial and administrative systems; (viii) an adverse impact on our earnings from non-recurring

acquisition-related charges or the write-off or amortization of acquired goodwill and other intangible assets; and (ix) the loss of key personnel and relationships at the acquired operations. While it is our practice to conduct extensive due diligence investigations into businesses being acquired, it is possible that due diligence may fail to uncover all material risks in the business being acquired, or to identify a change of control trigger in a material contract or authorization, or that a contractual counterparty or government agency may take a different view on the interpretation of such a provision to that taken by us, thereby resulting in a dispute.

***We may experience difficulties with our internal systems and controls during periods of growth***

As a result of acquisitions and growth of our business, there may be significant demands that are placed on the Company's managerial, operational and financial resources, including its personnel and systems. In particular, there may be demands on our operational and accounting information systems and controls and other accounting systems resulting from growth in our operations. No assurance can be given that our systems, procedures and controls will be adequate to support the expansion of our operations resulting from growth. While we take action to maintain internal systems and controls, future operating results could be affected by the ability of our officers and key employees to manage changing business conditions, expansion opportunities and acquisitions, and to upgrade, implement and/or improve operational and financial controls and reporting systems.

***We are subject to foreign currency risks, which may negatively impact our profitability and cash flows***

We are a purchaser of U.S. dollars. Accordingly, any strengthening of the Canadian dollar results in a benefit to us for our net purchases of U.S. funds. However, more than offsetting the above is the negative effect on our domestic sales revenue as many of our domestic customers export their products into the U.S. Thus, a stronger Canadian dollar can cause those customers to be less competitive in the U.S. and the customers may resist price increases or request steel price reductions from us. Also, United States exports of steel into Canada have historically forced domestic steel prices in Canadian dollars downward. In addition, the North American benchmark for spot market prices for certain products, such as hot-rolled, are established and determined in U.S. dollars.

***We are subject to insurance related risks which could have an adverse effect on our business***

To date, we have been able to obtain liability insurance for the operation of our business. However, there can be no assurance that our existing liability insurance will be adequate or that insurance proceeds will be timely paid to us. In addition, there are types of losses we may incur but against which it cannot be insured or which we believe are not economically reasonable to insure, such as losses due to acts of war or certain natural disasters. If we incur these losses and they are material, our business, operating results and financial condition may be adversely affected. Also, certain material events may result in sizable losses for the insurance industry and materially adversely impact the availability of adequate insurance coverage or result in significant premium increases. Accordingly, we may elect to self-insure, accept higher deductibles or reduce the amount of coverage in response to such market changes.

Furthermore, events such as well failures, line pipe leaks, blowouts, bursts, fires and product recalls could result in claims that our products or services were defective and caused death, personal injury, property damage or environmental pollution. The insurance we maintain may not be adequate, available to protect us in the event of a claim, or its coverage may be limited, canceled or otherwise terminated, or the amount of our insurance may be less than the related impact on our enterprise value after a loss.

***A material disruption in or security breach affecting our information technology systems could affect our business and lead to reduced revenue, growth prospects and reputational damage***

Our business operations are managed through a variety of information technology systems. While our systems are designed to operate without interruption, we may in the future experience, interruptions to the availability of our computer systems from time to time. The failure of our computer systems to operate effectively, keep pace with our growing capacity requirements, smoothly transition to upgraded or replacement systems or integrate with new systems could adversely affect our business. In addition, our computer systems are subject to damage or interruption from power outages, computer and telecommunications failures, computer

viruses, cyber-attacks, denial-of-service attacks, security breaches, catastrophic events such as fires, floods, earthquakes, tornadoes, hurricanes, acts of war or terrorism, and usage errors by our employees. If our computer systems are damaged or cease to function properly, we may have to make an investment to fix or replace them, and we may suffer loss of critical data, compromise to the integrity or confidentiality of customer and employee information in our systems or networks, disruption to the systems or networks of third parties on which we rely, and interruptions or delays in our operations. A lack of relevant and reliable information that enables management to effectively manage our business could preclude us from optimizing our overall performance. Any significant loss of data or failure to maintain reliable data could have an adverse effect on our business and results of operations. Any such disruption could increase our costs, diminish our growth prospects, expose us to litigation, decrease customer confidence and damage our brand, and a material interruption to any of our computer systems could adversely affect our business or results of operations and our reputation.

Increasingly sophisticated attacks against rapidly evolving computer technologies pose a risk to the security of our systems, networks and data. Despite efforts to protect confidential business information, personal data of employees and the control systems of manufacturing plants, Stelco systems and those of our third-party service providers may be subject to system breaches. System breaches can lead to disclosure, modification and destruction of proprietary business data, personally identifiable information, other sensitive information, defective products, production downtime and damage to production assets with a resulting impact to our reputation, competitiveness and operations. In addition, sophisticated hardware and operating system software and applications that we buy or license from third parties may contain defects in design or manufacture, including “bugs” and other problems that could unexpectedly interfere with the security and operation of the systems. The costs to us to eliminate or alleviate security problems, viruses and bugs could be significant, and efforts to address these problems could result in interruptions, delays or cessation of service that may impede distribution or other critical functions.

As a result, we may have to modify our business systems and practices with the goal of further improving data security, which would result in increased expenditures and operating complexity. Any compromise of our security or accidental loss or theft of customer data in our possession could result in a violation of applicable privacy and other laws, significant legal and financial exposure and damage to our reputation, which could adversely impact our business and results of operations.

#### ***Uncertainties relating to the USS Transition Services Agreements***

We entered into the Transition Services Agreements with USS on June 30, 2017, which provided that USS would continue to provide certain services to us after the Completion Date, including IT services necessary to maintain our Company’s status quo operations in respect of the IT systems. Any default by USS prior to the expiry of the Transition Services Agreements could jeopardize our successful transition and could adversely impact our business and results of operations. In addition, the Transition Services Agreements are terminable by USS in the event of a breach by Stelco or Bedrock Industries of the terms of certain other agreements with USS. If an uncured breach of an agreement with USS occurred and USS terminated one or more of the Transition Services Agreements, it could materially adversely affect our business, results of operations, financial condition and cash flows. See “*Our Business — Recent Restructuring of Our Business — CCAA Restructuring and Acquisition by Bedrock — USS Arrangements — Transition Services Agreements*”.

#### ***Risks related to the migration of information technology systems currently provided to us under certain of the Transition Services Agreements***

The Company will be required to, among other things, establish a stand-alone information technology system prior to the expiry of the Transition Services Agreements with USS. Completing the information technology systems integration upon the expiry of the Transition Services Agreements will require the dedication of management effort, time and resources, which may divert management’s focus and resources away from operational matters and strategic opportunities. The integration process may result in the disruption of ongoing business and customer relationships that may materially adversely affect our operational and financial results. The estimated cost of the information technology systems integration is \$75 million and the scheduled completion of this project is by December, 2018.

Failure to successfully migrate the necessary information technology from USS' systems to a stand-alone system for the Company, or a significant disruption in the information technology systems during the decoupling of the USS system, could result in a lack of data and processes to enable management to effectively manage day-to-day operations of the Company or achieve its operational objectives, causing significant disruptions to the Company and may materially adversely affect our operational and financial results.

***Changes to global data privacy laws and cross-border transfer requirements could adversely affect our business and operations.***

Our business depends on the transfer of data between our affiliated entities, to and from our business partners, and with third-party service providers, which may be subject to global data privacy laws and cross-border transfer restrictions. While we take steps to comply with these legal requirements, the volatility and changes to the applicability of those laws may impact our ability to effectively transfer data across borders in support of our business operations.

***We rely primarily on third parties for transportation of the products we manufacture as well as delivery of our raw materials***

Our business depends on the transportation of a large number of products, both domestically and internationally. We rely primarily on third parties for transportation of the products we manufacture as well as delivery of our raw materials. Any increase in the cost of the transportation of our raw materials or products, as a result of increases in fuel or labour costs, higher demand for logistics services, consolidation in the transportation industry or otherwise, may adversely affect our results of operations as we may not be able to pass such cost increases onto our customers. If any of these providers were to fail to deliver raw materials to us in a timely manner, we may be unable to manufacture and deliver our products in response to customer demand. In addition, if any of these third parties were to cease operations or cease doing business with us, we may be unable to replace them at a reasonable cost. In addition, such failure of a third-party transportation provider could harm our reputation, negatively affect our customer relationships and have a material adverse effect on our financial position and results of operations.

***Some of our operations present significant risk of injury or death***

The industrial activities conducted at certain of our facilities present significant risk of serious injury or death to our employees, customers or other visitors to our operations, notwithstanding our safety precautions, including our material compliance with federal and provincial employee health and safety regulations, we may be unable to avoid material liabilities for injuries or deaths. We maintain workers' compensation insurance to address the risk of incurring material liabilities for injuries or deaths, but there can be no assurance that the insurance coverage will be adequate or will continue to be available on the terms acceptable to us, or at all, which could result in material liabilities to us for any injuries or deaths.

***Covenants contained in the ABL Credit Agreement affect and, in some cases, significantly limit or prohibit the manner in which we operate our business and pay dividends***

The ABL Credit Agreement contains certain covenants which affect and, in some cases, significantly limit, among other things, the activities in which we may engage, our ability to incur debt, grant a security interest in our assets, engage in lines of business different from our own and pay dividends or make other distributions.

A failure to comply with such contractual obligations or to pay amounts due under the ABL Credit Agreement could result in an acceleration of the debt incurred under such agreement, a termination of the commitments made thereunder, as well as an exercise of remedies provided therein by our creditors. In such a situation, we may not be able to repay the accelerated indebtedness, fulfill our obligations under certain contracts or otherwise cover our fixed costs, which could result in a material adverse effect on our business, results of operations or financial condition.

In addition, under the terms of the ABL Credit Agreement, there are restrictions on our ability to pay dividends unless we meet certain financial tests which may delay or postpone our ability to implement a dividend in the future unless we are able to negotiate an amendment to those restrictions. See “—No Dividends” and “Description of Material Indebtedness — The ABL Credit Agreement”.

***Any adverse change in our access to capital or the terms of our borrowings could have a negative impact on our financial condition***

Should we be required to raise capital in the future, we could face higher borrowing costs, less available capital, more stringent terms and lighter covenants or, in extreme conditions, an inability to raise capital. Although we currently have significant borrowing availability under our existing credit facilities and should be able to access other capital if needed, should those facilities become unavailable due to covenant or other defaults, or should financial results tighten so that we otherwise cannot raise capital outside our existing facilities, or the terms under which we do so change, we may be negatively impacted. Any adverse change in our access to capital or the terms of our borrowings, including increased costs, could have a negative impact on our financial condition.

***We will incur increased expenses as a result of being a public company***

We will incur significant legal, accounting, insurance and other expenses as a result of being a public company, which may negatively impact our performance and could cause our results of operations and financial condition to suffer. Compliance with applicable securities laws in Canada and the rules of the TSX substantially increases our expenses, including our legal and accounting costs, and make some activities more time-consuming and costly. Reporting obligations as a public company and our anticipated growth may place a strain on our financial and management systems, processes and controls, as well as on our personnel.

We also expect these laws, rules and regulations to make it more expensive for us to obtain director and officer liability insurance, and we may be required to accept reduced policy limits and coverage or incur substantially higher costs to obtain the same or similar coverage. As a result, it may be more difficult for us to attract and retain qualified persons to serve on our Board or as officers. As a result of the foregoing, we expect a substantial increase in legal, accounting, insurance and certain other expenses in the future, which will negatively impact our financial performance and could cause our results of operations and financial condition to suffer.

***We may not use the proceeds as described in this prospectus***

We currently intend to use the Net Proceeds of the Offering as described under “*Use of Proceeds*”. However, the Board and/or management will have discretion in the actual application of the net proceeds, and may elect to allocate net proceeds differently from that described under “*Use of Proceeds*” if they believe it would be in Stelco’s best interests to do so. Shareholders may not agree with the manner in which the Board and/or management chooses to allocate and spend the net proceeds. The failure by the Board and/or management to apply these funds effectively could have a material adverse effect on our business, financial condition, results of operations, cash flows. Additionally, we may not be successful in implementing our business strategies, and our actual capital expenditures and capital expenditure requirements may be materially different from forecasted expenditures described in this prospectus.

***We are dependent on our operating subsidiary***

Prior to Closing, Stelco Inc. will become a wholly-owned subsidiary of the Issuer. As a holding company, we have no business operations of our own or material assets other than the shares of Stelco Inc. Accordingly, all of our operations are conducted by Stelco Inc. and its subsidiaries. As a holding company, we require dividends and other payments from our subsidiaries to meet cash requirements. The ability of these entities to pay dividends and other distributions will depend on their operating results and will be subject to applicable laws and regulations which require that solvency and capital standards be maintained by such companies and contractual restrictions contained in the instruments governing their debt. The terms of the ABL Credit Agreement contain restrictions on the ability of the subsidiaries to pay dividends and otherwise transfer to us cash or other assets in certain circumstances. As such, a decline in our business, financial condition, cash flows or results of operation may result in, pursuant to the terms of the ABL Credit Agreement, restrictions on the subsidiaries ability to pay dividends or otherwise distribute cash to us. In such event, we may be unable to pay a dividend to holders of Common Shares to the extent we initiate a dividend to such holders of Common Shares.

We currently have no obligations that require cash funding from our subsidiaries. If there is an insolvency, liquidation or other reorganization of any of our subsidiaries, shareholders likely will have no right to proceed

against the assets of those subsidiaries. Claims of any creditors of any of our operating subsidiaries generally will have priority as to the assets of such subsidiary over our claims and claims of our creditors and shareholders.

***Natural disasters, unusually adverse weather, pandemic outbreaks, boycotts and geo-political events could materially adversely affect our business, results of operations or financial condition***

The occurrence of one or more natural disasters, such as hurricanes and earthquakes, unusually adverse weather, pandemic outbreaks, boycotts and geo-political events, such as civil unrest and acts of terrorism, or similar disruptions could materially adversely affect our business, results of operations or financial condition. These events could result in physical damage to one or more of our properties, increases in fuel or other energy prices, temporary or permanent closure of one or more of our facilities, labour shortages, temporary or long-term disruption in the supply of raw materials and other inputs, temporary disruption in transport to and from overseas markets, disruption in our distribution network or disruption to our information systems, any of which could have a material adverse effect on our business, results of operations or financial results.

***Parties with whom we do business may be subject to insolvency risks or may otherwise become unable or unwilling to perform their obligations to us***

We are a party to business relationships, transactions and contracts with various third parties, pursuant to which such third parties have performance, payment and other obligations to us. If any of these third parties were to become subject to bankruptcy, receivership or similar proceedings, our rights and benefits in relation to our business relationships, contracts and transactions with such third parties could be terminated, modified in a manner adverse to us, or otherwise impaired. We cannot make any assurances that we would be able to arrange for alternate or replacement business relationships, transactions or contracts on terms as favourable as our existing business relationships, transactions or contracts if at all. Any inability on our part to do so could have a material adverse effect on our business and results of operations.

***There are risks related to forward-looking information in this prospectus***

The forward-looking information included in this prospectus relating to, among other things, our future results, performance, achievements, prospects, intentions or opportunities or the markets in which we operate (including, in particular, the information contained in “Prospectus Summary”, “Our Business”, “Our Competitive Strengths”, “Our Industry”, “Management’s Discussion and Analysis of Financial Condition and Results of Operations of Stelco Holdings Inc.”, “Management’s Discussion and Analysis of Financial Condition and Results of Operations of Stelco Inc.”, “Principal Shareholder”, “Remuneration of Directors”, “Use of Proceeds”, “Selected Summary Financial Information”, “Dividend Policy”, “Directors and Management of our Company”, “Executive Compensation” and this section, “Risk Factors”) is based on opinions, assumptions and estimates made by our management in light of our experience and perception of historical trends, current conditions and expected future developments, as well as other factors that we believe are appropriate and reasonable in the circumstances. However, there can be no assurance that such estimates and assumptions will prove to be correct. Our actual results in the future may vary significantly from the historical and estimated results and those variations may be material. We make no representation that our actual results in the future will be the same, in whole or in part, as those included in this prospectus. See “Forward-Looking Information”.

***Changes in accounting standards and subjective assumptions, estimates and judgments by management related to complex accounting matters could significantly affect our reported financial results or financial condition***

IFRS and related accounting pronouncements, implementation guidelines and interpretations with regard to a wide range of matters that are relevant to our business, including but not limited to revenue recognition, impairment of goodwill and intangible assets, inventory, income taxes and litigation, are highly complex and involve many subjective assumptions, estimates and judgments. Changes in these rules or their interpretation or changes in underlying assumptions, estimates or judgments could significantly change our reported financial performance or financial condition in accordance with IFRS.

### ***Tax increases and changes in tax laws and regulations could adversely affect our financial results***

We may be subject to assessments for additional taxes, including sales taxes, which could reduce our operating results. In computing our tax obligations in the jurisdictions in which we operate, we are required to take various tax accounting and reporting positions on matters that are not entirely free from doubt and for which we have not received rulings from the governing authorities. It is possible that some taxing jurisdictions may attempt to assess additional taxes and penalties on us if the applicable authorities do not agree with our positions. A successful challenge by a tax authority, through asserting either an error in our calculation, or a change in the application of law or an interpretation of the law that differs from ours, could adversely affect the results of operations.

### ***The Company is dependent on a relatively small number of key personnel***

The Company is dependent on a relatively small number of key personnel, including but not limited to our Directors and executive officers. See “—*Directors and Management of our Company*”. The competition for qualified personnel in the steel industry is intense and there can be no assurance that the Company will be able to attract and retain all personnel necessary for the development and operation of its business. The loss of the services of one or more of the Company’s key personnel could disrupt the Company’s operations and could have a negative impact on our financial condition.

### ***Non-Competition and Non-Solicitation Restrictions applicable to Sujit Sanyal***

In connection with Mr. Sanyal’s departure from AMLP, he entered into certain non-competition, non-solicitation and confidentiality covenants whereby he agreed not to compete in certain businesses associated with the manufacturing and marketing of long products (steel bar, wire rods and rails). While Stelco Inc. does not produce any long products, AMLP may take a different view and seek to enjoin Mr. Sanyal from performing services for Stelco Inc. pending a resolution of the enforceability of such non-competition and non-solicitation covenants. The Company and Mr. Sanyal have been notified by AMLP that it is evaluating whether the terms of Mr. Sanyal’s non-competition, non-solicitation and confidentiality covenants have been violated in connection with his employment with Stelco Inc. A successful claim by AMLP could impact the ability of Mr. Sanyal to carry out his duties as Chief Operation Officer and could adversely affect our business and operations.

### ***We are undertaking a reorganization immediately prior to Closing to facilitate our initial public offering which may affect certain of our contracts***

Immediately prior to Closing we are undertaking a reorganization to facilitate the Offering. We believe that such corporate reorganization will be affected in such a manner as to not trigger any provisions of our significant contracts that would cause negative implications on our Company including any termination rights under such contracts on a change of control as we are of the view that the reorganization and the Offering is not a change of control as such term is defined in the applicable contracts. Contractual counter parties may take a different view on the interpretations of such contractual terms to that taken by us, thereby resulting in a dispute which could have a material adverse effect on our business, financial position or results from operations.

## **Risk Factors Related to the Offering and our Common Shares**

### ***Potential volatility of Common Share price***

The market price of our Common Shares could be subject to significant fluctuations after the Offering, and it may decline below the Offering Price. Some of the factors that may cause the market price of our Common Shares to fluctuate include:

- volatility in the market price and trading volume of comparable companies;
- actual or anticipated changes or fluctuations in our operating results or in the expectations of market analysts;
- adverse market reaction to any indebtedness we may incur or securities we may issue in the future;
- short sales, hedging and other derivative transactions in our Common Shares;

- litigation or regulatory action against us;
- investors' general perception of us and the public's reaction to our press releases, our other public announcements and our filings with Canadian securities regulators, including our financial statements;
- publication of research reports or news stories about us, our competitors or our industry;
- positive or negative recommendations or withdrawal of research coverage by securities analysts;
- changes in general political, economic, industry and market conditions and trends;
- sales of our Common Shares by existing Shareholders;
- recruitment or departure of key personnel;
- significant acquisitions or business combinations, strategic partnerships, joint ventures or capital commitments by or involving us or our competitors; and
- the other risk factors described in this section of this prospectus.

Additionally, these factors, as well as other related factors, may cause decreases in asset values that are deemed to be other than temporary, which may result in impairment losses. As well, certain institutional investors may base their investment decisions on consideration of our environmental, governance and social practices and performance against such institutions' respective investment guidelines and criteria, and failure to satisfy such criteria may result in limited or no investment in the Common Shares by those institutions, which could materially adversely affect the trading price of the Common Shares. There can be no assurance that fluctuations in price and volume will not occur. If such increased levels of volatility and market turmoil continue for a protracted period of time, our operations and the trading price of the Common Shares may be materially adversely effected.

In addition, broad market and industry factors may harm the market price of our Common Shares. Hence, the price of our Common Shares could fluctuate based upon factors that have little or nothing to do with us, and these fluctuations could materially reduce the price of our Common Shares regardless of our operating performance. In the past, following a significant decline in the market price of a company's securities, there have been instances of securities class action litigation having been instituted against that company. If we were involved in any similar litigation, we could incur substantial costs, our management's attention and resources could be diverted and it could harm our business, operating results and financial condition.

### ***Dilution***

Sales of a substantial number of our Common Shares in the public market, or the market perception that the holders of a large number of Common Shares intend to sell Common Shares, particularly sales by our directors, executive officers or significant shareholders, could significantly reduce the market price of our Common Shares and the market price could decline below the Offering Price. We cannot predict the effect, if any, that future public sales of these securities or the availability of these securities for sale will have on the market price of our Common Shares. If the market price of our Common Shares was to drop as a result, this might impede our ability to raise additional capital and might cause remaining Shareholders to lose all or part of their investments.

Further, we cannot predict the size of future issuances of our Common Shares or the effect, if any, that future issuances and sales of our Common Shares will have on the market price of our Common Shares. Sales of substantial amounts of our Common Shares, or the perception that such sales could occur, may adversely affect prevailing market prices for our Common Shares.

### ***Future sales of Common Shares by our directors, executive officers and significant shareholders***

Subject to compliance with applicable securities laws and compliance with the lock-up arrangements described under "*Plan of Distribution*", the Company's directors, officers, significant shareholders (including Bedrock Industries) or their affiliates may sell some or all of their Common Shares in the future. In addition, the Joint Bookrunners, on behalf of the Underwriters, may, in their sole discretion, release all or some portion of the securities subject to lock-up agreements at any time and for any reason. No prediction can be made as to the

effect, if any, such future sales of Common Shares will have on the market price of the Common Shares prevailing from time to time. However, the future sale of a substantial number of Common Shares by the Company's directors, officers, significant shareholders (including Bedrock Industries) or their affiliates, or the perception that such sales or early release of the lock-up agreements could occur, could adversely affect prevailing market prices for the Common Shares or make it more difficult for you to sell your Common Shares at a time and price that you deem appropriate.

#### ***Absence of a prior public market***

There is currently no market through which our Common Shares may be sold and, if a market for our Common Shares does not develop or is not sustained, you may not be able to resell your Common Shares purchased in the Offering. This may affect the pricing of the Common Shares in the secondary market, the transparency and availability of trading prices, the liquidity of the Common Shares and the extent of issuer regulation. The Offering Price of our Common Shares was determined through negotiations between us and the Underwriters. The Offering Price may not be indicative of the market price of our Common Shares after the Offering. In the absence of an active trading market for our Common Shares, investors may have difficulty selling their Common Shares. We cannot predict the prices at which our Common Shares will trade.

#### ***No dividends***

Our 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. These policies may include initiating payment of a dividend on our Common Shares at some point in the future. Any determination to pay dividends in the future will be at the discretion of our Board 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 may deem relevant 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 may deem relevant. In addition, the Company's ability to pay dividends may be limited by covenants of any existing and future outstanding indebtedness the Company may incur. We cannot provide any assurances as to whether dividends will be paid in the future or their magnitude. See "*Dividend Policy*" and "*— Covenants contained in the ABL Credit Agreement affect and, in some cases, significantly limit or prohibit the manner in which we operate our business and pay dividends*".

#### ***Any issuance of preferred shares could make it difficult for another company to acquire us or could otherwise adversely affect holders of our Common Shares, which could depress the price of our Common Shares***

Upon completion of the Offering, our Board will have the authority to issue preferred shares and to determine the preferences, limitations and relative rights of preferred shares and to fix the number of shares constituting any series and the designation of such series, without any further vote or action by our Shareholders. Our preferred shares could be issued with liquidation, dividend and other rights superior to the rights of our Common Shares. The potential issuance of preferred shares may delay or prevent a change in control of us, discourage bids for our Common Shares at a premium over the market price and adversely affect the market price and other rights of the holders of our Common Shares.

#### ***Changes to tax laws may have an adverse impact on holders of the Common Shares***

Changes from time to time in the interpretation of, amendments to, or guidance relating to, existing tax laws, or the introduction of new tax legislation may have a material adverse effect on us and on the value of the Common Shares. In particular, on July 18, 2017, the Minister of Finance (Canada) released a consultation paper proposing that the tax treatment of passive investment income earned through a private corporation be changed which may eliminate potential benefits of earning passive investment income through a private corporation. On October 18, 2017, the Minister of Finance (Canada) announced that the government intends to move forward with the planned amendments subject to certain refinements. Accordingly, the tax treatment to Canadian resident investors of investment income such as dividends and capital gains may be changed as a result of

amendments to the Tax Act. Changes in enacted tax rates, legislation or regulations, and the Company's interpretations of income tax legislation may result in material tax adjustments. In addition, the Company and tax authorities could disagree on tax filing positions and any reassessment of the Company's tax filings could result in material adjustments of tax expense, income taxes payable and deferred income taxes.

***If securities or industry analysts do not publish research or publish inaccurate or unfavourable research about us or our business, our trading price and volume could decline***

The trading market for our Common Shares will depend in part on the research and reports that securities or industry analysts publish about us or our business. We do not currently have and may never obtain research coverage by securities and industry analysts. If no securities or industry analysts commence covering us, the trading price for our Common Shares would be negatively impacted. If we obtain securities or industry analyst coverage and if one or more of the analysts who cover us downgrade our Common Shares or publish inaccurate or unfavourable research about our business, our trading price may decline. If one or more of these analysts cease coverage of us or fail to publish reports on us regularly, demand for our Common Shares could decrease, which could cause our trading price and volume to decline.

***Shareholders will have limited control over our Company's operations***

Holders of Common Shares will have limited control over changes in our policies and operations, which increases the uncertainty and risks of an investment in our Company. Our Board will determine major policies, including policies regarding financing, growth, debt capitalization and any future dividends to Shareholders. Generally, our Board may amend or revise these and other policies without a vote of the holders of Common Shares. Holders of Common Shares will only have a right to vote, as a class, in the limited circumstances described elsewhere in this prospectus. Our Board's broad discretion in setting policies and the limited ability of holders of Common Shares to exert control over those policies increases the uncertainty and risks of an investment in our Company.

***The financial information for the twelve month period ended June 30, 2017 has not been separately audited or reviewed by outside auditors and care should be taken when relying upon such information***

The financial information and results of the Company provided for the twelve month period ended June 30, 2017 was prepared by management using financial information derived from the financial statements contained elsewhere in this prospectus, and was not separately audited or reviewed by outside auditors of the Company. Investors should use caution when comparing such financial information to periods for which audited financial statements are available.

***Pro Forma Financial Information***

In preparing the unaudited pro forma condensed consolidated financial statements of the Issuer appearing elsewhere in this prospectus, the Issuer has given effect to certain transactions, as described in the notes to such financial statements. While management believes that the estimates and assumptions underlying the pro forma condensed consolidated financial statements are reasonable, such assumptions and estimates may be materially different than the Issuer's actual results and experience in the future.

***Financial reporting and other public company requirements***

Upon receiving a final receipt for this prospectus, we will become subject to reporting and other obligations under applicable Canadian securities laws and rules of any stock exchange on which the Common Shares are then-listed, including National Instrument 52-109 — *Certification of Disclosure in Issuers' Annual and Interim Filings*. These reporting and other obligations will place significant demands on our management, administrative, operational and accounting resources as well as increase our compliance cost. If we are unable to accomplish any such necessary objectives in a timely and effective manner, our ability to comply with our financial reporting obligations and other rules applicable to reporting issuers could be impaired. Moreover, any failure to maintain effective internal controls could cause us to fail to satisfy our reporting obligations or result in material misstatements in our financial statements. If we cannot provide reliable financial reports or prevent fraud, its reputation and operating results could be materially adversely effected which could also cause investors to lose

confidence in our reported financial information, which could result in a reduction in the trading price of the Common Shares.

We do not expect that our disclosure controls and procedures and internal controls over financial reporting will prevent all error or fraud. A control system, no matter how well-designed and implemented, can provide only reasonable, not absolute, assurance that the control system's objectives will be met. Further, the design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Due to the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues within an organization are detected. The inherent limitations include the realities that judgments in decision making can be faulty, and that breakdowns can occur because of simple errors or mistakes. Controls can also be circumvented by individual acts of certain persons, by collusion of two or more people or by management override of the controls. Due to the inherent limitations in a control system, misstatements due to error or fraud may occur and may not be detected in a timely manner or at all.

Additional or new regulatory requirements may be adopted in the future. The requirements of existing and potential future rules and regulations will increase our legal, accounting and financial compliance costs, make some activities more difficult, time-consuming or costly and may also place undue strain on our personnel, systems and resources, which could adversely affect our business and financial condition.

#### **LEGAL PROCEEDINGS AND REGULATORY ACTIONS**

We are, from time to time, involved in legal proceedings of a nature considered normal to our business. We believe that none of the litigation in which we are currently involved, or have been involved since the beginning of the most recently completed financial year, individually or in the aggregate, is material to our consolidated financial condition and results of operations.

We are not aware of any penalties or sanctions imposed by a court or securities regulatory authority or other regulatory body against us, nor have we entered into any settlement agreements before a court or with a securities regulatory authority.

#### **LEGAL MATTERS**

The matters referred to under "*Eligibility for Investment*", as well as certain other legal matters relating to the issue and sale of the Common Shares, will be passed upon on behalf of us by McCarthy Tétrault LLP and on behalf of the Underwriters by Torys LLP. As at the date of this prospectus, the partners and associates of each of McCarthy Tétrault LLP and Torys LLP, beneficially own, directly and indirectly, less than 1% of the outstanding securities or other property of our Company, our associates or our affiliates.

## INTERESTS OF MANAGEMENT AND OTHERS IN MATERIAL TRANSACTIONS

Other than as described elsewhere in this prospectus, there are no material interests, direct or indirect, of any Director or executive officer of our Company, any Shareholder that beneficially owns, or controls or directs (directly or indirectly), more than 10% of the aggregate votes attached to the Common Shares, or any associate or affiliate of any of the foregoing persons, in any transaction within the three years before the date hereof that has materially affected or is reasonably expected to materially affect us or any of our subsidiaries.

## AUDITOR, TRANSFER AGENT AND REGISTRAR

KPMG LLP, Chartered Professional Accountants, Licensed Public Accountants, located at 21 King St W, Suite 700, Hamilton, Ontario, L8P 4W7 is our auditor and has confirmed that it is independent of our Company within the meaning of the Rules of Professional Conduct of the Chartered Professional Accountants of Ontario (registered name of The Institute of Chartered Accountants of Ontario).

The transfer agent and registrar for the Common Shares will be Computershare Trust Company of Canada at its principal office in Toronto, Ontario.

## MATERIAL CONTRACTS

The following are our only material agreements that will be in effect on Closing (other than certain agreements entered into in the ordinary course of business):

- (a) Underwriting Agreement (see “*Plan of Distribution*”);
- (b) Investor Rights Agreement (see “*Agreements with Principal Shareholder*”);
- (c) Bedrock Guarantee (see “*Our Business — Recent Restructuring of Our Business — CCAA Restructuring and Acquisition by Bedrock*”);
- (d) Indemnity Agreement (see “*Our Business — Recent Restructuring of Our Business — CCAA Restructuring and Acquisition by Bedrock*”);
- (e) Management Services Agreement (see “*Directors and Management of our Company*”); and
- (f) Carried Interest Agreement (see “*Our Business — Recent Restructuring of Our Business — CCAA Restructuring and Acquisition by Bedrock*”).

Copies of the foregoing documents will be available following Closing on SEDAR.

## AGENT FOR SERVICE OF PROCESS

Certain of our current directors and officers reside outside of Canada, as applicable and have appointed the following agent for service of process:

<u>Name of Person or Company</u>	<u>Name and Address of Agent</u>
Alan Kestenbaum . . . . .	386 Wilcox Street, Hamilton, Ontario
Michael W. Dees . . . . .	386 Wilcox Street, Hamilton, Ontario
Jeffrey B. Bunder . . . . .	386 Wilcox Street, Hamilton, Ontario
Don P. Newman . . . . .	386 Wilcox Street, Hamilton, Ontario
Dr. Thomas Ludwig . . . . .	386 Wilcox Street, Hamilton, Ontario

Purchasers are advised that it may not be possible for investors to enforce judgments obtained in Canada against any person or company that is incorporated, continued or otherwise organized under the laws of a foreign jurisdiction or resides outside of Canada, even if the party has appointed an agent for service of process.

## EXEMPTIONS

Pursuant to an application made to the Ontario Securities Commission, as principal regulator, our Company has applied for exemptive relief from Item 3.3(1)(a)(i) of National Instrument 52-107 — *Acceptable Accounting Principles and Auditing Standards* (“**NI 52-107**”), with respect to the inclusion of an auditor’s report that expresses a qualification of opinion relating to opening inventory relating to the financial statements of Stelco Inc. for the years ended December 31, 2015 and 2014. Item 4.2 of National Instrument 41-101 — *General Prospectus Requirements* (“**NI 41-101**”) requires that any financial statements included in a long form prospectus filed in the form of Form 41-101F1 be audited in accordance with NI 52-107 unless an exception in Item 32.5 or 35.1(3) of Form 41-101F1 applies. Item 3.3(1)(a)(i) of NI 52-107 requires that financial statements included in a long form prospectus be audited in accordance with Canadian Generally Accepted Auditing Standards and be accompanied by an auditor’s report that expresses an unmodified opinion. Item 5.8(2) of Companion Policy 41-101CP to NI 41-101 contemplates that relief may be granted to non-reporting issuers in appropriate circumstances to permit the auditor’s report on such financial statements to contain a modification relating to opening inventory if there is a subsequent audited period of at least six months on which the auditor’s report expresses an unmodified opinion and the business is not seasonal. This prospectus includes financial statements of Stelco Inc. for a subsequent audited period of twelve months on which the auditor’s report expresses an unmodified opinion and the business of Stelco Inc. is not seasonal. The exemption requested will be evidenced by the issuance of a receipt for our final prospectus.

## PURCHASERS’ STATUTORY RIGHTS

Securities legislation in certain of the provinces and territories of Canada provides purchasers with the right to withdraw from an agreement to purchase securities. This right may be exercised within two business days after receipt or deemed receipt of a prospectus and any amendment. In several of the provinces and territories, the securities legislation further provides a purchaser with remedies for rescission or, in some jurisdictions, revisions of the price or damages if the prospectus and any amendment contains a misrepresentation or is not delivered to the purchaser, provided that the remedies for rescission, revisions of the price or damages are exercised by the purchaser within the time limit prescribed by the securities legislation of the purchaser’s province or territory. The purchaser should refer to any applicable provisions of the securities legislation of the purchaser’s province or territory for the particulars of these rights or consult with a legal adviser.

## GLOSSARY

- “**2005 Order**” has the meaning ascribed thereto under “*Plan of Distribution*”;
- “**ABL Credit Agreement**” has the meaning ascribed thereto under “*Description of Material Indebtedness*”;
- “**ABL Credit Facility**” has the meaning ascribed thereto under “*Description of Material Indebtedness*”;
- “**Adjusted EBITDA**” has the meaning ascribed thereto under “*Non-IFRS Measures*”;
- “**Adjusted EBITDA per net ton**” has the meaning ascribed thereto under “*Non-IFRS Measures*”;
- “**Administrator**” has the meaning ascribed thereto under “*Our Business*”;
- “**Advance Notice Provisions**” has the meaning ascribed thereto under “*Description of Share Capital*”;
- “**Advance OPEB Payment**” has the meaning ascribed thereto under “*Our Business*”;
- “**Advance Pension Payment**” has the meaning ascribed thereto under “*Our Business*”;
- “**AHSS**” has the meaning ascribed thereto under “*Our Business*”;
- “**AML**” has the meaning ascribed thereto under “*Directors and Management of Our Company*”;
- “**AK Bedrock**” has the meaning ascribed thereto under “*Principal Shareholder*”;
- “**AMD**” has the meaning ascribed thereto under “*Our Business*”;
- “**Audit Committee**” means the audit committee of our Company, as further described under the heading “*Directors and Management of our Company*”;
- “**Baycoat**” has the meaning ascribed thereto under “*Our Business*”;
- “**Bedrock**” has the meaning ascribed thereto under “*Our Business*”;
- “**Bedrock Group**” has the meaning ascribed thereto under “*Agreements with Principal Shareholder*”;
- “**Bedrock Guarantee**” has the meaning ascribed thereto under “*Our Business*”;
- “**Bedrock Industries**” means Bedrock Industries B.V., our direct parent;
- “**Bedrock Management**” has the meaning ascribed thereto under “*Directors and Management of Our Company*”;
- “**Bedrock Proceeds**” has the meaning ascribed thereto under “*Principal Shareholder*”;
- “**BMO Capital Markets**” means BMO Nesbitt Burns Inc.;
- “**Board**” means the board of directors of our Company;
- “**BOF**” has the meaning ascribed thereto under “*Our Industry*”;
- “**CAD**” has the meaning ascribed thereto under “*Management’s Discussion and Analysis of Financial Condition and Results of Operations of Stelco Inc.*”;
- “**CAGR**” means compound annual growth rate;
- “**Carried Interest Agreement**” has the meaning ascribed thereto under “*Our Business*”;
- “**CBCA**” has the meaning ascribed thereto under “*Our Business*”;
- “**CCAA**” has the meaning ascribed thereto under “*Our Business*”;
- “**CDOR**” means Canadian Dollar Offered Rate;
- “**CDS**” means CDS Clearing and Depository Services Inc.;
- “**CDS Participants**” has the meaning ascribed thereto under “*Plan of Distribution*”;
- “**CEPA**” has the meaning ascribed thereto under “*Our Business*”;
- “**CGL**” has the meaning ascribed thereto under “*Our Business*”;

“**CGU**” has the meaning ascribed thereto under “*Management’s Discussion and Analysis of Financial Condition and Results of Operations of Stelco Inc.*”;

“**Class Action**” has the meaning ascribed thereto under “*Directors and Management of Our Company*”;

“**Closing**” means the closing of the Offering;

“**Closing Date**” means ● , 2017, or such other date as we and the Underwriters may agree, but in any event no later than ● , 2017;

“**Code of Conduct**” has the meaning ascribed thereto under “*Directors and Management of Our Company*”;

“**Common Shares**” has the meaning ascribed thereto on the cover page of this prospectus;

“**Company**” has the meaning ascribed thereto on the cover page of this prospectus;

“**Companies (Winding Up and Miscellaneous Provisions) Ordinance**” has the meaning ascribed thereto under “*Plan of Distribution*”;

“**Compensation, Governance and Nominating Committee**” means the compensation, governance and nominating committee of our Company, as further described under the heading “*Directors and Management of our Company*”;

“**Completion Date**” has the meaning ascribed thereto under “*Our Business*”;

“**Confidentiality Agreement**” has the meaning ascribed thereto under “*Our Business*”;

“**Contribution Agreement**” has the meaning ascribed thereto under “*Our Business*”;

“**Convertible Securities**” has the meaning ascribed thereto under “*Agreements With Principal Shareholder*”;

“**Court**” has the meaning ascribed thereto under “*Our Business*”;

“**Court of Chancery**” has the meaning ascribed thereto under “*Directors and Management of Our Company*”;

“**D.C. Chrome**” has the meaning ascribed thereto under “*Our Business*”;

“**Deferred Plans**” means TFSAs, RRSPs, DPSPs, RRIFs, RESPs and RDSPs;

“**Directors**” means the directors of our Company, and “**Director**” means any one of them;

“**DPSP**” means deferred profit sharing plan;

“**DSUs**” means deferred share units;

“**EAF**” has the meaning ascribed thereto under “*Our Business*”;

“**EBITDA**” has the meaning ascribed thereto under “*Non-IFRS Measures*”;

“**ELHTs**” has the meaning ascribed thereto under “*Our Business*”;

“**Environment, Health and Safety Committee**” means the environment, health and safety committee of our Company, as further described under the heading “*Directors and Management of our Company*”;

“**Environmental Framework Agreement**” has the meaning ascribed thereto under “*Our Business*”;

“**Equity Commitment Letter**” has the meaning ascribed thereto under “*Our Business*”;

“**ERP**” has the meaning ascribed thereto under “*Management’s Discussion and Analysis of Financial Condition and Results of Operations of Stelco Inc.*”;

“**FIFA**” has the meaning ascribed thereto under “*Plan of Distribution*”;

“**financial instruments**” has the meaning ascribed thereto under “*Management’s Discussion and Analysis of Financial Condition and Results of Operations of Stelco Inc.*”;

“**First Advance**” has the meaning ascribed thereto under “*Management’s Discussion and Analysis of Financial Condition and Results of Operations of Stelco Inc.*”;

“**forward-looking information**” has the meaning ascribed thereto under “*Forward-Looking Information*”;

“**Free Cash Flow**” has the meaning ascribed thereto under “*Our Business*”;

“**GHG**” has the meaning ascribed thereto under “*Our Business*”;

“**Globe**” has the meaning ascribed thereto under “*Directors and Management of Our Company*”;

“**Global Release**” has the meaning ascribed thereto under “*Our Business*”;

“**Globe Transaction**” has the meaning ascribed thereto under “*Directors and Management of Our Company*”;

“**Goldman Sachs**” means Goldman Sachs Canada Inc.;

“**Guarantee Amount**” has the meaning ascribed thereto under “*Our Business*”;

“**Historic Members**” has the meaning ascribed thereto under “*Our Business*”;

“**HW**” has the meaning ascribed thereto on the cover page of this prospectus;

“**HW Lands**” has the meaning ascribed thereto under “*Our Business*”;

“**HW Leased Premises**” has the meaning ascribed thereto under “*Our Business*”;

“**IFRS**” means International Financial Reporting Standards as issued by the International Accounting Standards Board;

“**Incurred Costs**” has the meaning ascribed thereto under “*Directors and Management of Our Company*”;

“**Indemnity Agreement**” has the meaning ascribed thereto under “*Our Business*”;

“**Independent Director**” means a Director who is independent of our Company in accordance with applicable Canadian securities law;

“**Intellectual Property Agreement**” has the meaning ascribed thereto under “*Our Business*”;

“**Investor Rights Agreement**” has the meaning ascribed thereto under “*Agreements With Principal Shareholder*”;

“**Issuer**” has the meaning ascribed thereto on the cover page of this prospectus;

“**Joint Bookrunners**” means, collectively, BMO Capital Markets and Goldman Sachs;

“**J.P. Morgan**” means J.P. Morgan Securities Canada Inc.;

“**knt**” means thousand net tons;

“**Land Assets**” has the meaning ascribed thereto under “*Our Business*”;

“**Land Vehicle**” has the meaning ascribed thereto under “*Our Business*”;

“**Lead Director**” means the Independent Director who is responsible for ensuring the appropriate leadership for the Independent Directors, as further described under “*Directors and Management of our Company*”;

“**Lead Underwriters**” means Goldman Sachs and BMO Capital Markets;

“**Lease Agreements**” has the meaning ascribed thereto under “*Our Business*”;

“**LG Bedrock**” has the meaning ascribed thereto under “*Principal Shareholder*”;

“**LG GP**” has the meaning ascribed thereto under “*Principal Shareholder*”;

“**LEW**” has the meaning ascribed thereto on the cover page of this prospectus;

“**LEW Lands**” has the meaning ascribed thereto under “*Our Business*”;

“**LEW Leased Premises**” has the meaning ascribed thereto under “*Our Business*”;

“**LIBOR**” means London Interbank Offered Rate;

“**Lindsay Goldberg**” has the meaning ascribed thereto under “*Principal Shareholder*”;

“**Local**” has the meaning ascribed thereto under “*Our Business*”;

“**Long-Term Incentive Plan**” has the meaning ascribed thereto under “*Executive Compensation*”;

“**Main Pension Plans**” has the meaning ascribed to it under “*Our Business*”;

“**Majority Voting Policy**” has the meaning ascribed thereto under “*Directors and Management of Our Company*”;

“**Management Agreement**” has the meaning ascribed thereto under “*Directors and Management of Our Company*”;

“**MD&A**” means management’s discussion and analysis of financial condition and results of operations;

“**mnt**” means million net tons;

“**MOA**” has the meaning ascribed thereto under “*Our Business*”;

“**MOECC**” means the Ontario Ministry of the Environment and Climate Change;

“**MPa**” means megapascals;

“**NAFTA**” has the meaning ascribed thereto under “*Management’s Discussion and Analysis of Financial Condition and Results of Operations of Stelco Inc.*”;

“**named executive officer**” has the meaning ascribed thereto under “*Executive Compensation*”;

“**NEOs**” means our named executive officers;

“**Net Proceeds of the Offering**” has the meaning ascribed thereto under “*Use of Proceeds*”;

“**New Pension Plans**” has the meaning ascribed thereto under “*Our Business*”;

“**New Securities**” has the meaning ascribed thereto under “*Agreements with Principal Shareholder*”;

“**NI 41-101**” means National Instrument 41-101 — *General Prospectus Requirements* as amended from time to time, as amended from time to time;

“**NI 52-107**” means National Instrument 52-107 — *Acceptable Accounting Principles and Auditing Standards*, as amended from time to time;

“**NI 52-110**” means National Instrument 52-110 — *Audit Committees of the Canadian Securities Administrators*, as amended from time to time;

“**Nominees**” has the meaning ascribed thereto under “*Agreements with Principal Shareholder*”;

“**Non-USW Active and Retiree Beneficiaries**” has the meaning ascribed thereto under “*Our Business*”;

“**Non-USW Representatives**” as such terms is defined in the Representative Counsel Order;

“**Notice**” has the meaning ascribed thereto under “*Our Business*”;

“**Notice Date**” has the meaning ascribed thereto under “*Description of Share Capital*”;

“**NOx**” has the meaning ascribed thereto under “*Our Business*”;

“**nt**” or “**net tons**” means net tons equal to 2,000 lbs;

“**OEMs**” has the meaning ascribed thereto under “*Our Business*”;

“**Offered Securities**” has the meaning ascribed thereto under “*Agreements with Principal Shareholder*”;

“**Offering**” has the meaning ascribed thereto on the cover page of this prospectus;

“**Offering Price**” has the meaning ascribed thereto on the cover page of this prospectus;

“**OPEB**” has the meaning ascribed thereto under “*Our Business*”;

“**OPEB Advance Payment Loan**” has the meaning ascribed thereto under “*Our Business*”;

“**OPEB Funding Agreement**” has the meaning ascribed thereto under “*Our Business*”;

“**Order**” has the meaning ascribed thereto under “*Management’s Discussion and Analysis of Financial Condition and Results of Operations of Stelco Inc.*”;

“**Over-Allotment Option**” has the meaning ascribed thereto on the cover page of this prospectus;

“**Pellet Sale and Purchase Contract**” has the meaning ascribed thereto under “*Our Business*”;

“**Pension Act**” has the meaning ascribed thereto under “*Our Business*”;

“**Pension Agreement**” has the meaning ascribed thereto under “*Our Business*”;

“**Pension Transition Agreement**” has the meaning ascribed thereto under “*Our Business*”;

“**piggyback registration**” has the meaning ascribed thereto under “*Agreements With Principal Shareholder*”;

“**Plan**” has the meaning ascribed thereto under “*Our Business*”;

“**Planning Act**” has the meaning ascribed thereto under “*Our Business*”;

“**Platts**” has the meaning ascribed thereto under “*Market Data and Industry Data*”;

“**Prospectus Directive**” has the meaning ascribed thereto under “*Plan of Distribution*”;

“**Province OPEB Loan**” has the meaning ascribed thereto under “*Our Business*”;

“**Provincial OPEB Advance**” has the meaning ascribed thereto under “*Our Business*”;

“**Province Payment**” has the meaning ascribed thereto under “*Our Business*”;

“**RDSP**” means registered disability savings plan;

“**Regulation 32**” has the meaning ascribed thereto under “*Plan of Distribution*”;

“**Relative Member State**” has the meaning ascribed thereto under “*Plan of Distribution*”;

“**Representative Counsel**” as such term is defined in the Representative Counsel Order;

“**Representative Counsel Order**” means a representative counsel order made by the Court on October 8, 2014 in the USSC’s CCAA proceedings, as amended and restated on January 11, 2016;

“**RESP**” means registered education savings plan;

“**Revenue**” has the meaning ascribed thereto under “*Management’s Discussion and Analysis of Financial Condition and Results of Operations of Stelco Inc.*”;

“**RRIF**” means registered retirement income fund;

“**RRSP**” means registered retirement savings plan;

“**RSUs**” means restricted share units;

“**SARs**” means share appreciation rights;

“**Second Advances**” has the meaning ascribed thereto under “*Management’s Discussion and Analysis of Financial Condition and Results of Operations of Stelco Inc.*”;

“**Securities and Futures Ordinance**” has the meaning ascribed thereto under “*Plan of Distribution*”;

“**SEDAR**” means the System for Electronic Document Analysis and Retrieval at [www.sedar.com](http://www.sedar.com);

“**Selling Price per net ton**” has the meaning ascribed thereto under “*Non-IFRS Measures*”;

“**Settlement Date**” has the meaning ascribed thereto under “*Executive Compensation*”;

“**SFA**” has the meaning ascribed thereto under “*Plan of Distribution*”;

“**Shareholders**” means the holders of the Common Shares, and “**Shareholder**” means any one of them;

“**Shipping Volume**” has the meaning ascribed thereto under “*Non-IFRS Measures*”;

“**SG&A**” has the meaning ascribed thereto under “*Management’s Discussion and Analysis of Financial Condition and Results of Operations of Stelco Inc.*”;

“**SO<sub>2</sub>**” has the meaning ascribed thereto under “*Our Business*”;

“**Special Regulation**” means *U.S. Steel Canada Inc. Pension Plans*, O. Reg 255/17;

“**SRED**” has the meaning ascribed thereto under “*Management’s Discussion and Analysis of Financial Condition and Results of Operations of Stelco Inc.*”;

“**Steelbenchmarker**” has the meaning ascribed thereto under “*Market Data and Industry Data*”;

“**Stelco**” has the meaning ascribed thereto on the cover page of this prospectus;

“**Stelco Group**” has the meaning ascribed thereto under “*Our Business*”;

“**Superintendent**” has the meaning ascribed thereto under “*Our Business*”;

“**Tax Act**” means the *Income Tax Act* (Canada) and the regulations thereunder;

“**Tax Proposals**” has the meaning ascribed thereto under “*Eligibility for Investment*”;

“**Tax Savings Agreement**” has the meaning ascribed thereto under “*Our Business*”;

“**Tax Savings Payments**” has the meaning ascribed thereto under “*Our Business*”;

“**TFSA**” means tax-free savings account;

“**Third Party**” has the meaning ascribed thereto under “*Agreements With Principal Shareholder*”;

“**Transition Services Agreements**” has the meaning ascribed thereto under “*Our Business*”;

“**TSX**” has the meaning ascribed thereto on the cover page of this prospectus;

“**UCC**” has the meaning ascribed thereto under “*Management’s Discussion and Analysis of Financial Condition and Results of Operations of Stelco Inc.*”;

“**UHSS**” has the meaning ascribed thereto under “*Our Business*”;

“**U.S. Securities Act**” means the United States Securities Act of 1933, as amended;

“**USD**” has the meaning ascribed thereto under “*Management’s Discussion and Analysis of Financial Condition and Results of Operations of Stelco Inc.*”;

“**USS**” has the meaning ascribed thereto under “*Our Business*”;

“**USS Agreements**” means, collectively, the Confidentiality Agreement, the Intellectual Property Agreement, the Pension Transition Agreement, the Pellet Sale and Purchase Contract and the Transition Services Agreements;

“**USSC**” has the meaning ascribed thereto under “*Our Business*”;

“**USW**” has the meaning ascribed thereto under “*Our Business*”;

“**Underwriters**” means, collectively, Goldman Sachs, BMO Capital Markets, Credit Suisse Securities (Canada), Inc., J.P. Morgan Securities Canada Inc., Scotia Capital Inc., TD Securities Inc., National Bank Financial Inc., and Oppenheimer & Co. Inc.;

“**Underwriting Agreement**” means the underwriting agreement among us and the Underwriters dated ● , 2017, as further described under “*Plan of Distribution*”;

“**United States**” or “**U.S.**” has the meaning ascribed thereto in Regulation S under the U.S. Securities Act;

“**VOC**” has the meaning ascribed thereto under “*Our Business*”;

“**World Steel Dynamics**” has the meaning ascribed thereto under “*Market Data and Industry Data*”;

“**Water Lot Lease**” has the meaning ascribed thereto under “*Our Business*”; and

“**Z-Line**” has the meaning ascribed thereto under “*Our Business*”.

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**STELCO HOLDINGS INC.**  
**UNAUDITED PRO FORMA CONSOLIDATED FINANCIAL STATEMENTS**

**UNAUDITED PRO FORMA CONSOLIDATED STATEMENT OF PROFIT OR LOSS**  
(In millions of Canadian dollars except share and per share data)

	Stelco Inc. For the six months ended June 30, 2017 \$	Pro Forma Adjustments \$	Note 4	Stelco Holdings Inc. Consolidated Pro Forma \$
<b>Operations</b>				
Revenue from sale of goods . . . . .	813	—		813
Cost of goods sold . . . . .	702	(1)	(f)	678
		(31)	(g) iv)	
		4	(g) iv)	
		4	(g) vii)	
<b>Gross profit</b> . . . . .	<b>111</b>	<b>24</b>		<b>135</b>
Selling, general and administrative expenses . . . .	50	(29)	(d)	26
		—	(e)	
		(2)	(g) ix)	
		7	(g) ix)	
<b>Operating profit</b> . . . . .	<b>61</b>	<b>48</b>		<b>109</b>
Finance costs . . . . .	121	2	(c)	30
		(1)	(g) i)	
		(106)	(g) ii)	
		(3)	(g) iii)	
		16	(g) v)	
		1	(g) vii)	
Finance income . . . . .	(1)	—		(1)
Share of loss of joint ventures . . . . .	1	—		1
Restructuring costs . . . . .	32	—		32
Gain on emergence from CCAA . . . . .	(3,665)	3,665	(g) viii)	—
Other income . . . . .	(3)	—		(3)
<b>Income before income tax</b> . . . . .	<b>3,576</b>	<b>(3,526)</b>		<b>50</b>
Income tax expense . . . . .	—	—		—
<b>Net income for the period</b> . . . . .	<b>3,576</b>	<b>(3,526)</b>		<b>50</b>
<b>Net income per share (basic)</b> . . . . .			(k)	<b>\$ ●</b>
<b>Net income per share (diluted)</b> . . . . .			(k)	<b>\$ ●</b>

*See accompanying notes*

**UNAUDITED PRO FORMA CONSOLIDATED STATEMENT OF PROFIT OR LOSS (Continued)**

(In millions of Canadian dollars except share and per share data)

	<u>Stelco Inc.</u>			<u>Stelco</u>
	<u>For the year ended</u>	<u>Pro Forma</u>		<u>Holdings Inc.</u>
	<u>December 31, 2016</u>	<u>Adjustments</u>	<u>Note 4</u>	<u>Consolidated</u>
	<u>\$</u>	<u>\$</u>		<u>Pro Forma</u>
				<u>\$</u>
<b>Operations</b>				
Revenue from sale of goods . . . . .	1,301	—		1,301
Commission income . . . . .	<u>1</u>	<u>—</u>		<u>1</u>
	1,302	—		1,302
Cost of goods sold . . . . .	1,287	(2)	(f)	1,226
		(74)	(g) iv)	
		9	(g) iv)	
		(1)	(g) vi)	
		<u>7</u>	(g) vii)	
<b>Gross profit</b> . . . . .	<b>15</b>	<b>61</b>		<b>76</b>
Selling, general and administrative expenses . . . . .	24	1	(e)	35
		(3)	(g) ix)	
		<u>13</u>	(g) ix)	
<b>Operating profit (loss)</b> . . . . .	<b>(9)</b>	<b>50</b>		<b>41</b>
Finance costs . . . . .	197	4	(c)	32
		(2)	(g) i)	
		(198)	(g) ii)	
		(3)	(g) iii)	
		32	(g) v)	
		<u>2</u>	(g) vii)	
Finance income . . . . .	(1)	—		(1)
Share of loss of joint ventures . . . . .	1	—		1
Gain on disposal of property, plant and equipment . . . .	(2)	—		(2)
Restructuring costs . . . . .	36	—		36
Other income . . . . .	<u>(4)</u>	<u>—</u>		<u>(4)</u>
<b>Loss before income tax</b> . . . . .	<b>(236)</b>	<b>215</b>		<b>(21)</b>
Income tax expense . . . . .	<u>—</u>	<u>—</u>		<u>—</u>
<b>Net loss for the year</b> . . . . .	<b>(236)</b>	<b>215</b>		<b>(21)</b>
<b>Net loss per share (basic)</b> . . . . .			<b>(k)</b>	<b>\$ ●</b>
<b>Net loss per share (diluted)</b> . . . . .			<b>(k)</b>	<b>\$ ●</b>

*See accompanying notes*

**UNAUDITED PRO FORMA CONSOLIDATED STATEMENT OF FINANCIAL POSITION**  
(In millions of Canadian dollars)

	<u>Stelco</u> <u>Holdings Inc.</u>	<u>Stelco Inc.</u>	<u>Pro Forma</u> <u>Adjustments</u>	<u>Note 4</u>	<u>Stelco</u> <u>Holdings</u> <u>Inc. Pro</u> <u>Forma</u> <u>Consolidated</u>
	As at September 25, 2017 \$	As at June 30, 2017 \$	\$		\$
<b>Assets</b>					
<b>Current</b>					
Cash and cash equivalents . . . . .	—	30	—	(b)	30
Restricted cash . . . . .	—	22	—	(b)	22
Trade and other receivables . . . . .	—	169	—	(b)	169
Inventories . . . . .	—	271	11	(b)	282
Prepaid expenses . . . . .	—	59	—	(b)	59
<b>Total current assets . . . . .</b>	<b>—</b>	<b>551</b>	<b>11</b>		<b>562</b>
Property, plant and equipment, net . . . . .	—	298	(28)	(b)	270
Investment property . . . . .	—	—	—	(b)	—
Investment in joint ventures . . . . .	—	5	1	(b)	6
Intangible assets . . . . .	—	—	8	(b),(e)	8
<b>Total non-current assets . . . . .</b>	<b>—</b>	<b>303</b>	<b>(19)</b>		<b>284</b>
<b>Total assets . . . . .</b>	<b>—</b>	<b>854</b>	<b>(8)</b>		<b>846</b>
<b>Liabilities and deficiency</b>					
<b>Current</b>					
Trade and other payables . . . . .	—	94	—	(b)	94
Other liabilities . . . . .	—	31	—	(b)	31
Employee benefit commitment . . . . .	—	31	—	(b)	31
<b>Total current liabilities . . . . .</b>	<b>—</b>	<b>156</b>	<b>—</b>		<b>156</b>
Long-term debt . . . . .	—	79	—	(b)	79
Provisions . . . . .	—	5	—	(b)	5
Other liabilities . . . . .	—	22	1	(b)	23
Employee benefit commitment . . . . .	—	286	—	(b)	286
<b>Total non-current liabilities . . . . .</b>	<b>—</b>	<b>392</b>	<b>1</b>		<b>393</b>
<b>Total liabilities . . . . .</b>	<b>—</b>	<b>548</b>	<b>1</b>		<b>549</b>
<b>Equity . . . . .</b>	<b>—</b>	<b>306</b>	<b>(9)</b>	(a),(b)	<b>297</b>
<b>Total liabilities and equity . . . . .</b>	<b>—</b>	<b>854</b>	<b>(8)</b>		<b>846</b>

*See accompanying notes*

## NOTES TO THE UNAUDITED PRO FORMA CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in millions of Canadian dollars)

### 1. DESCRIPTION OF THE BUSINESS COMBINATION AND CLOSING REORGANIZATION

On June 30, 2017, in connection with the emergence of Stelco Inc. (“Stelco”) from protection under the Companies’ Creditors Arrangements Act (“CCAA”) on the same date, Stelco filed articles of reorganization under the Canada Business Corporations Act (“CBCA”) and implemented a plan of compromise, arrangement and reorganization pursuant to the CCAA and CBCA, which provided for the reorganization of Stelco’s business, capital and management. On that date, Bedrock Industries L.P. and its affiliates (“Bedrock”) acquired all of the outstanding shares of U. S. Steel Canada Inc. (the “Business Combination”). U. S. Steel Canada Inc. (“USSC”) formally changed its name back to Stelco Inc.

On September 25, 2017, Bedrock Industries B.V., a subsidiary of Bedrock Industries L.P. and the direct parent of Stelco, formed a wholly owned subsidiary, Stelco Holdings Inc. Stelco Holdings Inc. is the offeror of shares under this Prospectus (the “Company”). As further described elsewhere in the Prospectus, on closing of the offering, the Company will acquire all of the issued and outstanding shares of Stelco from Bedrock Industries B.V. in exchange for shares of the Company (the “Closing Reorganization”). As a result, Stelco will become a direct wholly owned subsidiary of the Company.

The acquisition by the Company of Stelco from Bedrock Industries B.V. will be a transaction amongst entities under common control. The Company will account for this transaction using book value accounting, based on the book values that would be recognized in the consolidated financial statements of Bedrock Industries B.V. upon its acquisition of Stelco on June 30, 2017. 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*. Therefore, these pro forma consolidated financial statements present the impact of both the Business Combination and the Closing Reorganization.

### 2. BASIS OF PRESENTATION

The Company’s unaudited pro forma consolidated statement of financial position as at June 30, 2017 and the unaudited pro forma consolidated statements of profit and loss for the six months then ended and the year ended December 31, 2016 have been prepared by management for the purpose of presenting the impact of the Business Combination and the subsequent Closing Reorganization. The unaudited pro forma consolidated statement of financial position includes the effect of the acquisition as at June 30, 2017 and gives effect to the acquisition as if it had occurred on June 30, 2017. The unaudited pro forma consolidated statements of profit and loss for the six months ended June 30, 2017 and the year ended December 31, 2016 give effect to the Business Combination and the Closing Reorganization as if they had occurred on January 1, 2016.

In the opinion of management, the accounting policies used in the preparation of the unaudited pro forma consolidated statement of financial position as at June 30, 2017, unaudited pro forma consolidated statements of profit and loss for the six months then ended and the year ended December 31, 2016 include all adjustments necessary for the fair presentation of the Business Combination and the Closing Reorganization in accordance with the recognition and measurement principles of International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”) and incorporate the significant accounting policies used by Stelco in the audited financial statements as at December 31, 2016 and for the three years then ended included in this Prospectus, and those policies expected to be used to prepare the Company’s consolidated financial statements as at and for the period ended December 31, 2017.

All dollar amounts are expressed in millions of Canadian dollars.

The Company’s unaudited pro forma consolidated financial statements have been prepared using the following information:

- Audited consolidated financial statements of Stelco as at January 1, 2014, December 31, 2016, December 31, 2015, December 31, 2014, and for the three years ended December 31, 2016, prepared in accordance with IFRS;
- Unaudited interim condensed consolidated financial statements of Stelco as at June 30, 2017 and for the three and six month periods ended June 30, 2017 and June 30, 2016, prepared in accordance with International Accounting Standard 34 (“IAS 34”); and
- Audited opening statement of financial position of the Company as at September 25, 2017, prepared in accordance with IFRS.

The unaudited pro forma consolidated financial statements have been prepared for informational purposes only and should be read in conjunction with the financial statements described above and related disclosures used to prepare these statements. The preparation of these unaudited pro forma consolidated financial statements requires management to make estimates and assumptions deemed appropriate. The unaudited pro forma consolidated financial statements are not intended to present or be indicative of the actual financial position and results of operations that would have occurred if the Business Combination and the Reorganization Transaction described above had been effected on the dates indicated.

The unaudited pro forma consolidated financial statements do not reflect any cost savings or revenue enhancements that the Company may achieve as a result of the Business Combination, nor the costs necessary to achieve cost savings or revenue enhancements.

**NOTES TO THE UNAUDITED PRO FORMA CONSOLIDATED FINANCIAL STATEMENTS (Continued)**  
**(Expressed in millions of Canadian dollars)**

**3. THE BUSINESS COMBINATION AND THE CLOSING REORGANIZATION**

The Business Combination is considered to be a business combination under IFRS 3, *Business Combinations* (“IFRS 3”) with Bedrock as the acquirer and Stelco as the acquired entity. The unaudited pro forma consolidated financial statements have been prepared using the acquisition method of accounting in accordance with IFRS 3 for the acquisition of Stelco by Bedrock. The purchase price calculations and the determination of the fair values of the assets acquired and the liabilities assumed are dependent upon fair value estimates and assumptions as at the acquisition date. In certain instances adequate information is not available at the time of the preparation of these unaudited pro forma consolidated financial statements to perform a final determination of fair value. Accordingly, the pro forma adjustments are preliminary and have been made solely for the purpose of providing unaudited pro forma consolidated financial statements.

Differences between preliminary estimates and final amounts will occur and these differences could have a material impact on the accompanying unaudited pro forma consolidated financial statements of the Company and the combined company’s future performance and financial position. The Company will finalize all amounts as it obtains the information necessary to complete the measurement process, which, pursuant to IFRS 3, will be no later than one year from the acquisition date.

As noted above, the Closing Reorganization is a common control transaction which will be recognized at book value by the Company. The assets and liabilities of the Company will be recorded at the amounts that would be recognized by Bedrock Industries B. V. in the Business Combination and there would be no remeasurement of the assets acquired and the liabilities assumed in the Business Combination as a result of the Closing Reorganization. The estimates of the fair values of the assets acquired and liabilities assumed determined for purposes of measuring the Business Combination in these unaudited pro forma consolidated financial statements have also been used for purposes of recognizing the Closing Reorganization in these unaudited pro forma consolidated financial statement are preliminary in nature and subject to change as discussed above.

**4. PRO FORMA ADJUSTMENTS AND ASSUMPTIONS**

The unaudited pro forma consolidated financial statements include the following pro forma assumptions and adjustments:

- a) These pro forma adjustments eliminate the historical equity accounts of Stelco.
- b) These entries reflect the completion of the Business Combination. Since the Business Combination occurred coincident with the emergence from CCAA, the Stelco consolidated statement of financial position as of June 30 already reflects the liabilities extinguished and the assets distributed upon emergence. The remaining acquired assets and assumed liabilities have been adjusted to their fair values assigned through completion of a preliminary purchase price allocation, as described below. The excess of the preliminary fair value of net identifiable assets acquired of Stelco over the purchase price reflects a bargain purchase gain under IFRS 3 and is recognized as an adjustment to equity. The preliminary amount of bargain purchase gain and other balances could be materially different depending on the outcome of the finalization of the analysis of fair values as noted above.

**Net identifiable assets acquired**

Working capital	
Cash and cash equivalents . . . . .	\$ 30
Restricted cash . . . . .	22
Trade and other receivables . . . . .	169
Inventories . . . . .	282
Prepaid expenses . . . . .	59
Trade and other payables . . . . .	(94)
Other liabilities . . . . .	(31)
Employee benefit commitment . . . . .	(31)
	\$ 406
Property, plant and equipment . . . . .	270
Investment in joint ventures . . . . .	6
Intangible assets . . . . .	8
Finance lease obligation . . . . .	(23)
Long-term debt . . . . .	(79)
Provisions . . . . .	(5)
Employee benefit commitment . . . . .	(286)
	\$ 297
<b>Consideration transferred . . . . .</b>	<b>\$ 70</b>
<b>Bargain purchase gain . . . . .</b>	<b>\$ 227</b>

**NOTES TO THE UNAUDITED PRO FORMA CONSOLIDATED FINANCIAL STATEMENTS (Continued)**  
**(Expressed in millions of Canadian dollars)**

**4. PRO FORMA ADJUSTMENTS AND ASSUMPTIONS (Continued)**

Bedrock Industries B.V. paid total cash consideration in the amount of \$70 to acquire Stelco as an equity contribution to Stelco used to fund part for the settlements under the Closing Reorganization. As noted above, upon completion of the Closing Reorganization, the Company will apply book value accounting for its common control acquisition of Stelco from Bedrock Industries B.V. Therefore the pro forma financial statements reflect a net adjustment to eliminate the deficit of Stelco and to reflect the acquisition at the fair values of the assets and liabilities acquired by Bedrock Industries B.V., which are to be recorded at those book values when Stelco is acquired by the Company. The bargain purchase gain of \$227 is recorded by Bedrock Industries B.V. prior to the common control transaction that is recognized at book value and will therefore not be recorded by Company.

- c) Upon closing of the transaction, Stelco obtained a new revolving asset-based lending facility up to an amount of \$375 to fund the closing costs of the transaction and the cost of exiting the CCAA proceedings. An interest charge has been made to the pro forma consolidated statement of profit and loss to reflect the interest associated with this new debt facility based on a drawn amount of \$68 (adjustment of \$2 of interest for the six months ended June 30, 2017 and \$4 of interest for the year ended December 31, 2016).
- d) Expenses associated with transaction costs of \$29 incurred prior to June 30, 2017 related to the Business Combination consisting of transaction costs and success fees associated with the transaction have been included as a pro forma adjustment as a reduction to expenses for the six months ended June 30, 2017.
- e) Intangible assets consisting of a Stelco trademark with an estimated fair value of \$7, and customer backlog with estimated fair value of \$1 were acquired in the Business Combination. Customer backlog has been amortized on a straight line basis over approximately 1 month. The unaudited pro forma consolidated statements of profit and loss for the six months ended June 30, 2017 and the year ended December 31, 2016 include adjustments of nil and \$1, respectively, to adjust selling, general and administrative costs for amortization of these amounts.
- f) Property, plant and equipment adjustment to fair value as a result of the Business Combination, which also resulted in an adjustment to depreciation expense for building, machinery & equipment, and vehicles. In connection with the emergence from protection under CCAA, Stelco transferred all of its land and building assets at Hamilton Works and Lake Erie Works to an independent entity (“Land Vehicle”) formed to hold these lands for the benefit of the independent Pension Trusts and OPEB Entities and entered into a 25-year lease with an independent entity for this property. Buildings leased back from the Land Vehicle were classified as a finance lease. For the six months ended June 30, 2017 depreciation decreased by \$1 and for the year ended December 31, 2016 depreciation expense decreased by \$2.
- g) This adjustment removes historic income and expenses associated with assets and liabilities that were not acquired or assumed on Stelco’s re-emergence from CCAA. The significant adjustments include:
  - i. Removal of all finance costs associated with the general unsecured claims, pension and OPEB claims, USS released claims and released claims of the Province of Ontario, and unions (\$1 for the six months ended June 30, 2017 and \$2 for the year ended December 31, 2016).
  - ii. Removal of all interest and financing costs associated with the financing included in the USS Secured and Unsecured Claims as defined elsewhere in this prospectus (\$106 for the six months ended June 30, 2017 and \$198 for the year ended December 31, 2016).
  - iii. Removal of all finance costs, including a fee for termination, associated with the debtor in possession financing as defined elsewhere in this prospectus (\$3 for the six months ended June 30, 2017 and \$3 for the year ended December 31, 2016).
  - iv. Removal of the historic pension expense of Stelco as a result of the settlement of various pension plans upon emergence from CCAA (\$31 for the six months ended June 30, 2017 and \$74 for the year ended December 31, 2016). Additionally, an expense has been recognized based on the estimated cost of the newly negotiated defined benefit plan for hourly employees and defined contribution plan for salaried employees, based on assumption that the plan was in place as of January 1, 2016. This expense was an increase of \$3 for the six months ended June 30, 2017 and \$7 for the year ended December 31, 2016 for the successor defined benefit plans. In addition, current service expense was increased \$1 for the six months ended June 30, 2017 and \$2 for the year ended December 31, 2016 for the successor defined contribution plans.
  - v. Record the estimated accretion expense associated with the financial liability of the OPEB Contributions required to be made in the future associated with the settled pension plans (as defined elsewhere in the Prospectus) (\$16 for the six months ended June 30, 2017 and \$32 for the year ended December 31, 2016). This expense reflects the accretion of the liability associated with the OPEB and Pension trust liability recognized on June 30, 2017.
  - vi. Removal of the historical expenses and other income associated with land and buildings that were not acquired by Bedrock upon closing of the Business Combination (nil for the six months ended June 30, 2017 and \$1 for the year ended December 31, 2016), including ancillary income from rentals of surplus land, land holding costs, and historic depreciation associated with

**NOTES TO THE UNAUDITED PRO FORMA CONSOLIDATED FINANCIAL STATEMENTS (Continued)**  
**(Expressed in millions of Canadian dollars)**

**4. PRO FORMA ADJUSTMENTS AND ASSUMPTIONS (Continued)**

buildings. The land and buildings were transferred to the Land Vehicle upon closing, with the land used by Hamilton Works and Lake Erie Works, along with the related buildings, leased back upon close.

- vii. Recording of expenses associated with the land operating lease and the building finance lease (the “Land Vehicle Lease” as defined elsewhere in this prospectus) entered into upon closing of the Business Combination (\$4 for depreciation and \$1 for finance charge for the six months ended June 30, 2017 and \$7 for depreciation and \$2 for finance charge for the year ended December 31, 2016).
- viii. Reverse the net gain on restructuring and emergence from CCAA recognized by Stelco in the six months ended June 30, 2017, in the amount of \$3,665
- ix. Removal of the shared service charges from USS and recognition of the fees paid to USS as required under the Transition Services Agreement (removal of \$2 existing expense and addition of \$7 new expense for the six months ended June 30, 2017 and removal of \$3 and new addition of \$13 for the year ended December 31, 2016)
- h) These pro forma financial statements do not reflect the effect of the anticipated proceeds from the Offering of \$ ● and the corresponding increase in capital. The pro forma effects of the Offering are reflected in the capitalization table included elsewhere in this Prospectus.
- i) Pro forma adjustments are tax effected using the Company’s anticipated statutory tax rate of 25%; however the effect of historic tax losses and other tax attributes, and unrecorded deferred tax assets results in an effective tax rate of nil and no tax expense being recorded.
- j) No amounts have been recorded in these pro forma financial statements associated with the Carried Interest (as defined elsewhere in the prospectus) as the expectation is that no payments will be made under the Carried Interest Agreement.
- k) Basic and diluted net income or loss per share is calculated by dividing the net income or loss for the period by the pro forma weighted average numbers of common shares that would have been outstanding during the period. The weighted average number of common shares was determined by taking the issued and outstanding common shares of Stelco Holdings Inc. as at September 25, 2017 of 10 common shares, and adding ● common shares which will be issued to Bedrock Industries B.V. to effect the acquisition of Stelco Inc.

The basic and diluted net income or loss per share, inclusive of the impact of the shares to be issued under the Offering, is \$ ● per share for the year ended December 31, 2016 and \$ ● per share for the six months ended June 30, 2017, calculated by dividing the net income or loss for the period by the pro forma weighted average numbers of common shares that would have been outstanding during the period. The weighted average number of common shares was determined by adding the issued and outstanding common shares of Stelco Holdings Inc. as at September 25, 2017 of ● common shares, and adding ● common shares which will be issued to Bedrock Industries B.V. to effect the acquisition of Stelco Inc. and ● common shares proposed to be issued under the Offering. If the full amount of the 15% Underwriters’ Over-Allotment Option is exercised, the pro forma weighted average number of shares outstanding would increase to ● , and pro forma basic and diluted net income or loss per share would decrease to \$ ● per share for the year ended December 31, 2016 and \$ ● per share for the six months ended June 30, 2017.

**STATEMENT OF FINANCIAL POSITION**

**STELCO HOLDINGS INC.**

As at September 25, 2017

## INDEPENDENT AUDITORS' REPORT

To the Board of Directors of Stelco Holdings Inc.

We have audited the accompanying statement of financial position of Stelco Holdings Inc. as at September 25, 2017, and notes, comprising a summary of significant accounting policies and other explanatory information (together "the financial statement").

### *Management's Responsibility for the Financial Statement*

Management is responsible for the preparation and fair presentation of this financial statement in accordance with International Financial Reporting Standards relevant to preparing such a financial statement, and for such internal control as management determines is necessary to enable the preparation of the financial statement that is free from material misstatement, whether due to fraud or error.

### *Auditors' Responsibility*

Our responsibility is to express an opinion on the financial statement based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statement is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statement. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the financial statement, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the financial statement 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. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statement.

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

### *Opinion*

In our opinion, the financial statement presents fairly, in all material respects, the financial position of Stelco Holdings Inc. as at September 25, 2017 in accordance with International Financial Reporting Standards relevant to preparing such a financial statement.

●

Chartered Professional Accountants, Licensed Public Accountants

● , 2017

Hamilton, Canada

**STELCO HOLDINGS INC.**  
**STATEMENT OF FINANCIAL POSITION**  
(In Canadian dollars)

<u>As at September 25</u>	<u>2017</u> <u>\$</u>
Cash . . . . .	<u>10</u>
<b>Total assets . . . . .</b>	<b><u>10</u></b>
Share capital . . . . .	<u>10</u>
<b>Total liabilities and shareholder's equity . . . . .</b>	<b><u>10</u></b>

On behalf of the Board of Directors

[NAME], Director

[NAME], Director

*See accompanying notes.*

**STELCO HOLDINGS INC.**  
**NOTES TO THE STATEMENT OF FINANCIAL POSITION**  
**(Expressed in Canadian dollars)**  
**September 25, 2017**

**1. BACKGROUND AND BASIS OF PREPARATION**

Stelco Holdings Inc. (“Stelco Holdings” or the “Company”) was incorporated on September 25, 2017 under the *Canada Business Corporations Act* as Stelco Holdings Inc. and issued 10 shares to Bedrock Industries B.V. on that date. The Company was formed for the purposes of completing a public offering of its common shares.

The Company’s registered and head offices are located at 386 Wilcox Street, Hamilton, Ontario.

These financial statements have been prepared by management in accordance with International Financial Reporting Standards (“IFRS”). All amounts are presented in Canadian dollars.

**2. BASIS OF PRESENTATION**

**Statement of Compliance**

These 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 financial statements were issued and effective as at September 25, 2017, the date the Board of Directors approved the Statement of Financial Position.

**3. SHARE CAPITAL**

The Company is authorized to issue (i) an unlimited number of common shares and (ii) an unlimited number of preferred shares, issuable in series. There are currently 10 common shares and no preferred shares issued and outstanding.

**4. SUBSEQUENT EVENTS**

The Company filed a final prospectus by way of an initial public offering on September 25, 2017 for the sale to the public of 10 common shares from treasury at a price of \$ 1.00 per share (the “Public Offering”), payable on closing for aggregate gross proceeds of \$ 10.00, subject to the terms of an underwriting agreement. The underwriters of the Public Offering were granted an over-allotment option, exercisable, in whole or in part, at the sole discretion of the underwriters, for a period of 30 days from the closing of the Public Offering, to purchase up to an additional 10 common shares for aggregate gross proceeds of \$ 10.00.

On closing of this offering, the Company will acquire all of the issued and outstanding shares of Stelco Inc. from Bedrock Industries B.V. The acquisition by the Company of Stelco Inc. from Bedrock Industries B.V. will be a transaction amongst entities under common control. The Company will account for this transaction using book value accounting, based on the book values that would be recognized in the consolidated financial statements of Bedrock Industries upon its acquisition of Stelco Inc. on June 30, 2017. The acquisition of Stelco Inc. 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*.

**UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**STELCO INC.**

**Three and Six Months Ended June 30, 2017**

**STELCO INC.**  
**INTERIM CONDENSED CONSOLIDATED STATEMENTS OF PROFIT OR LOSS**  
(In millions of Canadian dollars)  
**(unaudited)**

	Three Months Ended		Six Months Ended	
	June 30, 2017 \$	June 30, 2016 \$	June 30, 2017 \$	June 30, 2016 \$
<b>Operations</b>				
Revenue from sale of goods . . . . .	427	334	813	616
Commission income . . . . .	—	—	—	1
<b>Total revenue</b> . . . . .	<b>427</b>	334	<b>813</b>	617
Cost of goods sold . . . . .	<b>362</b>	320	<b>702</b>	641
<b>Gross profit (loss)</b> . . . . .	<b>65</b>	14	<b>111</b>	(24)
Selling, general and administrative expenses . . . . .	<b>40</b>	6	<b>50</b>	12
<b>Operating profit (loss)</b> . . . . .	<b>25</b>	8	<b>61</b>	(36)
Finance costs (note 9) . . . . .	<b>71</b>	55	<b>121</b>	82
Finance income . . . . .	—	—	(1)	—
Share of loss of joint ventures . . . . .	<b>1</b>	—	<b>1</b>	—
Restructuring costs . . . . .	<b>24</b>	10	<b>32</b>	17
Gain on emergence from CCAA (note 13) . . . . .	<b>(3,665)</b>	—	<b>(3,665)</b>	—
Other (income) loss . . . . .	<b>1</b>	—	<b>(3)</b>	—
<b>Income (loss) before income taxes</b> . . . . .	<b>3,593</b>	(57)	<b>3,576</b>	(135)
Income tax expense (note 10) . . . . .	—	—	—	—
<b>Income (loss) for the period</b> . . . . .	<b>3,593</b>	(57)	<b>3,576</b>	(135)

*See accompanying notes*

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

	<b>Three Months Ended</b>		<b>Six Months Ended</b>	
	<b>June 30, 2017 \$</b>	<b>June 30, 2016 \$</b>	<b>June 30, 2017 \$</b>	<b>June 30, 2016 \$</b>
<b>Income (loss) for the period . . . . .</b>	<b>3,593</b>	<b>(57)</b>	<b>3,576</b>	<b>(135)</b>
<b>Other comprehensive loss — <i>Items that will not subsequently be reclassified to profit or loss</i></b>				
Remeasurement losses on pension benefit obligations . . . . .	<u>(62)</u>	<u>(118)</u>	<u>(53)</u>	<u>(269)</u>
<b>Other comprehensive loss for the period, net of income taxes . . . . .</b>	<u>(62)</u>	<u>(118)</u>	<u>(53)</u>	<u>(269)</u>
<b>Total comprehensive income (loss) for the period, net of income taxes .</b>	<u><u>3,531</u></u>	<u><u>(175)</u></u>	<u><u>3,523</u></u>	<u><u>(404)</u></u>

*See accompanying notes*

**STELCO INC.**  
**INTERIM CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION**  
(In millions of Canadian dollars)  
**(unaudited)**

	June 30, 2017 \$	December 31, 2016 \$
<b>Assets</b>		
<b>Current</b>		
Cash and cash equivalents . . . . .	30	188
Restricted cash . . . . .	22	9
Trade and other receivables . . . . .	169	237
Inventories . . . . .	271	314
Prepaid expenses . . . . .	59	47
<b>Total current assets</b> . . . . .	<b>551</b>	<b>795</b>
Property, plant and equipment, net (note 4) . . . . .	298	378
Investment property . . . . .	—	21
Investment in joint ventures . . . . .	5	6
<b>Total non-current assets</b> . . . . .	<b>303</b>	<b>405</b>
<b>Total assets</b> . . . . .	<b>854</b>	<b>1,200</b>
<b>Liabilities and equity (deficiency)</b>		
<b>Current</b>		
Trade and other payables . . . . .	94	457
Current portion of long-term debt (note 5) . . . . .	—	1,822
Other liabilities (note 7) . . . . .	31	1,172
Employee benefit commitment (note 8) . . . . .	31	—
<b>Total current liabilities</b> . . . . .	<b>156</b>	<b>3,451</b>
Long-term debt (note 5) . . . . .	79	—
Provisions . . . . .	5	5
Pension and other post-employment benefits . . . . .	—	1,030
Other liabilities (note 7) . . . . .	22	1
Employee benefit commitment (note 8) . . . . .	286	—
<b>Total non-current liabilities</b> . . . . .	<b>392</b>	<b>1,036</b>
<b>Total liabilities</b> . . . . .	<b>548</b>	<b>4,487</b>
<b>Equity (deficiency)</b>		
Common shares . . . . .	2,325	2,325
Contributed surplus . . . . .	500	430
Retained deficit . . . . .	(2,519)	(6,042)
<b>Total equity (deficiency)</b> . . . . .	<b>306</b>	<b>(3,287)</b>
<b>Total liabilities and equity (deficiency)</b> . . . . .	<b>854</b>	<b>1,200</b>

*See accompanying notes*

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

	<b>Six Months Ended</b>	
	<b>June 30, 2017</b>	<b>June 30, 2016</b>
	<b>\$</b>	<b>\$</b>
<b>Operating activities</b>		
Income (loss) for the period . . . . .	3,576	(135)
Add (deduct) items not affecting cash		
Depreciation . . . . .	15	14
Interest expense and foreign exchange . . . . .	97	81
Loss on disposal of property, plant and equipment . . . . .	2	—
Share of loss of joint ventures . . . . .	1	—
Provision on pension and other post-employment benefits . . . . .	24	25
Payments to creditors under CCAA (note 13) . . . . .	(237)	—
Gain on emergence from CCAA (note 13) . . . . .	(3,665)	—
Changes in non-cash working capital balances related to operations:		
Trade and other receivables . . . . .	(31)	(18)
Inventories . . . . .	42	41
Prepaid expenses . . . . .	(12)	8
Trade and other payables . . . . .	9	(29)
Other liabilities . . . . .	10	—
	<u>18</u>	<u>2</u>
<b>Cash used in operating activities</b> . . . . .	<b>(169)</b>	<b>(13)</b>
<b>Investing activities</b>		
Purchases of property, plant and equipment . . . . .	(14)	(9)
Restricted cash . . . . .	(13)	3
<b>Cash used in investing activities</b> . . . . .	<b>(27)</b>	<b>(6)</b>
<b>Financing activities</b>		
Repayment of long-term debt . . . . .	(111)	—
Proceeds of long-term debt . . . . .	79	—
Proceeds from owner's contribution . . . . .	70	—
<b>Cash provided by financing activities</b> . . . . .	<b>38</b>	<b>—</b>
Net decrease in cash and cash equivalents . . . . .	(158)	(19)
Cash and cash equivalents, beginning of period . . . . .	188	162
<b>Cash and cash equivalents, end of period</b> . . . . .	<b>30</b>	<b>143</b>

*See accompanying notes*

**STELCO INC.**  
**INTERIM CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY (DEFICIENCY)**  
(In millions of Canadian dollars except shares)  
**(unaudited)**

	Number of common shares	Amount of common shares \$	Contributed surplus \$	Retained deficit \$	Total equity (deficiency) \$
<b>At December 31, 2015</b> . . . . .	<u>345</u>	<u>2,325</u>	<u>430</u>	<u>(5,866)</u>	<u>(3,111)</u>
Loss for the period . . . . .	—	—	—	(135)	(135)
Other comprehensive loss . . . . .	—	—	—	(269)	(269)
Total comprehensive loss . . . . .	—	—	—	(404)	(404)
<b>At June 30, 2016</b> . . . . .	<u><b>345</b></u>	<u><b>2,325</b></u>	<u><b>430</b></u>	<u><b>(6,270)</b></u>	<u><b>(3,515)</b></u>
<b>At December 31, 2016</b> . . . . .	<u>345</u>	<u>2,325</u>	<u>430</u>	<u>(6,042)</u>	<u>(3,287)</u>
Net income for the period . . . . .	—	—	—	3,576	3,576
Other comprehensive loss . . . . .	—	—	—	(53)	(53)
Total comprehensive income . . . . .	—	—	—	3,523	3,523
Equity contribution from owners . . . . .	—	—	70	—	70
<b>At June 30, 2017</b> . . . . .	<u><b>345</b></u>	<u><b>2,325</b></u>	<u><b>500</b></u>	<u><b>(2,519)</b></u>	<u><b>306</b></u>

*See accompanying notes*

## NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in millions of Canadian dollars except where otherwise indicated)

June 30, 2017 and 2016

### 1. CORPORATE INFORMATION

#### *Business description*

Stelco Inc. (formerly known as U. S. Steel Canada Inc.) (“Stelco” or the “Company”) is principally engaged in the production and selling of steel products. The Company is an integrated steel producer with facilities in two locations, Hamilton and Nanticoke, Ontario, which produce a variety of steel products for customers in the steel service center, appliance, automotive, energy, construction, pipe and tube industries in North America. Stelco is a private company incorporated under the laws of the federal government of Canada, with its head office located at 386 Wilcox Street, Hamilton, Ontario.

#### *CCAA history*

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

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

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

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

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

Pursuant to the above, on June 30, 2017, Bedrock Industries L.P. indirectly acquired substantially all of Stelco’s operating assets and business on a going concern basis through acquisition of all of the outstanding shares of Stelco.

These interim condensed consolidated financial statements of Stelco for the three and six months ended June 30, 2017 were authorized for issue in accordance with a resolution of the directors on September 1, 2017.

### 2. BASIS OF PRESENTATION

The interim condensed consolidated financial statements have been prepared by management in accordance with IAS 34, *Interim Financial Reporting*, as issued by the International Accounting Standards Board (“IASB”). The interim condensed consolidated financial statements do not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Company’s annual financial statements as at and for the periods ended December 31, 2016, 2015 and 2014 (“2016 Annual Financial Statements”).

The accounting policies adopted in the preparation of the interim condensed consolidated financial statements are consistent with those followed in the preparation of the Company’s 2016 Annual Financial Statements.

## NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Expressed in millions of Canadian dollars except where otherwise indicated)

June 30, 2017 and 2016

### 3. NEW ACCOUNTING PRONOUNCEMENTS

Standards and amendments issued but not yet effective up to the date of issuance of these interim condensed consolidated financial statements are described below. The following discussion is of the standards, amendments and interpretations issued that the Company reasonably expects to be applicable at a future date. The Company intends to adopt these standards when they become effective.

#### **IFRS 9, *Financial Instruments* (“IFRS 9”)**

In July 2014, the IASB issued the final version of IFRS 9. IFRS 9 is effective for annual periods beginning on or after January 1, 2018, with early adoption permitted. The standard contains requirements in the following areas: classification and measurement; impairment; hedge accounting and de-recognition. The actual impact of adopting IFRS 9 on the Company's consolidated financial statements in 2018 is not known and cannot be reliably estimated because it will be dependent on the financial instruments that the Company holds and economic conditions at that time as well as accounting elections and judgments that it will make in the future. The new standard will require the Company to revise its accounting processes and internal controls related to the reporting of financial instruments and these changes are not yet complete. The Company is currently in the process of evaluating the financial statement implications of adopting IFRS 9.

#### **IFRS 15, *Revenue from Contracts with Customers* (“IFRS 15”)**

IFRS 15 was issued in May 2014 and additionally clarified in April 2016. It 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 new revenue standard will supersede all current revenue recognition requirements under IFRS. Either a full retrospective application or a modified retrospective application is required for annual periods beginning on or after January 1, 2018. Early adoption is permitted. The Company is currently in the process of evaluating the financial statement implications of adopting IFRS 15.

#### **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*; 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. The Company is currently in the process of evaluating the financial statement implications of adopting IFRS 16.

#### **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 is currently assessing the impact of IFRIC 23 on its consolidated financial statements.

### 4. PROPERTY, PLANT AND EQUIPMENT

#### **a. Acquisitions and disposals**

On June 30, 2017, in connection with the Company's emergence from CCAA, land and buildings with a carrying amount of \$99 were sold to Legacy Lands Limited Partnership and leased back by Stelco. The lease of land was determined to be an operating lease and the lease of the building was determined to be a finance lease. The finance lease classification for the building resulted in \$22 being recorded within property, plant and equipment as at June 30, 2017 in regards to the assets under lease.

#### **b. Assets held under finance leases**

The Company leases equipment and, as of June 30, 2017, buildings under finance lease arrangements. As at June 30, 2017, the net carrying amount of the leased equipment and building was \$23 (December 31, 2016 — \$2).

**NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

(Expressed in millions of Canadian dollars except where otherwise indicated)

**June 30, 2017 and 2016**

**5. LONG-TERM DEBT**

**Interest-bearing loans and borrowings**

	Weighted average interest rate %	Maturity	June 30, 2017 \$	December 31, 2016 \$
<b>Current interest-bearing loans and borrowings</b>				
Ontario provincial loan . . . . .	1.00	31-Mar-16	—	150
USS term loan . . . . .	9.03	31-Oct-37	—	1,419
USS secured revolving loan . . . . .	3.35	11-May-25	—	96
USS unsecured revolving loan . . . . .	2.37	11-May-25	—	157
<b>Total current interest-bearing loans and borrowings . . . . .</b>			<b>—</b>	<b>1,822</b>
<b>Non-current interest-bearing loans and borrowings</b>				
Asset-based lending facility . . . . .	3.95	30-Jun-22	<b>68</b>	—
Province advance . . . . .	2.00	29-Jun-20	<b>11</b>	—
<b>Total non-current interest-bearing loans and borrowings . . . . .</b>			<b>79</b>	<b>—</b>
<b>Total interest-bearing loans and borrowings . . . . .</b>			<b>79</b>	<b>1,822</b>

**Province of Ontario note**

Stelco was provided with \$150 on March 31, 2006 from the Province of Ontario (the “Province Note”) in connection with the restructuring of the pension plan funding arrangements as contemplated by the CCAA. The Province Note was unsecured and repayable on December 31, 2015, with an automatic extension to March 31, 2016 per the terms of the agreement in the event that the principle amount remained outstanding. The Province Note, which was past due as at December 31, 2016, was subject to an interest rate of 1% per annum with an effective rate based on its recognition date fair value of 12%. As a result of Stelco’s CCAA filing in 2014, the loan was considered to be in default, and the discount was fully accreted to record the loan at its face value of \$150. The loan continued to accrue interest at 1% while the Company was under CCAA, and therefore the 1% contractual interest was recognized through the three and six months ended June 30, 2017. Upon emergence from CCAA on June 30, 2017, the Province Note was extinguished (refer to note 13).

**USS revolving credit agreement**

In May 2010, Stelco entered into an unsecured revolving credit facility where the Company could draw an aggregate amount of US\$350 at any one time. Through an amendment in July 2012, this aggregate amount was increased to US\$500 and through a second amendment in January 2013, this aggregate amount was further increased to US\$600. Further amendments in 2013 secured certain obligations owing by Stelco to USS under the facility. Under the terms of the revolving credit agreement, the outstanding balance must be paid by the maturity date; however, payments on an outstanding balance can be made prior to this. Draws on the revolver are subject to interest from the date of the advance until the date on which the advance is paid in full, at the safe-harbour Applicable Federal Rate as prescribed by the Internal Revenue Service. Interest was payable upon the second anniversary date of the loan and biennially thereafter. Upon emergence from CCAA on June 30, 2017, the USS revolving credit agreement was extinguished (refer to note 13).

**USS term loan**

In October 2007, Stelco entered into a term loan for an amount of \$1,000 with a maturity date of October 31, 2037. Through an amendment in December 2007, the term loan amount increased to \$1,500. Interest on the term loan accrued daily and compounded semi-annually at an interest rate of 9.03% per year. Interest was payable on the last business day of the year on the second anniversary after the year in which it was accrued. Upon emergence from CCAA on June 30, 2017, the USS term loan was extinguished (refer to note 13).

**Event of default under revolving credit facility and term loan with USS**

The CCAA filing on September 16, 2014 was considered to be an event of default under the USS term loan facility and revolving credit facility, which resulted in the loan balances and any accrued and unpaid interest to be due on demand. The Company has presented

**NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**(Expressed in millions of Canadian dollars except where otherwise indicated)**

**June 30, 2017 and 2016**

**5. LONG-TERM DEBT (Continued)**

these obligations as current as at December 31, 2016 reporting period. The loans continued to accrue interest while the Company was under CCAA at the rates stipulated within the agreements as noted above.

**Asset-based lending (“ABL”) facility**

In connection with the restructuring of Stelco as further described in note 13, the Company entered into an ABL revolving loan agreement on June 30, 2017 with a syndicate of lenders for a maximum revolver amount of \$375. The interest on Canadian/US dollar denominated funds is the Canadian/US prime rate plus 1% — 1.5%, depending on the amount that has been drawn under the facility, and is payable monthly. However, the Company also has the option to index the interest rate to CDOR/LIBOR plus a margin of 2% — 2.5%, and may elect this in the event that it results in a lower rate of interest on its draws under the revolver. Additionally, the Company is subject to payment of an unused line fee ranging from 0.25% — 0.375% on the unused portion of the revolver, depending on the amount undrawn, and is payable monthly. The Company can obtain letters of credit under the facility at a rate of 2% — 2.5%. The Company has no letters of credit outstanding as at June 30, 2017. The revolver matures on June 30, 2022. At June 30, 2017, the Company had drawn \$68 on this facility.

**Province advance**

On June 30, 2017, Stelco entered into a secured credit agreement with the Province of Ontario (the “Province Advance”) in connection with the funding of future pension and OPEB commitments. The Province Advance permits Stelco to borrow up to \$22, comprising up to \$10.5 (the “First Advance”) on June 30, 2017 and up to \$2.875 on each of June 30, 2018, October 1, 2018, January 1, 2019 and April 1, 2019 (the “Second Advances”). The First Advance is due on June 29, 2020, and the Second Advances are due on June 29, 2021. The Province Advance is subject to an interest rate of the Province’s cost of funds for a four-year non-amortizing bond as at June 30, 2017 plus 1%. Interest is compounded semi-annually and payable on the maturity dates of the First Advance and Second Advances, respectively. An amount of \$11 was advanced as at June 30, 2017.

**6. FINANCIAL ASSETS AND FINANCIAL LIABILITIES**

**Financial assets**

Financial assets comprise cash and cash equivalents, restricted cash as well as trade and other receivables.

**Financial liabilities**

Financial liabilities comprise trade and other payables, interest-bearing loans and borrowings, finance lease obligations as well as the employee benefit commitment.

The Company’s interest-bearing loans and borrowings and employee benefit commitment are measured at amortized cost using the effective interest method.

The fair values of cash and cash equivalents, restricted cash, trade and other receivables as well as trade and other payables 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.

**7. OTHER LIABILITIES**

Other liabilities comprise the following:

	<b>June 30, 2017</b>	<b>December 31, 2016</b>
	<b>\$</b>	<b>\$</b>
Interest payable . . . . .	—	871
Finance lease obligation . . . . .	23	1
Salaries and benefits payable . . . . .	30	20
Pension and other post-employment benefits . . . . .	—	281
<b>Total other financial liabilities</b> . . . . .	<b>53</b>	<b>1,173</b>
<b>Total current other financial liabilities</b> . . . . .	<b>31</b>	<b>1,172</b>

**NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

(Expressed in millions of Canadian dollars except where otherwise indicated)

**June 30, 2017 and 2016**

**8. EMPLOYEE BENEFIT COMMITMENT**

	<b>June 30, 2017</b>	<b>December 31, 2016</b>
	<b>\$</b>	<b>\$</b>
Employee benefit commitment . . . . .	<u>317</u>	—
<b>Total non-current</b> . . . . .	<u>286</u>	—
<b>Total current</b> . . . . .	<u>31</u>	—

The employee benefit commitment resulted from the emergence from CCAA on June 30, 2017. This financial liability has been initially recorded at its fair value of \$317 at June 30, 2017, which is measured based on unobservable Level 3 inputs, using a discounted cash flow analysis of expected cash flows to be paid in future periods to the Pension and OPEB trusts that were established upon the Company's emergence from CCAA. These payments consist of contractually fixed payments as well as estimated payments that have been determined using management estimates of the Company's future operating performance. The contractually fixed payments are discounted using a rate that is reflective of senior unsecured debt for companies in the same sector that are of a similar size. The rate used to discount expected payments based on projected operational profitability is consistent with the Company's anticipated internal rate of return. The measurement of fair value is classified within Level 3 of the fair value hierarchy. The employee benefit commitment will be subsequently accounted for at amortized cost using the effective interest method using an effective interest rate of (11.04%).

The fair value of the employee benefit commitment is estimated by discounting the future estimated cash flows at the noted discount rates, which approximates its carrying value.

**9. FINANCE COSTS**

The following table summarizes the main components of finance cost:

	<b>Three Months Ended June 30,</b>		<b>Six Months Ended June 30,</b>	
	<b>2017</b>	<b>2016</b>	<b>2017</b>	<b>2016</b>
	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>
Foreign exchange loss (gain) . . . . .	8	5	5	(16)
Interest on loans and borrowings . . . . .	54	50	106	98
Restructuring finance costs . . . . .	9	—	9	—
Other . . . . .	—	—	1	—
<b>Total finance costs</b> . . . . .	<u>71</u>	<u>55</u>	<u>121</u>	<u>82</u>

**10. INCOME TAXES**

The major components of income tax expense for the six months ended June 30 are as follows:

	<b>2017</b>	<b>2016</b>
	<b>\$</b>	<b>\$</b>
<b>Deferred income tax:</b>		
Origination and reversal of temporary differences . . . . .	768	(32)
Write-down or reversal of deferred tax assets . . . . .	<u>(768)</u>	<u>32</u>
<b>Income tax expense reported in the income statement</b> . . . . .	<u>—</u>	<u>—</u>

**NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

(Expressed in millions of Canadian dollars except where otherwise indicated)

**June 30, 2017 and 2016**

**10. INCOME TAXES (Continued)**

**Reconciliation of effective tax rate for the six months ended June 30:**

	2017 \$	2016 \$
Income (loss) before income taxes . . . . .	3,576	(135)
Combined Canadian federal and provincial income tax rate . . . . .	25%	25%
<b>Income tax expense (recovery) based on statutory rate . . . . .</b>	<b>894</b>	<b>(34)</b>
<b>Increase (decrease) in income taxes resulting from non-taxable items or adjustments of prior year taxes:</b>		
Permanent differences:		
Debt forgiveness . . . . .	481	—
Restructuring gain . . . . .	(707)	—
Other . . . . .	(1)	—
Environmental . . . . .	(20)	—
Settlement of debt . . . . .	79	—
Non-deductible interest . . . . .	42	2
Write-down or reversal of deferred tax assets . . . . .	(768)	32
<b>Total income tax expense . . . . .</b>	<b>—</b>	<b>—</b>

Deferred tax

Deferred tax relates to the following as at:

	June 30, 2017 \$	June 30, 2016 \$	December 31, 2015 \$
Non-capital and capital loss carry-forwards . . . . .	214	830	814
Plant and equipment . . . . .	28	184	182
Provisions . . . . .	4	—	1
Deductible SRED expenditures . . . . .	9	9	9
Pension and other post-employment benefits . . . . .	—	345	272
Employee benefit commitment . . . . .	79	—	—
Compound interest . . . . .	—	33	28
Province of Ontario note . . . . .	—	28	28
Unrealized foreign exchange . . . . .	—	13	9
Impairment provision of investment in subsidiaries . . . . .	2	2	2
Land . . . . .	—	4	4
Deferred tax assets not recognized . . . . .	(336)	(1,443)	(1,344)
<b>Deferred tax asset . . . . .</b>	<b>—</b>	<b>5</b>	<b>5</b>
Investment property . . . . .	—	(5)	(5)
<b>Deferred tax liability . . . . .</b>	<b>—</b>	<b>(5)</b>	<b>(5)</b>
<b>Net deferred tax asset (liability) . . . . .</b>	<b>—</b>	<b>—</b>	<b>—</b>

**NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

(Expressed in millions of Canadian dollars except where otherwise indicated)

**June 30, 2017 and 2016**

**10. INCOME TAXES (Continued)**

**Reconciliation of net deferred tax asset (liability) as at:**

	June 30, 2017 \$	Movement \$	June 30, 2016 \$	Movement \$	December 31, 2015 \$
Non-capital and capital loss carry-forwards . . .	214	(616)	830	16	814
Plant and equipment . . . . .	28	(156)	184	2	182
Provisions . . . . .	4	4	—	(1)	1
Deductible SRED expenditures . . . . .	9	—	9	—	9
Pension and other post-employment benefits . .	—	(345)	345	73	272
Employee benefit commitment . . . . .	79	79	—	—	—
Compound interest . . . . .	—	(33)	33	5	28
Province of Ontario note . . . . .	—	(28)	28	—	28
Unrealized foreign exchange . . . . .	—	(13)	13	4	9
Impairment provision of investment in subsidiaries . . . . .	2	—	2	—	2
Land . . . . .	—	(4)	4	—	4
Deferred tax assets not recognized . . . . .	(336)	1,107	(1,443)	(99)	(1,344)
Investment property . . . . .	—	5	(5)	—	(5)
<b>Net deferred tax asset (liability) . . . . .</b>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>

Non-capital loss carry-forward as at June 30:

	2017 \$	2016 \$
2027 . . . . .	—	11
2028 . . . . .	—	—
2029 . . . . .	—	1,247
2030 . . . . .	—	702
2031 . . . . .	—	182
2032 . . . . .	55	296
2033 . . . . .	400	401
2034 . . . . .	164	164
2035 . . . . .	238	238
2036 . . . . .	—	63
<b>Total . . . . .</b>	<u>857</u>	<u>3,304</u>

The capital loss carry-forward balance after CCAA emergence of \$nil (2016 — \$29) expired unused on acquisition of control of the Company on June 30.

The benefit of investment tax credits of \$nil (2016 — \$9) has not been accrued in the interim condensed consolidated financial statements of the Company. The use of the available credits is dependent on the realization of sufficient future taxable profit within the carry-forward period. On acquisition of the Company, all available credits were eliminated pursuant to the emergence from CCAA.

Unrecognized non-capital losses, investment tax credits, deductible 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 after acquisition 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 its associated Regulations.

**11. 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.

**NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**(Expressed in millions of Canadian dollars except where otherwise indicated)**

**June 30, 2017 and 2016**

**11. CAPITAL MANAGEMENT (Continued)**

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 external restrictions.

The Company has completed the process of negotiating with its stakeholders for a restructuring of its capital structure, including its long-term debt.

Stelco's capital structure consists of long-term debt and equity (deficiency) as follows:

	<b>June 30, 2017</b>	<b>December 31, 2016</b>
	<b>\$</b>	<b>\$</b>
Total long-term debt . . . . .	79	1,822
Total equity (deficiency) . . . . .	<u>306</u>	<u>(3,287)</u>
<b>Total</b> . . . . .	<u><b>385</b></u>	<u><b>(1,465)</b></u>

**12. COMMITMENTS AND CONTINGENCIES**

**Operating leases**

The Company has entered into operating leases on its machinery and equipment, with lease terms between three and five years. Additionally, in connection with the Company's emergence from CCAA (note 13), the Company sold and leased back on a 25-year operating lease the land on which Hamilton Works and Lake Erie Works are situated.

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

	<b>June 30, 2017</b>	<b>December 31, 2016</b>
	<b>\$</b>	<b>\$</b>
Within 1 year . . . . .	4	4
2 to 5 years . . . . .	25	8
Over 5 years . . . . .	<u>142</u>	<u>—</u>
<b>Total</b> . . . . .	<u><b>171</b></u>	<u><b>12</b></u>

**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 financial position, results of operations or cash flows.

Additional commitments have been disclosed in note 13.

**13. EMERGENCE FROM CCAA**

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

- Bedrock indirectly acquired all of Stelco's shares from U. S. Steel for cash proceeds of \$70;
- Secured claims amounting to US\$127 of U. S. Steel for the USS Holdings secured revolving loan and interest (discussed in note 5), which includes US\$49 of other USS trade claims recognized as related party transactions, were paid in full;
- Secured claims relating to construction liens of \$11 and realty taxes of \$16 were settled in full;

## NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Expressed in millions of Canadian dollars except where otherwise indicated)

June 30, 2017 and 2016

### 13. EMERGENCE FROM CCAA (Continued)

- Unsecured claims of U. S. Steel loans totaling \$1,576 plus accrued interest, consisting of the USS term loan and USS unsecured revolving loan (note 5), and net trade amounts of \$26 recognized as related party transactions, were discharged and cancelled for nominal consideration;
- General unsecured creditors with proven claims totaling approximately \$131, which consisted primarily of trade payables, participated in a pool of \$15 in respect of their claims. The Province of Ontario waived its distribution in respect of its general unsecured loan of \$150 plus interest (note 5). In addition, Stelco paid \$9 to settle certain salaried employee and retiree claims. Upon implementation of the Plan, all of these claims were compromised, released, fully discharged and barred;
- U. S. Steel agreed to continue to provide certain business and transition services to Stelco for specified periods and for agreed upon pricing;
- Stelco committed to purchasing all of its iron ore requirements from U. S. Steel through the 2021 shipping season up to a specified maximum amount;
- Stelco's pension and OPEB liabilities of \$1,387 were cancelled and discharged, and the Company concurrently entered into new funding commitments with the pension and OPEB trusts. Stelco committed to pay up to a maximum of \$430 (\$30 million of which was paid on June 30, 2017) to fund the Lake Erie Bargaining Unit Pension Plan, Lake Erie Salaried Pension Plan, Hamilton Bargaining Unit Pension Plan, Hamilton Salaried Pension Plan, and the Pickle Line Pension Plan (collectively the "Main Pension Plans"); a portion of this funding is paid with certain tax-related savings amounts and a certain percentage of free cash flow that will be guaranteed by Bedrock up to \$160;
- Stelco committed to make fixed contributions of approximately \$300 over 20 years to independent trusts created for the purpose of receiving, holding and distributing funds (the "OPEB Entities") on account of OPEBs for legacy employees of Stelco, of which \$22 will be funded through a non-revolving loan provided by the Province of Ontario (discussed in note 5). In addition, Stelco has agreed to pay a portion of its free cash flows and certain tax-related savings amounts to the OPEB Entities subject to certain provincial credit facilities being repaid. Furthermore, Stelco has agreed to make a secured loan available of up to \$39 to the OPEB Entities;
- Stelco entered into a Tax Savings Agreement with the Province of Ontario, the administrator of the Main Pension Plans and the OPEB Entities pursuant to which 50% of the tax attributes of the Company as at June 30, 2017 will be cancelled. The Company will be required to make payments equal to 33.5% of its annual tax savings realized through the use of its remaining tax attributes. The Main Pension Plans are entitled to the first \$75 of the tax savings, after which they will be shared equally between the Main Pension Plans and the OPEB Entities.
- Stelco transferred all of its land assets at Hamilton Works and Lake Erie Works with a net book value of \$99 (note 4) as well as the investment property with a net book value of \$21 to an independent entity (the "Land Vehicle") formed to hold these lands for the benefit of the independent Pension Trusts and OPEB Entities;
- Stelco entered into a 25-year lease with two 10-year renewal terms and one final 4-year term with the Land Vehicle in respect of the real property on which Hamilton Works and Lake Erie Works are situated; the undiscounted minimum lease payments for the non-cancellable lease term are \$229;
- The Province of Ontario was paid \$79 as a financial assurance that will be held by the Ontario Ministry of the Environment and Climate Change on behalf of the Land Vehicle for the purposes of addressing historical environmental contamination, if any; any amount of such financial assurance that is not required by the Province of Ontario will be released to repay first any outstanding amounts in certain provincial credit facilities, or otherwise in favour of the independent Pension Trusts and OPEB Entities;
- The Province of Ontario provided a non-revolving loan of \$22 to Stelco consisting of \$10.5 available to be drawn in 2017 and repayable in 2020 and \$11.5 available to be drawn in 2018 and repayable in 2021. Further information on the terms of the loan is provided in note 5; and
- Stelco entered into a revolving asset-based lending facility pursuant to which it has the ability to borrow up to the lesser of \$375 and a borrowing base calculation that includes a percentage of net accounts receivable, inventory less other reserves. Further information on the terms of the loan are provided in note 5.

As a result of the implementation of the Plan, Stelco recognized a gain on emergence from CCAA of \$3,665 on June 30, 2017.

On September 25, 2017, Bedrock Industries B.V., the direct parent of Stelco, formed a wholly owned subsidiary, Stelco Holdings Inc. Stelco Holdings Inc. is planning to complete a public offering; should the public offering be successfully completed, it is intended that Stelco will become a wholly owned subsidiary of Stelco Holdings Inc. upon closing of the offering.

## NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Expressed in millions of Canadian dollars except where otherwise indicated)

June 30, 2017 and 2016

### 14. RELATED PARTY TRANSACTIONS AND KEY MANAGEMENT PERSONNEL REMUNERATION

Upon being acquired on June 30, 2017, the Company became a related party of Bedrock. As part of the purchase transaction, transaction costs of \$18 million incurred by Bedrock on behalf of the Company were recognized as a payable and as a selling, general and administrative expense. In addition, the Company has executed a management services agreement with an affiliate of Bedrock under which the Company will receive senior management, commercial, business development, operating, financial, human resources, and executive recruitment services, as well as other services that may be required from time to time. Fees for services will be based upon actual costs incurred by Bedrock, plus a 2% mark-up on management services fees up to \$5, and any services above \$5 will be reimbursed at cost.

#### Key management personnel

Stelco's key management personnel, and persons connected with them, are also considered to be related parties for disclosure purposes. Key management personnel are defined as those individuals having authority and responsibility for planning, directing and controlling the activities of Stelco and comprise the Executive Senior Leadership Team, expatriates in executive positions as well as contracted services provided by the Chief Restructuring Officer, General Counsel and Director of Corporate Services.

During the six months ended June 30, 2017, Stelco recorded \$2 (2016 — \$3) as an expense related to key management personnel salaries and benefits, post-employment pension, medical and termination benefits.

### 15. EVENTS AFTER THE REPORTING PERIOD

#### Establishment of new pension plans

Pursuant to Ontario Regulation 255/17 ("Regulation") made under the *Pension Benefits Act* (Ontario) on June 30, 2017, the Company is required to establish a new pension plan for service on and after January 1, 2018 for the active hourly and salaried employees of the Company on 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 (see note 13). Under the Regulation, the Company is required to make annual contributions for the years 2018 to 2027 inclusive. Required contributions for years 2018 through 2023 are \$4 annually and decline to \$3 annually for years 2024 through 2027. After 2027, these plans are subject to the *Pension Benefit Act* (Ontario).

#### Derivative financial instruments

On July 28, 2017, the Company entered into forward hedging arrangements to hedge the conversion of a portion of US dollar denominated revenue. Under the terms of the hedging arrangements, the Company agreed to sell an aggregate of up to \$45 US dollar calls and Canadian dollar puts and purchase up to \$90 in US dollar puts and Canadian dollar calls in specified tranches between August 30, 2017 and July 30, 2018.

**CONSOLIDATED FINANCIAL STATEMENTS**

**STELCO INC.**

**December 31, 2016, 2015 and 2014**

## INDEPENDENT AUDITORS' REPORT

To the Board of Directors of Stelco Inc.

We have audited the accompanying consolidated financial statements of Stelco Inc. (formerly known as U.S. Steel Canada Inc.), which comprise the consolidated statements of financial position as at December 31, 2016, December 31, 2015, December 31, 2014 and January 1, 2014, the consolidated statements of loss, comprehensive loss, changes in equity (deficiency) and cash flows for each of the years in the three year period ended December 31, 2016, and notes, comprising a summary of significant accounting policies and other explanatory information.

### *Management's Responsibility for the Consolidated Financial Statements*

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

### *Auditors' Responsibility*

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements 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. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our unmodified audit opinion for the year ended December 31, 2016 and our qualified audit opinion for the years ended December 31, 2015 and December 31, 2014.

### *Basis for Qualified Opinion for the years ended December 31, 2015 and December 31, 2014 and as at January 1, 2014*

We were not able to satisfy ourselves concerning inventory quantities held at December 31, 2014 and January 1, 2014, either by observing the counting of the physical inventory or through alternative means. Accordingly, we were unable to determine whether adjustments might have been necessary in respect of the inventory reported in the consolidated statement of financial position and the related note disclosure as at December 31, 2014 and January 1, 2014.

Furthermore, since inventory quantities held at December 31, 2014 and January 1, 2014 represent the opening period inventory quantities for the years ended December 31, 2015 and December 31, 2014, respectively, and such opening inventory enters into the determination of consolidated financial performance and consolidated cash flows, we were also unable to determine whether adjustments might have been necessary in respect of the income reported in the consolidated statements of loss, comprehensive loss and changes in equity (deficiency) and the components of cash flows from operating activities reported in the consolidated statement of cash flows for the years ended December 31, 2015 and December 31, 2014.

*Qualified Opinion for the years ended December 31, 2015, December 31, 2014 and as at January 1, 2014*

In our opinion, except for the possible effects of the matter described in the Basis for Qualified Opinion paragraph for the years ended December 31, 2015 and December 31, 2014 and as at January 1, 2014, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of Stelco Inc. as at December 31, 2015, December 31, 2014, and January 1, 2014 and its consolidated financial performance and its consolidated cash flows for the years ended December 31, 2015 and December 31, 2014 in accordance with International Financial Reporting Standards.

*Unmodified Opinion for the year ended December 31, 2016*

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of Stelco Inc. as at December 31, 2016, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards.

•

Chartered Professional Accountants, Licensed Public Accountants

•, 2017

Hamilton, Canada

**STELCO INC.**  
**CONSOLIDATED STATEMENTS OF LOSS**  
(In millions of Canadian dollars)  
Years ended December 31

	<u>2016</u> \$	<u>2015</u> \$	<u>2014</u> \$
<b>Operations</b>			
Revenue from sale of goods . . . . .	1,301	1,341	1,884
Commission income . . . . .	<u>1</u>	<u>6</u>	<u>9</u>
	<b>1,302</b>	1,347	1,893
Cost of goods sold ( <i>notes 9 and 18</i> ) . . . . .	<u>1,287</u>	<u>1,440</u>	<u>1,855</u>
<b>Gross profit (loss)</b> . . . . .	<b>15</b>	(93)	38
Selling, general and administrative expenses ( <i>note 18</i> ) . . . . .	<u>24</u>	<u>28</u>	<u>44</u>
<b>Operating loss</b> . . . . .	<b>(9)</b>	(121)	(6)
Finance costs ( <i>note 17</i> ) . . . . .	197	236	200
Impairment loss . . . . .	—	—	14
Finance income . . . . .	(1)	(1)	(1)
Share of loss of joint ventures ( <i>note 12</i> ) . . . . .	1	1	2
Gain on disposal of property, plant and equipment . . . . .	(2)	—	—
Restructuring costs . . . . .	36	33	13
Other income . . . . .	<u>(4)</u>	<u>(1)</u>	<u>(1)</u>
<b>Loss before income taxes</b> . . . . .	<b>(236)</b>	(389)	(233)
Income tax expense ( <i>note 19</i> ) . . . . .	—	—	—
<b>Loss for the year</b> . . . . .	<u><b>(236)</b></u>	<u>(389)</u>	<u>(233)</u>

*See accompanying notes*

**STELCO INC.**  
**CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS**  
(In millions of Canadian dollars)  
Years ended December 31

	<u>2016</u>	<u>2015</u>	<u>2014</u>
	<u>\$</u>	<u>\$</u>	<u>\$</u>
<b>Loss for the year</b> . . . . .	<b>(236)</b>	<b>(389)</b>	<b>(233)</b>
<b>Other comprehensive income (loss)</b>			
Remeasurement gains (losses) on pension benefit obligations, net of income tax . . . . .	<u>60</u>	<u>53</u>	<u>(232)</u>
<b>Other comprehensive income (loss) for the year, net of income taxes</b> . . . . .	<u>60</u>	<u>53</u>	<u>(232)</u>
<b>Total comprehensive loss for the year, net of income taxes</b> . . . . .	<u><u>(176)</u></u>	<u><u>(336)</u></u>	<u><u>(465)</u></u>

*See accompanying notes*

**STELCO INC.**  
**CONSOLIDATED STATEMENTS OF FINANCIAL POSITION**  
(In millions of Canadian dollars)  
As at December 31

	2016 \$	2015 \$	2014 \$	As at January 1, 2014 \$
<b>Assets</b>				
<b>Current</b>				
Cash and cash equivalents (note 7) . . . . .	188	162	199	42
Restricted cash . . . . .	9	9	3	—
Trade and other receivables (note 8) . . . . .	237	268	354	253
Inventories (note 9) . . . . .	314	282	405	508
Prepaid expenses (note 10) . . . . .	47	50	57	4
<b>Total current assets</b> . . . . .	<b>795</b>	<b>771</b>	<b>1,018</b>	<b>807</b>
Property, plant and equipment, net (note 11) . . . . .	378	386	384	386
Investment property . . . . .	21	21	21	21
Investment in joint ventures (note 12) . . . . .	6	7	8	24
Pension plan assets (note 20) . . . . .	—	16	16	18
Other non-current assets . . . . .	—	4	1	2
<b>Total non-current assets</b> . . . . .	<b>405</b>	<b>434</b>	<b>430</b>	<b>451</b>
<b>Total assets</b> . . . . .	<b>1,200</b>	<b>1,205</b>	<b>1,448</b>	<b>1,258</b>
<b>Liabilities and Equity (deficiency)</b>				
<b>Current</b>				
Trade and other payables (note 13) . . . . .	457	459	478	217
Current portion of long-term debt (note 21) . . . . .	1,822	1,829	1,787	—
Other liabilities (note 14) . . . . .	1,172	973	632	324
Provisions (note 15) . . . . .	—	1	10	9
<b>Total current liabilities</b> . . . . .	<b>3,451</b>	<b>3,262</b>	<b>2,907</b>	<b>550</b>
Long-term debt (note 21) . . . . .	—	—	—	1,741
Provisions (note 15) . . . . .	5	2	3	2
Pension and other post-employment benefits (note 20) . . . . .	1,030	1,047	1,306	1,114
Other liabilities (note 14) . . . . .	1	5	7	161
<b>Total non-current liabilities</b> . . . . .	<b>1,036</b>	<b>1,054</b>	<b>1,316</b>	<b>3,018</b>
<b>Total liabilities</b> . . . . .	<b>4,487</b>	<b>4,316</b>	<b>4,223</b>	<b>3,568</b>
<b>Equity (deficiency)</b>				
Common shares (note 16) . . . . .	2,325	2,325	2,325	2,325
Contributed surplus . . . . .	430	430	430	430
Retained deficit . . . . .	(6,042)	(5,866)	(5,530)	(5,065)
<b>Total equity (deficiency)</b> . . . . .	<b>(3,287)</b>	<b>(3,111)</b>	<b>(2,775)</b>	<b>(2,310)</b>
<b>Total liabilities and equity (deficiency)</b> . . . . .	<b>1,200</b>	<b>1,205</b>	<b>1,448</b>	<b>1,258</b>

See accompanying notes

**STELCO INC.**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
(In millions of Canadian dollars)  
**Years ended December 31**

	<u>2016</u>	<u>2015</u>	<u>2014</u>
	\$	\$	\$
<b>Operating activities</b>			
Loss for the year . . . . .	(236)	(389)	(233)
Add (deduct) items not affecting cash			
Depreciation . . . . .	29	27	25
Interest expense and foreign exchange . . . . .	192	228	201
Impairment on joint ventures . . . . .	—	—	14
Gain on disposal of property, plant and equipment . . . . .	(2)	—	—
Share of loss of joint ventures . . . . .	1	1	2
Provision on pension and other post-employment benefits . . . . .	60	(38)	(45)
Bad debt expense (recovery) . . . . .	—	(3)	1
Changes in non-cash working capital balances related to operations			
Trade and other receivables . . . . .	31	88	(101)
Inventories . . . . .	(32)	123	103
Prepaid expenses . . . . .	3	7	(53)
Trade and other payables . . . . .	(3)	(19)	261
Other liabilities . . . . .	(3)	(16)	7
Provisions . . . . .	3	(8)	1
	<u>(1)</u>	<u>175</u>	<u>218</u>
<b>Cash provided by operating activities . . . . .</b>	<b><u>43</u></b>	<b><u>1</u></b>	<b><u>183</u></b>
<b>Investing activities</b>			
Proceeds from assets held for sale . . . . .	—	—	1
Purchases of property, plant and equipment . . . . .	(21)	(29)	(24)
Project costs . . . . .	3	(3)	—
Restricted cash . . . . .	1	(6)	(3)
	<u>(17)</u>	<u>(38)</u>	<u>(26)</u>
<b>Cash used in investing activities . . . . .</b>	<b><u>(17)</u></b>	<b><u>(38)</u></b>	<b><u>(26)</u></b>
Net increase (decrease) in cash and cash equivalents during the year . . . . .	26	(37)	157
Cash and cash equivalents, beginning of year . . . . .	162	199	42
<b>Cash and cash equivalents, end of year . . . . .</b>	<b><u>188</u></b>	<b><u>162</u></b>	<b><u>199</u></b>

*See accompanying notes*

**CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY (DEFICIENCY)**

(In millions of Canadian dollars except shares)

	Number of common shares (note 16) #	Amount of common shares (note 16) \$	Contributed surplus \$	Retained deficit \$	Total equity (deficiency) \$
<b>As at January 1, 2014</b> . . . . .	345	2,325	430	(5,065)	(2,310)
Loss for the year . . . . .	—	—	—	(233)	(233)
Other comprehensive loss for the year .	—	—	—	(232)	(232)
Total comprehensive loss for the year .	—	—	—	(465)	(465)
<b>As at December 31, 2014</b> . . . . .	<u>345</u>	<u>2,325</u>	<u>430</u>	<u>(5,530)</u>	<u>(2,775)</u>
Loss for the year . . . . .	—	—	—	(389)	(389)
Other comprehensive income . . . . .	—	—	—	53	53
Total comprehensive loss . . . . .	—	—	—	(336)	(336)
<b>Transactions with owners</b> . . . . .	—	—	—	—	—
<b>As at December 31, 2015</b> . . . . .	<u>345</u>	<u>2,325</u>	<u>430</u>	<u>(5,866)</u>	<u>(3,111)</u>
Loss for the year . . . . .	—	—	—	(236)	(236)
Other comprehensive income . . . . .	—	—	—	60	60
Total comprehensive loss . . . . .	—	—	—	(176)	(176)
<b>As at December 31, 2016</b> . . . . .	<u>345</u>	<u>2,325</u>	<u>430</u>	<u>(6,042)</u>	<u>(3,287)</u>

*See accompanying notes*

**STELCO INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**(Expressed in millions of Canadian dollars except where otherwise indicated)**  
**December 31, 2016, 2015 and 2014**

**1. CORPORATE INFORMATION**

**Business description**

Stelco Inc. (formerly known as U. S. Steel Canada Inc.) (“Stelco” or the “Company”) is principally engaged in the production and selling of steel products. The Company is an integrated steel producer with facilities in two locations, Hamilton and Nanticoke, Ontario, which produce a variety of steel products for customers in the steel service centre, appliance, automotive, energy, construction, pipe and tube industries in North America. Stelco is a private company incorporated under the laws of the federal government of Canada, with its head office located at 386 Wilcox Street, Hamilton, Ontario. The parent of Stelco was United States Steel Corporation (“U. S. Steel”, or together with its consolidated subsidiaries, “USS”) for the period from January 1, 2014 through September 16, 2014. After that point, Stelco ceased to have a controlling parent, due to its application for relief from its creditors as further discussed below.

**CCAA history**

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

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

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

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

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

Pursuant to the above, on June 30, 2017, Bedrock Industries L.P. indirectly acquired substantially all of Stelco’s operating assets and business on a going concern basis through acquisition of all of the outstanding shares of Stelco.

These consolidated financial statements of Stelco for the years ended December 31, 2016, 2015, 2014 were authorized for issue in accordance with a resolution of the directors on September 1, 2017.

**2. BASIS OF PRESENTATION**

**Statement of compliance**

The accompanying consolidated financial statements of Stelco have been prepared in accordance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”) in Canadian dollars and all values are rounded to the nearest million, except when otherwise indicated. These are the Company’s first consolidated financial statements reported under IFRS. Accordingly, IFRS 1, *First-time Adoption of IFRS* (“IFRS 1”), has been applied. The Company has never presented financial statements as at January 1, 2014 or at any period thereafter and therefore an opening balance sheet as at January 1, 2014 has been included.

## STELCO INC.

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Expressed in millions of Canadian dollars except where otherwise indicated)

December 31, 2016, 2015 and 2014

#### 2. BASIS OF PRESENTATION (Continued)

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. Significant accounting policies are presented in note 3 to these consolidated financial statements and have been consistently applied in each of the periods presented.

#### 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

##### Principles of consolidation

###### *Subsidiaries*

The consolidated financial statements comprise the financial statements of the Company and its subsidiaries. All intercompany balances, transactions, income and expenses and gains or losses have been eliminated on consolidation. Subsidiaries are consolidated where the Company has the ability to exercise control. Control is achieved when the Company is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. The Company re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more elements of control. The Company's subsidiaries include:

- The Steel Company of Canada Limited
- The Stelco Plate Company Ltd.
- 4347226 Canada Inc.
- U. S. Steel Tubular Products Canada GP Inc.
- U. S. Steel Tubular Products Canada Limited Partnership

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

##### Joint arrangements

A joint arrangement is defined as an arrangement in which two or more parties have joint control. Joint control is the contractually agreed sharing of control over an arrangement between two or more parties. This exists only when the decisions about the relevant activities that significantly affect the returns of the arrangement require the unanimous consent of the parties sharing control.

A joint venture is a type of joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint arrangement. The Company's investments in joint ventures are accounted for using the equity method. Under the equity method, the investment in joint ventures is initially recognized at cost. The carrying amount of the investment is adjusted to recognize changes in the Company's share of net assets of the joint venture since the acquisition date. Stelco's 50% interest in Baycoat Limited Partnership ("Baycoat") and 50% interest in D.C. Chrome Limited ("DC Chrome") have been accounted for as joint ventures. The consolidated statements of loss reflects the Company's share of the profit or loss of the joint ventures. Any change in other comprehensive income (loss) ("OCI") of those investees is presented as part of the Company's OCI. When there has been a change recognized directly in the equity of the joint ventures, the Company recognizes its share of any changes, when applicable, in the consolidated statements of changes in equity. Unrealized gains and losses resulting from transactions between the Company and the joint ventures are eliminated to the extent of the interest in the joint ventures. The financial statements of the joint ventures are prepared for the same reporting period as the Company. When necessary, adjustments are made to bring the accounting policies in line with those of the Company.

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.

##### Foreign currency translation

The functional currency of the Company, for each subsidiary and for joint arrangements, is the currency of the primary economic environment in which it operates. The functional currency of all of the Company's operations is the Canadian dollar.

**STELCO INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**  
**(Expressed in millions of Canadian dollars except where otherwise indicated)**  
**December 31, 2016, 2015 and 2014**

**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Once the Company determines the functional currency of an entity, it is not changed unless there is a change in the relevant underlying transactions, events and circumstances. Any change in an entity's functional currency is accounted for prospectively from the date of the change, and the consolidated statements of financial position are translated using the exchange rate as at that date.

At the end of each reporting period, the Company translates foreign currency balances as follows:

- Monetary items are translated at the closing rate in effect as at the consolidated statements of financial position date;
- 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; and
- Revenue and expense items are translated using the average exchange rate during the periods

Differences arising on settlement or translation of monetary items are recognized in profit or loss. The gain or loss arising on translation of non-monetary items measured at fair value are treated in line with the recognition of the gain or loss on the change in fair value of the item (i.e., translation differences on items whose fair value gain or loss is recognized in OCI or profit or loss, are also recognized in OCI or profit or loss, respectively).

**Cash and cash equivalents**

Cash and cash equivalents in the consolidated statements of financial position comprise cash at banks and on hand, as well as short-term deposits with a remaining maturity as of the date of acquisition of three months or less, which are subject to an insignificant risk of changes in value. The Company places its cash and short-term deposits in high quality overnight deposits issued by government agencies, financial institutions and major corporations, and limits the amount of credit exposure by diversifying its holdings.

**Restricted cash**

As part of the CCAA arrangement, restricted cash is maintained as financial assurances held for utility vendors, the Ministry of the Environment and the Key Employee Retention Plan.

**Inventories**

Inventories are measured at the lower of cost and net realizable value. Net realizable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and the estimated costs necessary to make the sale. Cost to complete are based on management's best estimate as at the consolidated statements of financial position date. A net realizable value impairment may be reversed in a subsequent period if the circumstances that triggered the impairment no longer exist.

The cost of raw materials, semi-finished products and finished products are determined based on a first in, first out basis. Any provision for obsolescence is determined by reference to specific items. A regular review is undertaken to determine the extent of any provision for obsolescence. Costs of finished products include direct costs of materials, an appropriate share of production overhead, and labour related directly to processing activities. Abnormal costs are expensed in the period incurred.

**Financial instruments**

The Company's financial assets and liabilities ("financial instruments") include cash and cash equivalents, restricted cash, trade and other receivables, trade and other payables as well as current and long-term debt.

The Company classifies its financial instruments into the following categories:

- Financial assets at fair value through profit or loss
- Loans and receivables
- Financial liabilities carried at amortized cost

Appropriate classification of financial instruments is determined at the time of initial recognition or when reclassified in the consolidated statements of financial position.

Financial instruments are recognized on the trade date, being the date on which the Company becomes a party to the contractual provisions of the instrument.

STELCO INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Expressed in millions of Canadian dollars except where otherwise indicated)

December 31, 2016, 2015 and 2014

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Receivables are categorized as loans and receivables and include originated and purchased non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Assets in this category are included within trade and other receivables in the consolidated statements of financial position as well as other non-current assets. Loans and receivables are initially recognized at fair value plus transaction costs. They are subsequently measured at depreciated cost using the effective interest method less any impairment.

The Company's financial liabilities include trade and other payables as well as loans and borrowings comprising long-term debt (including the current portion of long-term debt). Interest-bearing loans and borrowings are subsequently measured at depreciated cost using the effective interest rate method. Depreciated 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 loss. The Company derecognizes a financial liability when its contractual obligations are discharged or cancelled.

**Property, plant and equipment**

Items of property, plant and equipment are stated at cost, net of accumulated depreciation and accumulated impairment losses, if any. 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, such as relining of a blast furnace, the Company depreciates them separately based on their specific useful lives. Likewise, 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. All other repair and maintenance costs are recognized in profit or loss as incurred. The cost of certain items of property, plant and equipment as at January 1, 2014, the Company's date of transition to IFRS, was determined with reference to its fair value at that date.

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. Division into different components occurs only if major components with divergent useful lives can be identified. Land is not depreciated. Major repairs and upgrades are recognized separately and depreciated over their useful lives.

An item of property, plant and equipment and any significant part initially recognized is derecognized upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on de-recognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the consolidated statements of loss when the asset is derecognized.

The residual values, useful lives and methods of depreciation of property, plant and equipment are reviewed at each financial year-end and any changes are adjusted prospectively. Depreciation is calculated on a straight-line basis over the estimated useful lives of the assets as follows:

Buildings . . . . .	35 years
Machinery and equipment . . . . .	5 - 40 years
Vehicles . . . . .	4 - 6 years

**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.

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 loss.

## STELCO INC.

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Expressed in millions of Canadian dollars except where otherwise indicated)

December 31, 2016, 2015 and 2014

#### 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The leased 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 statements of financial position. Payments made under an operating lease are recognized in profit or loss on a straight-line basis over the term of the lease. Lease incentives received are recognized as a reduction to the total lease expense over the term of the lease.

##### **Government grants**

Government grants are recognized in the consolidated financial statements when there is reasonable assurance of the Company's compliance with the conditions for receiving such grants and that the grants will be received.

Government grants are recognized as income over the periods necessary to match them with the related costs that they are intended to offset.

A government loan at a below-market rate of interest is treated as a government grant. The benefit of the below-market rate of interest is measured as the difference between the initial carrying amount of the loan (fair value plus transaction costs) and the proceeds received, and it is accounted for in accordance with the policies used for the recognition of government grants.

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

For property, plant and equipment, the Company assesses, as at each reporting date, whether there is an indication that an asset may be impaired. If an indicator of impairment exists, the Company assesses impairment by estimating the asset's recoverable amount, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case, the recoverable amount is determined at the cash generating unit ("CGU") level. A CGU is a single asset or a group of assets with independent cash inflows. 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.

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. In determining fair value less costs of disposal, recent market transactions are taken into account. If no such transactions can be identified, an appropriate valuation model is used. These calculations are corroborated by valuation multiples, quoted share prices for publicly traded companies or other available fair value indicators.

The Company bases its impairment calculation on detailed budgets and forecast calculations. These budgets and forecast calculations generally cover a period of five years. A long-term growth rate is calculated and applied to project future cash flows after the fifth year.

Impairment losses are recognized in the consolidated statements of loss.

For assets, an assessment is made as at each reporting date to determine whether there is an indication that previously recognized impairment losses no longer exist or have decreased. If such indication exists, the Company estimates the asset's or CGU's recoverable amount. A previously recognized impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognized. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognized for the asset in prior years. Such reversal is recognized in the consolidated statements of loss.

##### **Impairment of financial assets**

A financial asset is deemed to be impaired if there is objective evidence of impairment as a result of an event that has occurred after the initial recognition of the asset and that loss event has an impact on the estimated future cash flows of the financial asset that can be reliably estimated. Evidence of impairment may include indications that the debtor is experiencing financial difficulty, which may include default or delinquency in interest or principal payments, the probability that it will enter bankruptcy or other financial reorganization, and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears payments or economic conditions that correlate with defaults.

**STELCO INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**  
**(Expressed in millions of Canadian dollars except where otherwise indicated)**  
**December 31, 2016, 2015 and 2014**

**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Loans and receivables are considered impaired when there is objective evidence that the full carrying amount of the loan or receivable is not collectible. When an impaired loan or receivable is identified, the amount of the loss is measured as the difference between the asset's carrying amount and the estimated realizable amount, which is measured by discounting the expected future cash flows at the original effective interest rate of the loan or receivable. This difference between the carrying amount and the estimated realizable value of the loan or receivable represents an impairment loss that is recognized in net loss.

Loans and receivables, 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 net loss.

**Provisions**

The Company's provisions are composed of termination benefits and environmental remediation. The 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 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.

**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 profit or loss. Actuarial gains and losses resulting from remeasurements are recognized immediately through other comprehensive income in the period in which they occur. Remeasurements are not reclassified to profit or loss 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.

**Income taxes**

Current and deferred tax expense is recognized in the consolidated statements of loss, unless it relates to items recognized outside the consolidated statements of loss. Current and deferred tax expense relating to items recognized outside of the consolidated statements of loss is 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 statements of financial position 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 arrangements, 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.

## STELCO INC.

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Expressed in millions of Canadian dollars except where otherwise indicated)

December 31, 2016, 2015 and 2014

#### 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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. In respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint arrangements, 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.

#### Revenue recognition

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Company and the revenue can be reliably measured, regardless of when the payment is received. Revenue is measured at the fair value of the consideration received or receivable, taking into account contractually defined terms of payment and excluding taxes or duty. Other than the limited risk distribution arrangement, the Company has concluded that it is the principal in all of its revenue arrangements since it is the primary obligor in all the revenue arrangements, has pricing latitude, and is also exposed to inventory and credit risks.

Revenue from the sale of goods includes sale of goods from the Company's production of steel products. Other income includes commission income when the Company acts as an agent for U. S. Steel for the sale of their steel products in Canada. Revenue from the sale of goods is recognized when the significant risks and rewards of ownership of the goods have passed to the buyer, usually on shipment of the products from the Company's steel production facilities. Revenue from the sale of products is measured at the fair value of the consideration received or receivable, net of returns and allowances, trade discounts and volume rebates. Shipping and other transportation costs charged to buyers are recorded in both sales and cost of sales.

Stelco entered into a limited risk distribution arrangement with its former parent, U. S. Steel, to distribute certain products. Stelco does not have the ability to establish pricing, nor is it primarily responsible for fulfilling the purchase orders that are submitted by the customer, and it does not bear any credit risk associated with any transaction that has been approved by U. S. Steel. Furthermore, Stelco, as the distributor in these arrangements receives a 2% commission. Stelco is an agent in this arrangement and has recognized revenue on a net basis.

Rental income from investment property is recognized on a straight-line basis over the term of the lease. Lease incentives are recognized over the term of the lease.

#### Investment property

The Company owns 6,600 acres of land situated on the shores of Lake Erie near Nanticoke, Ontario. Since the 1970's, just over 2,000 acres of this land has been used for operations of the Lake Erie Works ("LEW") with the remaining land leased to farmers.

The land not being used for operations represents investment property. The Company has elected to measure the investment property at cost, less accumulated depreciation and any accumulated impairment losses, which is consistent with its policy for property, plant and equipment. The cost of the Company's investment property at January 1, 2014, the Company's date of transition to IFRS, was determined with reference to its fair value at that date. The fair value of the investment property as at December 31, 2014, December 31, 2015 and December 31, 2016 does not differ materially from the fair value determined as at January 1, 2014.

#### 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

## STELCO INC.

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Expressed in millions of Canadian dollars except where otherwise indicated)

December 31, 2016, 2015 and 2014

#### 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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, 2016, December 31, 2015 and December 31, 2014, 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.

The Company's financial assets and liabilities include cash and cash equivalents, restricted cash, trade and other receivables, trade and other payables as well as current and long-term debt.

The fair values of cash and cash equivalents, restricted cash, trade and other receivables, trade and other payables as well as the current portion of long-term debt approximate their carrying values due to their short-term nature.

#### 4. NEW ACCOUNTING PRONOUNCEMENTS

Standards and amendments issued, but not yet effective up to the date of issuance of these consolidated financial statements, are described below. The following discussion is of the standards, amendments and interpretations issued that the Company reasonably expects to be applicable at a future date. The Company intends to adopt these standards when they become effective.

##### *IFRS 9, Financial Instruments* (“IFRS 9”)

In July 2014, the International Accounting Standards Board issued the final version of IFRS 9, *Financial Instruments*. IFRS 9 is effective for annual periods beginning on or after January 1, 2018, with early adoption permitted. The standard contains requirements in the following areas: Classification and Measurement; Impairment; Hedge Accounting and De-recognition. The actual impact of adopting IFRS 9 on the Company's consolidated financial statements in 2018 is not known and cannot be reliably estimated because it will be dependent on the financial instruments that the Company holds and economic conditions at that time as well as accounting elections and judgments that it will make in the future. The new standard will require the Company to revise its accounting processes and internal controls related to the reporting of financial instruments and these changes are not yet complete. The Company is currently in the process of evaluating the consolidated financial statement implications of adopting IFRS 9.

##### *IFRS 15, Revenue from Contracts with Customers* (“IFRS 15”)

IFRS 15 was issued in May 2014 and additionally clarified in April 2016. It 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 new revenue standard will supersede all current revenue recognition requirements under IFRS. Either a full retrospective application or a modified retrospective application is required for annual periods beginning on or after January 1, 2018. Early adoption is permitted. The Company is currently in the process of evaluating the consolidated financial statement implications of adopting IFRS 15.

##### *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

## STELCO INC.

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Expressed in millions of Canadian dollars except where otherwise indicated)

December 31, 2016, 2015 and 2014

#### 4. NEW ACCOUNTING PRONOUNCEMENTS (Continued)

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. The Company is currently in the process of evaluating the consolidated financial statement implications of adopting IFRS 16.

##### *IAS 7, Statement of Cash Flows (“IAS 7”)*

IAS 7 was amended to include a new section on disclosure initiatives. The updated guidance requires an entity to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash and non-cash changes. On initial application of the amendment, entities are not required to provide comparative information for preceding periods. The mandatory effective date of these amendments is January 1, 2017. The Company is currently in the process of evaluating the impact of these amendments on its consolidated financial statements.

##### *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 is currently assessing the impact of IFRIC 23 on its consolidated financial statements.

#### 5. SIGNIFICANT ACCOUNTING JUDGMENTS, ESTIMATIONS AND ASSUMPTIONS

The preparation of the Company’s consolidated financial statements requires management 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, the following judgments have been made that have the most significant effect on the amounts recognized in the consolidated financial statements:

##### **Joint arrangements**

The Company has classified its joint arrangements with Baycoat and DC Chrome as joint ventures. These joint arrangements have been structured through separate vehicles and the Company has assessed its rights and obligations arising from each of these arrangements taking into account the legal form of the separate vehicles, the terms of the contractual arrangements as well as other relevant facts and circumstances. The Company applies the equity method of accounting to each of these joint ventures.

##### **Impairment**

Judgment is required in determining the aggregation of the Company’s assets into CGUs. Based on economic and commercial influences as well as the interdependence of cash flows of the Company’s operating facilities, the Company determined that its operations comprise 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 future 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

**STELCO INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**  
**(Expressed in millions of Canadian dollars except where otherwise indicated)**  
**December 31, 2016, 2015 and 2014**

**5. SIGNIFICANT ACCOUNTING JUDGMENTS, ESTIMATIONS AND ASSUMPTIONS (Continued)**

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 20.

**Valuation of property, plant and equipment and investment property**

Upon adoption of IFRS, the Company has performed a valuation on its property, plant and equipment as well as its investment property, for the purpose of applying the fair value as deemed cost exemption under IFRS 1. The Company engaged an independent valuation specialist to assess fair value as at January 1, 2014. The property, plant and equipment and investment property were valued using two basic approaches to value: market, and cost. The valuation of properties (i.e. land and buildings) was based on market comparable transactions for properties of a similar nature, condition and location. Machinery and equipment was valued using a cost approach that was largely based on inflation adjusted historical costs, which were further adjusted for physical deterioration of the items as well as functional and economic obsolescence.

**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 collectability of the related receivable balance based, in part, on the age of the specific receivable balance. An allowance is established when the likelihood of collecting the account has significantly diminished. Future collections of receivables that differ from management's current estimates would affect trade receivables and office and other operating expenses. Refer to note 8 for the carrying value of allowance for doubtful accounts.

**Impairment and impairment reversals**

The Company evaluates each asset or CGU in each reporting period 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. Accordingly, it is possible that some or the entire carrying amount of the assets or CGUs may be further impaired or the impairment charge reversed with the impact recognized in the consolidated statements of loss and comprehensive loss.

**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 19 for the carrying value of current and deferred income tax assets and liabilities.

**6. FIRST-TIME ADOPTION OF IFRS**

These consolidated financial statements, for the year ended December 31, 2016, are the first the Company has prepared in accordance with IFRS, with an effective transition date of January 1, 2014. Consolidated financial statements were not previously prepared under any generally accepted framework as of December 31, 2013 or any period thereafter, and therefore, this represents the first time the Company has presented consolidated financial statements for the periods presented herein.

Accordingly, the Company has prepared financial statements that comply with IFRS applicable as at December 31, 2016 and has presented comparative period data for the years ended December 31, 2015 and December 31, 2014, as described in the summary of significant accounting policies. In preparing the consolidated financial statements, the Company's opening consolidated statements of financial position was prepared as at January 1, 2014, the Company's date of transition to IFRS. This note explains the relevant mandatory exceptions as well as optional exemptions available to a first-time adopter from full retrospective application of IFRS.

The Company has not explained how the transition to IFRS has affected its financial position, financial performance and cash flows as reported under a previous accounting framework, since as noted above, consolidated financial statements were not prepared under any generally accepted framework at the date of transition to IFRS or for any later period, prior to the preparation of the IFRS

**STELCO INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**(Expressed in millions of Canadian dollars except where otherwise indicated)**

**December 31, 2016, 2015 and 2014**

**6. FIRST-TIME ADOPTION OF IFRS (Continued)**

consolidated financial statements. As a result, the reconciliations from previous GAAP to IFRS, as otherwise required, will not be presented within the first IFRS consolidated financial statements of the Company, as these are the first consolidated financial statements prepared under a generally accepted framework for all of the periods in question.

**Exemptions applied**

IFRS 1 allows first-time adopters certain optional exemptions and also contains mandatory exceptions from full retrospective application of IFRS.

The Company has elected to apply the following optional exemptions in its first IFRS financial statements:

- An entity may elect to measure property, plant and equipment at the date of transition at its fair value and use this fair value as its deemed cost at that date. The use of fair value as deemed cost at the date of transition can be made on an item-by-item basis. The election is also available for investment property. The Company has applied this election for its investment property, land in use, building, vehicles, construction in progress as well as substantially all of its machinery and equipment.
- A first-time adopter may elect to apply the transitional provisions of IFRIC 4. Therefore, it may determine whether an arrangement existing at the date of transition to IFRS contains a lease on the basis of facts and circumstances existing at that date. The Company has applied the transitional provision in IFRIC 4 and has assessed all arrangements based upon the conditions in place as at the date of transition to IFRS.
- IFRS 3, *Business Combinations*, has not been applied to either acquisitions of subsidiaries that are considered businesses under IFRS, or acquisitions of interests in associates and joint ventures that occurred before January 1, 2014. Use of this exemption means that the previous carrying amounts of assets and liabilities, that are required to be recognized under IFRS, is their deemed cost at the date of the acquisition. After the date of the acquisition, measurement is in accordance with IFRS. Assets and liabilities that do not qualify for recognition under IFRS are excluded from the opening IFRS consolidated statements of financial position.

IFRS 1 prohibits retrospective application of some aspects of other IFRS. Under IFRS 1, an entity is required to make estimates under IFRS that are consistent with the estimates made for the same date, after adjusting for any difference in accounting policy. All of the Company's estimates have been measured reflecting conditions that existed for each consolidated financial statement date in question.

A first-time adopter must apply the requirements in IAS, 39 *Financial Instruments* ("IAS 39"), and IAS 20, *Accounting for Government Grants and Disclosure of Government Assistance* ("IAS 20") prospectively to government loans existing at the date of transition to IFRSs and cannot recognize the corresponding benefit of the government loan at a below-market rate of interest as a government grant. Consequently, if a first-time adopter did not, under its previous GAAP, recognize and measure a government loan at a below-market rate of interest on a basis consistent with IFRS requirements, it shall use its previous GAAP carrying amount of the loan at the date of transition to IFRSs as the carrying amount of the loan in the opening IFRS consolidated statements of financial position. An entity is required to apply IAS 39 to the measurement of such loans after the date of transition to IFRS. However, an entity may apply the requirements in IAS 39 and IAS 20 retrospectively to any government loan originated before the date of transition to IFRS, provided that the information needed to do so had been obtained at the time of initially accounting for that loan. The Company obtained a \$150 loan from the Province of Ontario in March 2006 for an annual interest rate of 1%, which was considered below market. The IAS 39 and IAS 20 guidance was applied retrospectively to the government loan on the basis that the information required to account for the loan was available to the Company at the time of obtaining it.

**7. CASH AND CASH EQUIVALENTS**

Stelco's cash and cash equivalents as at December 31 are as follows:

	<b>2016</b>	<b>2015</b>	<b>2014</b>	<b>As at January 1, 2014</b>
	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>
Cash at banks . . . . .	5	5	11	1
Short-term deposits . . . . .	<u>183</u>	<u>157</u>	<u>188</u>	<u>41</u>
<b>Total cash and cash equivalents . . . . .</b>	<b><u>188</u></b>	<b><u>162</u></b>	<b><u>199</u></b>	<b><u>42</u></b>

STELCO INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Expressed in millions of Canadian dollars except where otherwise indicated)

December 31, 2016, 2015 and 2014

8. TRADE AND OTHER RECEIVABLES

Stelco's trade and other receivables as at December 31 are as follows:

	2016	2015	2014	As at January 1, 2014
	\$	\$	\$	\$
Trade receivables . . . . .	235	266	367	165
Allowance for doubtful accounts . . . . .	(2)	(1)	(4)	(3)
Receivables from related parties . . . . .	—	—	—	88
Other receivables . . . . .	4	3	(9)	3
<b>Total trade and other receivables . . . . .</b>	<b>237</b>	<b>268</b>	<b>354</b>	<b>253</b>

Trade receivables are non-interest bearing and are generally on terms of 30 to 90 days. Receivables from related parties are discussed in note 25.

As at December 31, the ageing of trade receivables and receivables from related parties is as follows:

	Past due but not impaired				
	Total	<30 days	30 - 60 days	61 - 90 days	>91 days
	\$	\$	\$	\$	\$
<b>December 31, 2016 . . . . .</b>	<b>237</b>	<b>125</b>	<b>(1)</b>	<b>1</b>	<b>112</b>
<b>December 31, 2015 . . . . .</b>	268	138	1	1	128
<b>December 31, 2014 . . . . .</b>	354	239	8	29	78
<b>January 1, 2014 . . . . .</b>	253	186	1	—	66

See note 22 on credit risk of trade receivables, which explains how the Company manages and measures the credit quality of trade receivables that are neither past due nor impaired.

9. INVENTORIES

Stelco's inventories as at December 31 are as follows:

	2016	2015	2014	As at January 1, 2014
	\$	\$	\$	\$
Raw materials . . . . .	174	152	202	313
Semi-finished products . . . . .	84	73	125	132
Finished products . . . . .	40	41	62	50
Spare parts . . . . .	16	16	16	13
	<u>314</u>	<u>282</u>	<u>405</u>	<u>508</u>

During 2016, \$1,108 (2015 — \$1,249; 2014 — \$1,707) of inventories was recognized as an expense in cost of goods sold.

During 2016, nil (2015 — \$17; 2014 — nil) was recognized in cost of goods sold for a write-down of inventories to net realizable value.

STELCO INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Expressed in millions of Canadian dollars except where otherwise indicated)

December 31, 2016, 2015 and 2014

10. PREPAID EXPENSES

Prepaid expenses as at December 31 are composed of:

	2016 \$	2015 \$	2014 \$	As at January 1, 2014 \$
Advance payments to vendors . . . . .	46	48	56	3
Prepaid insurance . . . . .	<u>1</u>	<u>2</u>	<u>1</u>	<u>1</u>
<b>Total prepaid expenses . . . . .</b>	<b><u>47</u></b>	<b><u>50</u></b>	<b><u>57</u></b>	<b><u>4</u></b>

11. PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment consist of the following:

	Land \$	Buildings \$	Machinery and equipment \$	Vehicles \$	Finance lease \$	Construction in progress \$	Total \$
<b>Cost or valuation</b>							
<b>As at January 1, 2014 . . . . .</b>	77	24	267	4	10	4	386
Transfers from CIP . . . . .	1	—	3	1	—	(5)	—
Additions . . . . .	—	—	19	—	—	5	24
Disposals . . . . .	(1)	—	—	—	—	—	(1)
<b>As at December 31, 2014 . . . . .</b>	<b>77</b>	<b>24</b>	<b>289</b>	<b>5</b>	<b>10</b>	<b>4</b>	<b>409</b>
Transfers from CIP . . . . .	—	1	4	2	—	(7)	—
Additions . . . . .	—	—	19	—	—	10	29
Disposals . . . . .	—	—	—	—	—	—	—
<b>As at December 31, 2015 . . . . .</b>	<b>77</b>	<b>25</b>	<b>312</b>	<b>7</b>	<b>10</b>	<b>7</b>	<b>438</b>
Transfers from CIP . . . . .	—	—	5	—	—	(5)	—
Additions . . . . .	—	—	15	—	—	6	21
Disposals . . . . .	—	—	—	—	—	—	—
<b>As at December 31, 2016 . . . . .</b>	<b><u>77</u></b>	<b><u>25</u></b>	<b><u>332</u></b>	<b><u>7</u></b>	<b><u>10</u></b>	<b><u>8</u></b>	<b><u>459</u></b>
<b>Depreciation and impairment</b>							
<b>As at January 1, 2014 . . . . .</b>	—	—	—	—	—	—	—
Depreciation charge for the year . . . . .	—	1	21	—	3	—	25
Disposals . . . . .	—	—	—	—	—	—	—
<b>As at December 31, 2014 . . . . .</b>	—	1	21	—	3	—	25
Depreciation charge for the year . . . . .	—	1	23	—	3	—	27
Disposals . . . . .	—	—	—	—	—	—	—
<b>As at December 31, 2015 . . . . .</b>	—	2	44	—	6	—	52
Depreciation charge for the year . . . . .	—	1	25	1	2	—	29
Disposals . . . . .	—	—	—	—	—	—	—
<b>As at December 31, 2016 . . . . .</b>	—	<b>3</b>	<b>69</b>	<b>1</b>	<b>8</b>	—	<b>81</b>
<b>Net book value</b>							
As at December 31, 2016 . . . . .	77	22	263	6	2	8	378
As at December 31, 2015 . . . . .	77	23	268	7	4	7	386
As at December 31, 2014 . . . . .	77	23	268	5	7	4	384

**STELCO INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**  
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**11. PROPERTY, PLANT AND EQUIPMENT (Continued)**

The Company has elected to use fair value as deemed cost for certain items of property, plant and equipment at the date of transition to IFRS, as described in note 6.

**Assets held under finance leases**

The Company leases equipment under finance lease arrangements. As at December 31, 2016, the net carrying amount of the leased equipment was \$2 (December 31, 2015 — \$4; December 31, 2014 — \$7).

**12. INVESTMENT IN JOINT VENTURES**

Stelco has a 50% interest in two joint ventures, Baycoat and DC Chrome. Baycoat provides metal coating services and was founded in Canada in 1987. DC Chrome provides chrome plating services and was founded in Canada in 1973. Stelco's interests in Baycoat and DC Chrome are accounted for using the equity method in the consolidated financial statements. Summarized financial information of the joint ventures, based on their financial statements, and a reconciliation of the equity for the years ended December 31 with the carrying amount of the investments in Stelco's consolidated financial statements are set out below:

**Asset and liabilities of the joint ventures**

Assets and liabilities of the joint ventures consist of the following:

	2016	2015	2014	As at January 1, 2014
	\$	\$	\$	\$
<b>As at December 31</b>				
Current assets . . . . .	34	32	31	29
Non-current assets . . . . .	8	9	11	14
Current liabilities . . . . .	(8)	(8)	(8)	(4)
Non-current liabilities . . . . .	(19)	(18)	(21)	10

**Statement of profit or loss of the joint ventures**

	2016	2015	2014
	\$	\$	\$
<b>For the years ended December 31</b>			
Net sales . . . . .	71	68	64
Depreciation . . . . .	(2)	(2)	(2)
Net loss . . . . .	(1)	(2)	(5)

**Equity investment in the joint ventures**

	2016	2015	2014
	\$	\$	\$
<b>Balance, beginning of year . . . . .</b>	<b>7</b>	<b>8</b>	<b>24</b>
Impairment of joint venture . . . . .	—	—	(14)
Share of net loss . . . . .	(1)	(1)	(2)
<b>Balance, end of year . . . . .</b>	<b>6</b>	<b>7</b>	<b>8</b>

In 2014, the Company identified an indicator of impairment related to revenue on scrap metals for its investment in Baycoat, which significantly affected the future cash flows of this equity method investee. The Company conducted an impairment test in accordance with IAS 36 and recorded an impairment loss for the excess of the carrying amount of the investment over its recoverable amount.

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**13. TRADE AND OTHER PAYABLES**

Stelco's trade and other payables as at December 31 are as follows:

	2016	2015	2014	As at January 1, 2014
	\$	\$	\$	\$
Trade payables . . . . .	454	455	472	116
Payables to related parties . . . . .	2	2	2	98
Other payables . . . . .	1	2	4	3
<b>Total trade and other payables . . . . .</b>	<b><u>457</u></b>	<b><u>459</u></b>	<b><u>478</u></b>	<b><u>217</u></b>

In the normal course of business, trade payables are non-interest bearing and are normally settled on 30-to 60-day terms. As a result of the creditor protection filing, limited credit was provided by vendors resulting in shorter payment terms. Trade payables also include pre-petitioned amounts that will be settled through the CCAA, which is further discussed in note 26. Payables to related parties are discussed in note 25.

**14. OTHER LIABILITIES**

Other liabilities as at December 31 are comprised of:

	2016	2015	2014	As at January 1, 2014
	\$	\$	\$	\$
Interest payable . . . . .	871	671	486	329
Finance lease obligation . . . . .	1	7	11	14
Salaries and benefits payable . . . . .	20	20	29	22
Pension and other post-employment benefits . . . . .	281	280	113	120
<b>Total other liabilities . . . . .</b>	<b><u>1,173</u></b>	<b><u>978</u></b>	<b><u>639</u></b>	<b><u>485</u></b>
Total current other liabilities . . . . .	<b><u>1,172</u></b>	<b><u>973</u></b>	<b><u>632</u></b>	<b><u>324</u></b>

**STELCO INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**  
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**15. PROVISIONS**

Provisions are composed of:

	<b>Environmental remediation \$</b>	<b>Termination benefits \$</b>	<b>Total \$</b>
<b>As at January 1, 2014</b> . . . . .	11	—	11
Arising during the year . . . . .	—	10	10
Settled during the year . . . . .	<u>(1)</u>	<u>(7)</u>	<u>(8)</u>
<b>As at December 31, 2014</b> . . . . .	<u>10</u>	<u>3</u>	<u>13</u>
Current . . . . .	8	2	10
Non-current . . . . .	2	1	3
<b>As at January 1, 2015</b> . . . . .	10	3	13
Arising during the year . . . . .	—	—	—
Settled during the year . . . . .	<u>(8)</u>	<u>(2)</u>	<u>(10)</u>
<b>As at December 31, 2015</b> . . . . .	<u>2</u>	<u>1</u>	<u>3</u>
Current . . . . .	—	1	1
Non-current . . . . .	2	—	2
<b>As at January 1, 2016</b> . . . . .	2	1	3
Arising during the year . . . . .	4	—	4
Settled during the year . . . . .	<u>(1)</u>	<u>(1)</u>	<u>(2)</u>
<b>As at December 31, 2016</b> . . . . .	<u>5</u>	<u>—</u>	<u>5</u>
Current . . . . .	—	—	—
Non-current . . . . .	<u>5</u>	<u>—</u>	<u>5</u>

**Environmental remediation**

A provision has been recognized for environmental remediation costs associated with waste generated from steel making operations. Stelco is required to remediate the sites where this waste is held pursuant to requirements of the Ontario Ministry of Environment.

**Termination benefits**

In February 2014, Stelco recorded a provision for termination benefits pursuant to a restructuring plan issued by U. S. Steel, involving the termination of employees, which was announced to the employees of Stelco in February 2014.

**16. ISSUED CAPITAL**

The Company's authorized share capital includes an unlimited number of common shares with no par value. As at December 31, the following shares are outstanding:

	<b>2016</b>	<b>2015</b>	<b>2014</b>	<b>As at January 1, 2014</b>
Number of common shares (#) . . . . .	345	345	345	345
Common shares (\$) . . . . .	<b>2,325</b>	2,325	2,325	2,325

STELCO INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Expressed in millions of Canadian dollars except where otherwise indicated)

December 31, 2016, 2015 and 2014

17. FINANCE COSTS

The following table summarizes the main components of finance costs for the years ended December 31:

	2016 \$	2015 \$	2014 \$
Foreign exchange loss (gain) . . . . .	(4)	52	13
Interest on loans and borrowings . . . . .	200	183	186
Other . . . . .	1	1	1
<b>Total finance costs</b> . . . . .	<u>197</u>	<u>236</u>	<u>200</u>

18. EXPENSES BY NATURE

<u>Year ended December 31, 2016</u>	<u>Cost of goods sold \$</u>	<u>Selling, general and administrative expenses \$</u>
Cost of inventories . . . . .	1,108	—
Fixed overhead . . . . .	62	—
Employee (active) salary and benefits expense . . . . .	26	8
Employee (inactive) benefits expense . . . . .	60	8
Shared service expense . . . . .	2	3
Other . . . . .	—	5
Depreciation . . . . .	29	—
<b>Total</b> . . . . .	<u>1,287</u>	<u>24</u>

<u>Year ended December 31, 2015</u>	<u>Cost of goods sold \$</u>	<u>Selling, general and administrative expenses \$</u>
Cost of inventories . . . . .	1,266	—
Fixed overhead . . . . .	68	—
Employee (active) salary and benefits expense . . . . .	26	8
Employee (inactive) benefits expense . . . . .	51	11
Shared service expense . . . . .	2	6
Other . . . . .	—	6
Bad debt recovery . . . . .	—	(3)
Depreciation . . . . .	27	—
<b>Total</b> . . . . .	<u>1,440</u>	<u>28</u>

**STELCO INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**  
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**18. EXPENSES BY NATURE (Continued)**

<u>Year ended December 31, 2014</u>	<u>Cost of goods sold \$</u>	<u>Selling, general and administrative expenses \$</u>
Cost of inventories . . . . .	1,707	—
Fixed overhead . . . . .	24	—
Employee (active) salary and benefits expense . . . . .	45	12
Employee (inactive) benefits expense . . . . .	52	10
Shared service expense . . . . .	2	13
Other . . . . .	—	8
Bad debt expense . . . . .	—	1
Depreciation . . . . .	25	—
<b>Total</b> . . . . .	<u>1,855</u>	<u>44</u>

**19. INCOME TAXES**

The major components of income tax expense for the years ended December 31 are as follows:

	<u>2016 \$</u>	<u>2015 \$</u>	<u>2014 \$</u>
<b>Deferred income tax:</b>			
Origination and reversal of temporary differences . . . . .	(25)	(58)	(52)
Write down or reversal of deferred tax assets . . . . .	25	58	52
<b>Income tax expense reported in the income statement</b> . . . . .	<u>—</u>	<u>—</u>	<u>—</u>

**Reconciliation of Effective Tax Rate:**

	<u>2016 \$</u>	<u>2015 \$</u>	<u>2014 \$</u>
Loss before income taxes . . . . .	(236)	(389)	(233)
Combined Canadian federal and provincial income tax rate . . . . .	25%	25%	25%
<b>Income tax recovery based on statutory rate</b> . . . . .	(59)	(97)	(58)
<b>Increase (decrease) in income taxes resulting from non-taxable items or adjustments of prior year taxes:</b>			
Permanent differences:			
Non-deductible interest . . . . .	35	35	1
Other . . . . .	(1)	4	5
Write down of deferred tax assets . . . . .	25	58	52
<b>Total income tax expense</b> . . . . .	<u>—</u>	<u>—</u>	<u>—</u>

STELCO INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Expressed in millions of Canadian dollars except where otherwise indicated)

December 31, 2016, 2015 and 2014

19. INCOME TAXES (Continued)

Deferred tax

Deferred tax as at December 31 relates to the following:

	2016 \$	2015 \$	2014 \$	As at January 1, 2014 \$
Non-capital and capital loss carry-forwards . . . . .	807	814	747	707
Plant and equipment . . . . .	188	182	179	175
Provisions . . . . .	2	1	13	7
Deductible SRED expenditures . . . . .	9	9	9	9
Pension and other post-employment benefits . . . . .	293	272	287	299
Compound interest . . . . .	40	28	19	15
Province of Ontario note . . . . .	28	28	28	21
Unrealized foreign exchange . . . . .	8	9	4	1
Impairment provision of investment in subsidiaries . . . . .	2	2	2	—
Land . . . . .	4	4	4	4
Other . . . . .	—	—	1	2
Deferred tax assets not recognized . . . . .	(1,375)	(1,344)	(1,285)	(1,233)
Deferred tax asset . . . . .	6	5	8	7
Investment property . . . . .	(5)	(5)	(5)	(5)
Inventory . . . . .	—	—	(3)	(2)
Other . . . . .	(1)	—	—	—
<b>Deferred tax liability . . . . .</b>	<b>(6)</b>	<b>(5)</b>	<b>(8)</b>	<b>(7)</b>
<b>Net deferred tax asset (liability) . . . . .</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>

Reconciliation of net deferred tax asset (liability) as at December 31:

	2016 \$	Movement \$	2015 \$	Movement \$	2014 \$	Movement \$	As at January 1, 2014 \$
Non-capital and capital loss carry-forwards . . . . .	807	(7)	814	67	747	40	707
Plant and equipment . . . . .	188	6	182	3	179	4	175
Provisions . . . . .	2	1	1	(12)	13	6	7
Deductible SRED expenditures . . . . .	9	—	9	—	9	—	9
Pension and other post-employment benefits . . . . .	293	21	272	(15)	287	(12)	299
Compound interest . . . . .	40	12	28	9	19	4	15
Province of Ontario note . . . . .	28	—	28	—	28	7	21
Unrealized foreign exchange . . . . .	8	(1)	9	5	4	3	1
Impairment provision of investment in subsidiaries . . . . .	2	—	2	—	2	2	—
Land . . . . .	4	—	4	—	4	—	4
Other — deferred tax assets . . . . .	—	—	—	(1)	1	(1)	2
Deferred tax assets not recognized . . . . .	(1,375)	(31)	(1,344)	(59)	(1,285)	(52)	(1,233)
Investment property . . . . .	(5)	—	(5)	—	(5)	—	(5)
Inventory . . . . .	—	—	—	3	(3)	(1)	(2)
Other — deferred tax liabilities . . . . .	(1)	(1)	—	—	—	—	—
<b>Net deferred tax asset (liability) . . . . .</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>

**STELCO INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**  
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**19. INCOME TAXES (Continued)**

**Non-capital loss carry forward as at December 31:**

	2016 \$	2015 \$	2014 \$	As at January 1, 2014 \$
2027	—	11	10	10
2028	—	—	—	—
2029	1,229	1,247	847	847
2030	702	702	699	699
2031	182	182	298	298
2032	299	299	399	427
2033	400	401	559	529
2034	164	164	164	—
2035	238	238	—	—
2036	—	—	—	—
<b>Total</b>	<b>3,214</b>	<b>3,244</b>	<b>2,976</b>	<b>2,810</b>

**Scientific research and experimental development investment tax credit carry forward as at December 31:**

	2016 \$	2015 \$	2014 \$	As at January 1, 2014 \$
2025	—	—	—	—
2026	2	2	2	2
2027	1	1	1	1
2028	2	2	2	2
2029	2	3	2	2
2030	2	2	2	2
2031	—	—	—	—
2032	—	—	—	—
2033	—	—	—	—
2034	—	—	—	—
2035	—	—	—	—
2036	—	—	—	—
	<b>9</b>	<b>10</b>	<b>9</b>	<b>9</b>

The benefit of investment tax credits have not been accrued in the financial statements of the Company. The use of the available credits is dependent on the generation of taxable income within the carry-forward period.

Unrecognized capital losses of \$29 carry forward indefinitely for tax purposes.

Non-capital losses, investment tax credits, deductible SRED expenditures and similar tax attributes can be subject to restrictions in use after the occurrence of a loss restriction event such as an acquisition of control by a new shareholder. Similarly, a loss restriction event results in unused capital losses expiring. The impact of any potential future event has not been evaluated in respect of the above disclosure.

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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**(Expressed in millions of Canadian dollars except where otherwise indicated)**

**December 31, 2016, 2015 and 2014**

**20. PENSIONS AND OTHER POST-EMPLOYMENT BENEFITS**

**Net employee defined benefit asset (liabilities), pension and other benefits**

<b>As at:</b>	<b>December 31, 2016 \$</b>	<b>December 31, 2015 \$</b>	<b>December 31, 2014 \$</b>	<b>January 1, 2014 \$</b>
Pension plans . . . . .	(397)	(441)	(534)	(420)
Other non-pension employee benefit plans . . . . .	(913)	(870)	(870)	(797)
<b>Total . . . . .</b>	<b><u>(1,310)</u></b>	<b><u>(1,311)</u></b>	<b><u>(1,404)</u></b>	<b><u>(1,217)</u></b>
<b>Net benefit expense (recognized in net loss)</b>				
Service costs . . . . .	16	16	15	
Settlement . . . . .	13	—	—	
Curtailement . . . . .	—	—	4	
Finance costs . . . . .	45	50	52	
<b>Net benefit expense . . . . .</b>	<b><u>74</u></b>	<b><u>66</u></b>	<b><u>71</u></b>	
<b>Remeasurement, recognized in OCI . . . . .</b>	<b><u>60</u></b>	<b><u>53</u></b>	<b><u>(232)</u></b>	

The Company sponsors multiple defined benefit pension plans and other defined benefit post-employment benefit plans that provide non-pension benefits. The Company is the administrator of the pension plans. The Company has established a Pension Committee and has delegated to it the responsibility for carrying out the Company's duties as administrator of the plans, including compliance with legal and regulatory requirements.

The short-term portion of the pensions and other post-employment benefits is recorded within other liabilities (note 14). Pension plans in an overall asset balance are recorded as pension plan assets on the consolidated statements of financial position.

**Defined contribution plans**

The Company contributes to four group retirement savings plans for eligible employees:

1. Local 1005 Members at Hamilton Works
2. Local 8782 Members at Lake Erie Works
3. Local 8782B Members at the Pickle Line
4. Group Retirement Savings Plan of Stelco Inc.

**Defined benefit pension plans**

As at January 1, 2014, the Company sponsors nine Ontario registered funded defined benefit pension plans for eligible employees at various locations for formerly U.S. Steel Canada Inc. ("USSC") employees:

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

STELCO INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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20. PENSIONS AND OTHER POST-EMPLOYMENT BENEFITS (Continued)

The plans do not provide for indexation and member contributions are not required.

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

Actuarial valuation reports were prepared for each plan as at December 31, 2013 and as at December 31, 2016. Annual actuarial valuation reports were also prepared as at December 31, 2014 and December 31, 2015 for the four Lake Erie and Hamilton Plans. The liabilities are extrapolated based on the most recent actuarial valuation available at each of the measurement dates for accounting reporting purposes.

In conjunction with a 2006 Plan of Arrangement and Reorganization under the Companies' Creditors Arrangement Act (CCAA) and a Special Pension Agreement dated August 26, 2007, the minimum funding requirement per the applicable Ontario funding regulations no longer applies to the four Lake Erie and Hamilton Plans. The required contributions are replaced by level contributions of \$70 per annum, paid monthly, for years 2011 to 2015, allocated among the four plans. This Special Pension Agreement was effective until December 31, 2015.

On September 16, 2014, USSC filed for the creditors' protection under CCAA. On October 9, 2015, the Court ordered the Company to pay only normal cost contributions into its pension trust from and after September 29, 2015. In accordance with the Court order, the Company continued to pay only normal cost contributions from September 29, 2015.

During the fourth quarter of 2013, a decision was made to reduce the non-represented staff at USSC. Affected salaried members at Lake Erie and Hamilton were to be retired or terminated within the next two years. A curtailment impact is reflected as at January 1, 2014 for both impacted Plans.

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

The Company also provides 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).

<u>Years ending</u>	<u>December 31, 2016 \$</u>	<u>December 31, 2015 \$</u>	<u>December 31, 2014 \$</u>
Net employee defined benefit assets/(liabilities)			
Defined benefit obligations . . . . .	(3,423)	(3,599)	(3,738)
Fair value of assets . . . . .	<u>3,026</u>	<u>3,158</u>	<u>3,204</u>
<b>Net assets/(liabilities) . . . . .</b>	<u>(397)</u>	<u>(441)</u>	<u>(534)</u>
	<u>December 31, 2016 \$</u>	<u>December 31, 2015 \$</u>	<u>December 31, 2014 \$</u>
<b>Net benefit expense (recognized in net loss)</b>			
Service costs . . . . .	12	12	11
Settlement . . . . .	13	—	—
Curtailment . . . . .	—	—	4
Finance costs . . . . .	<u>12</u>	<u>17</u>	<u>17</u>
<b>Net benefit expense . . . . .</b>	<u>37</u>	<u>29</u>	<u>32</u>

STELCO INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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20. PENSIONS AND OTHER POST-EMPLOYMENT BENEFITS (Continued)

Reconciliation of defined benefit obligations

	December 31, 2016 \$	December 31, 2015 \$	December 31, 2014 \$
<b>Beginning of year</b> . . . . .	(3,599)	(3,738)	(3,426)
Interest cost . . . . .	(128)	(133)	(148)
Current service costs . . . . .	(12)	(12)	(11)
Curtailement loss . . . . .	—	—	(4)
Settlement . . . . .	83	—	—
Benefits paid . . . . .	267	274	281
Actuarial gain (loss) . . . . .	(34)	10	(430)
<b>End of year</b> . . . . .	<u>(3,423)</u>	<u>(3,599)</u>	<u>(3,738)</u>

Reconciliation of fair value of plan assets

	December 31, 2016 \$	December 31, 2015 \$	December 31, 2014 \$
<b>Beginning of year</b> . . . . .	3,158	3,204	3,006
Actuarial gain . . . . .	107	41	273
Expected return on assets . . . . .	116	116	131
Employer contributions . . . . .	9	72	75
Benefits paid . . . . .	(267)	(275)	(281)
Settlement . . . . .	(97)	—	—
<b>End of year</b> . . . . .	<u>3,026</u>	<u>3,158</u>	<u>3,204</u>

Other comprehensive income (loss) (OCI)

	December 31, 2016 \$	December 31, 2015 \$	December 31, 2014 \$
Actuarial gain/(loss) due to obligation experience:			
Demographic experience . . . . .	—	9	3
Changes in demographic assumptions . . . . .	—	—	(144)
Changes in economic assumptions . . . . .	(34)	—	(289)
Actuarial gain/(loss) due to assets experience . . . . .	107	41	273
<b>Remeasurement effects recognized in OCI</b> . . . . .	<u>73</u>	<u>50</u>	<u>(157)</u>

**STELCO INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**  
**(Expressed in millions of Canadian dollars except where otherwise indicated)**  
**December 31, 2016, 2015 and 2014**

**20. PENSIONS AND OTHER POST-EMPLOYMENT BENEFITS (Continued)**

**Reconciliation of net assets (liabilities)**

	<b>December 31, 2016 \$</b>	<b>December 31, 2015 \$</b>	<b>December 31, 2014 \$</b>
<b>Beginning of year</b> . . . . .	<b>(441)</b>	(534)	(420)
Periodic benefit expense . . . . .	(38)	(29)	(32)
Remeasurements, recognized in OCI . . . . .	73	50	(157)
Employer contributions . . . . .	<u>9</u>	<u>72</u>	<u>75</u>
Net liabilities, before IFRIC 14 . . . . .	<u>(397)</u>	<u>(441)</u>	<u>(534)</u>
IFRIC 14 impact . . . . .	<u>—</u>	<u>—</u>	<u>—</u>
<b>End of year</b> . . . . .	<b><u>(397)</u></b>	<b><u>(441)</u></b>	<b><u>(534)</u></b>

**Categories of plan assets**

The major categories of plan assets of the fair value of the total plan assets are, as follows:

	<b>December 31, 2016 \$</b>	<b>December 31, 2015 \$</b>	<b>December 31, 2014 \$</b>
Pooled funds . . . . .	<b>1,908</b>	2,067	2,083
Equity securities (Domestic) . . . . .	<b>468</b>	472	480
Equity securities (Foreign) . . . . .	<b>13</b>	—	—
Short-term investments . . . . .	<b>113</b>	68	85
Private equities . . . . .	<b>15</b>	15	15
Debt securities (Domestic) . . . . .	<b>185</b>	238	229
Government bonds (Domestic) . . . . .	<b>321</b>	295	307
Other . . . . .	<u>3</u>	<u>3</u>	<u>5</u>
<b>Total</b> . . . . .	<b><u>3,026</u></b>	<b><u>3,158</u></b>	<b><u>3,204</u></b>

**Key assumptions, at year-end**

	<b>December 31, 2016 %</b>	<b>December 31, 2015 %</b>	<b>December 31, 2014 %</b>	<b>As at January 1, 2014 %</b>
Discount rate . . . . .	<b>3.6</b>	3.7	3.7	4.5
Future salary increases (where applicable) . . . . .	<b>3.0</b>	3.0	3.0	3.0
Mortality . . . . .	CPM2014 Private table, Scale CPM-B with size adjustments			UP94 Table, Scale AA with age set-back adjustments
Average duration of the obligation . . . . .	10 - 11 years	10 - 11 years	10 - 11 years	9 - 10 years

**STELCO INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**  
(Expressed in millions of Canadian dollars except where otherwise indicated)  
**December 31, 2016, 2015 and 2014**

**20. PENSIONS AND OTHER POST-EMPLOYMENT BENEFITS (Continued)**

**Sensitivity analysis — obligation**

	<b>December 31, 2016 \$</b>	<b>December 31, 2015 \$</b>	<b>December 31, 2014 \$</b>
<b>Discount rate</b>			
0.05% increase . . . . .	(18)	(18)	(19)
0.05% decrease . . . . .	19	20	21
<b>Future salary increases</b>			
1% increase . . . . .	2	3	3
1% decrease . . . . .	(2)	(2)	(3)
<b>Mortality</b>			
10% increase . . . . .	(76)	(80)	(81)
10% decrease . . . . .	84	88	89

**Expected contributions for the next fiscal year**

	<b>December 31, 2016 \$</b>	<b>December 31, 2015 \$</b>	<b>December 31, 2014 \$</b>
.....	<u>218</u>	<u>212</u>	<u>72</u>

**Other post-employment benefits and compensated absences plans**

The Company also sponsors the following non-pension employee benefits:

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

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

**Net employee defined benefit liabilities**

	<b>December 31, 2016 \$</b>	<b>December 31, 2015 \$</b>	<b>December 31, 2014 \$</b>
Defined benefit obligations . . . . .	(913)	(870)	(870)
Fair value of assets . . . . .	<u>—</u>	<u>—</u>	<u>—</u>
<b>Net liabilities</b> . . . . .	<u>(913)</u>	<u>(870)</u>	<u>(870)</u>

**STELCO INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**  
(Expressed in millions of Canadian dollars except where otherwise indicated)  
**December 31, 2016, 2015 and 2014**

**20. PENSIONS AND OTHER POST-EMPLOYMENT BENEFITS (Continued)**

**Net benefit expense (recognized in net loss)**

	<b>December 31, 2016 \$</b>	<b>December 31, 2015 \$</b>	<b>December 31, 2014 \$</b>
Current service costs . . . . .	4	4	4
Interest cost on benefit obligation . . . . .	33	33	35
<b>Net benefit expense . . . . .</b>	<u>37</u>	<u>37</u>	<u>39</u>

**Reconciliation of defined benefit obligations**

	<b>December 31, 2016 \$</b>	<b>December 31, 2015 \$</b>	<b>December 31, 2014 \$</b>
<b>Beginning of year . . . . .</b>	<b>(870)</b>	<b>(870)</b>	<b>(797)</b>
Interest cost . . . . .	(33)	(33)	(35)
Current service costs . . . . .	(4)	(4)	(4)
Benefits paid . . . . .	6	34	41
Actuarial gain (loss) . . . . .	(12)	3	(75)
<b>End of year . . . . .</b>	<u><b>(913)</b></u>	<u><b>(870)</b></u>	<u><b>(870)</b></u>

**Reconciliation of fair value of plan assets**

	<b>December 31, 2016 \$</b>	<b>December 31, 2015 \$</b>	<b>December 31, 2014 \$</b>
<b>Beginning of year . . . . .</b>	<b>—</b>	<b>—</b>	<b>—</b>
Employer contributions . . . . .	6	34	41
Benefits paid . . . . .	(6)	(34)	(41)
<b>End of year . . . . .</b>	<u><b>—</b></u>	<u><b>—</b></u>	<u><b>—</b></u>

**Other comprehensive income (loss) (OCI)**

	<b>December 31, 2016 \$</b>	<b>December 31, 2015 \$</b>	<b>December 31, 2014 \$</b>
<b>Actuarial gain/ (loss) due to obligation experience</b>			
Demographic experience . . . . .	—	9	4
Changes in economic assumptions . . . . .	(12)	(6)	(79)
Actuarial (gain) loss due to assets experience . . . . .	—	—	—
<b>Remeasurement effects recognized in OCI . . . . .</b>	<u><b>(12)</b></u>	<u><b>3</b></u>	<u><b>(75)</b></u>

**STELCO INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**  
(Expressed in millions of Canadian dollars except where otherwise indicated)  
**December 31, 2016, 2015 and 2014**

**20. PENSIONS AND OTHER POST-EMPLOYMENT BENEFITS (Continued)**

**Reconciliation of net assets (liabilities)**

	<b>December 31, 2016 \$</b>	<b>December 31, 2015 \$</b>	<b>December 31, 2014 \$</b>
<b>Beginning of year</b> . . . . .	<b>(870)</b>	(870)	(797)
Periodic benefit expense . . . . .	(37)	(37)	(39)
Remeasurements, recognized in OCI . . . . .	(12)	3	(75)
Employer contributions . . . . .	<u>6</u>	<u>34</u>	<u>41</u>
Net liabilities, before IFRIC 14 . . . . .	<u>(913)</u>	<u>(870)</u>	<u>(870)</u>
IFRIC 14 impact . . . . .	—	—	—
<b>End of year</b> . . . . .	<u><b>(913)</b></u>	<u><b>(870)</b></u>	<u><b>(870)</b></u>

**Key assumptions, at year-end**

	<b>December 31, 2016 %</b>	<b>December 31, 2015 %</b>	<b>December 31, 2014 %</b>	<b>As at January 1, 2014 %</b>
Discount rate . . . . .	3.8	3.9	3.9	4.5
Future salary increases (where applicable) . . . . .	3.0	3.0	3.0	3.0
<b>Mortality</b> . . . . .	CPM2014 Private table, Scale CPM-B with size adjustments			UP94 Table, Scale AA with age set-back adjustments
<b>Average duration of the obligation</b> . . . . .	12 - 13 years	13 - 14 years	13 - 14 years	12 - 13 years

**Sensitivity analysis — obligation**

	<b>December 31, 2016 \$</b>	<b>December 31, 2015 \$</b>	<b>December 31, 2014 \$</b>
<b>Discount rate</b>			
0.05% increase . . . . .	(6)	(6)	(6)
0.05% decrease . . . . .	7	6	6
<b>Future salary increases</b>			
0.5% increase . . . . .	—	—	—
0.5% decrease . . . . .	—	—	—
<b>Mortality</b>			
10% increase . . . . .	(32)	(32)	(32)
10% decrease . . . . .	36	36	36
<b>Healthcare cost increase rate</b>			
1.0% increase . . . . .	114	112	112
1.0% decrease . . . . .	(93)	(92)	(91)

**STELCO INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**  
**(Expressed in millions of Canadian dollars except where otherwise indicated)**  
**December 31, 2016, 2015 and 2014**

**20. PENSIONS AND OTHER POST-EMPLOYMENT BENEFITS (Continued)**

Expected contributions for the next fiscal years

	December 31, 2016 \$	December 31, 2015 \$	December 31, 2014 \$
.....	43	43	42

**21. FINANCIAL ASSETS AND FINANCIAL LIABILITIES**

Financial assets are composed of cash and cash equivalents, restricted cash as well as trade and other receivables.

**Financial liabilities**

The Company's interest-bearing loans and borrowings are measured at depreciated cost using the effective interest method and are composed of the following:

**Interest-bearing loans and borrowings**

	Weighted average interest rate %	Maturity Year	2016 \$	2015 \$	2014 \$	As at January 1, 2014 \$
<b>Current interest-bearing loans and borrowings</b>						
Ontario provincial loan .....	1.00	31-Mar-16	150	150	150	—
USS term loan .....	9.03	31-Oct-37	1,419	1,419	1,419	—
USS secured revolving loan .....	3.35	11-May-25	96	98	82	—
USS unsecured revolving loan .....	2.37	11-May-25	157	162	136	—
<b>Total current interest-bearing loans and borrowings .....</b>			<b>1,822</b>	1,829	1,787	—
<b>Non-current interest-bearing loans and borrowings</b>						
Ontario provincial loan .....	1.00	31-Dec-15	—	—	—	122
USS term loan .....	9.03	31-Oct-37	—	—	—	1,419
USS secured revolving loan .....	3.35	11-May-25	—	—	—	76
USS unsecured revolving loan .....	2.37	11-May-25	—	—	—	124
<b>Total non-current interest-bearing loans and borrowings .....</b>			—	—	—	1,741
<b>Total interest-bearing loans and borrowings .....</b>			<b>1,822</b>	1,829	1,787	1,741

**Province of Ontario note**

Stelco was provided with CAD \$150 on March 31, 2006 from the Province of Ontario (the "Province Note") in connection with the restructuring of the pension plan funding arrangements as contemplated by the CCAA. The Province Note was unsecured and repayable on December 31, 2015. The Province Note was subject to an interest rate of 1% per annum with an effective rate based on its recognition date fair value of 12%. As a result of Stelco's CCAA filing in 2014, the loan was considered to be in default, and the discount was fully accreted to record the loan at its face value of \$150, resulting in additional interest expense in 2014 of \$16.6. The loan continued to accrue interest at 1% while the Company was under CCAA, and therefore the 1% contractual interest was recognized throughout the years ended December 31, 2014, 2015 and 2016.

## STELCO INC.

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Expressed in millions of Canadian dollars except where otherwise indicated)

December 31, 2016, 2015 and 2014

#### 21. FINANCIAL ASSETS AND FINANCIAL LIABILITIES (Continued)

##### USS revolving credit agreement

In May 2010, Stelco entered into an unsecured revolving credit facility where the Company could draw an aggregate amount of US\$350 at any one time. Through an amendment in July 2012, this aggregate amount was increased to US\$500 and through a second amendment in January 2013, this aggregate amount was further increased to US\$600. Further amendments in 2013 secured certain obligations owing by Stelco to USS under the facility. Under the terms of the revolving credit agreement, the outstanding balance must be paid by the maturity date, however, payments on an outstanding balance can be made prior to this. Draws on the revolver are subject to interest from the date of the advance until the date on which the advance is paid in full, at the safe-harbour Applicable Federal Rate as prescribed by the Internal Revenue Service. Interest was payable upon the second anniversary date of the loan and biennially thereafter.

##### USS term loan

In October 2007, Stelco entered into a term loan for an amount of CAD \$1,000 with a maturity date of October 31, 2037. Through an amendment in December 2007, the term loan amount increased to CAD \$1,500. Interest on the term loan accrued daily and compounded semi-annually at an interest rate of 9.03% per year. Interest was payable on the last business day of the year on the second anniversary after the year in which it was accrued.

##### Event of default under revolving credit facility and term loan with USS

The CCAA filing on September 16, 2014 was considered to be an event of default under the USS term loan facility and revolving credit facility, which resulted in the loan balances and any accrued and unpaid interest to be due on demand. The Company has presented these obligations as current for the December 31, 2014, December 31, 2015 and December 31, 2016 reporting periods. The Company had either paid or received waivers on all interest due as at January 1, 2014 and accordingly, all balances under the term loan and revolving facility have been presented as non-current for the January 1, 2014 reporting period, with the exception of those amounts due in the next twelve months, which have been presented as current. The loans continued to accrue interest while the Company was under CCAA at the rates stipulated within the agreements as described above.

##### Financial liabilities

Financial liabilities are composed of trade and other payables, interest bearing loans and borrowings and finance lease obligations.

The fair values of cash and cash equivalents, restricted cash, trade and other receivables, trade and other payables, obligations under finance leases as well as interest-bearing loans and borrowings approximate their carrying amount largely due to the short-term maturities of these instruments.

#### 22. FINANCIAL INSTRUMENTS RISK MANAGEMENT OBJECTIVES AND POLICIES

The Company's principal financial liabilities comprise interest-bearing loans and borrowings as well as trade and other payables. The main purpose of these financial liabilities is to finance the Company's operations and to provide guarantees to support its operations. The Company's principal financial assets include trade and other receivables, and cash and short-term deposits that are derived directly from its operations.

The Company is exposed to market risk including foreign currency risk, interest rate risk, credit risk and liquidity risk. The Company's senior management oversees the management of these risks. The Company's senior management is supported by a Chief Restructuring Officer as well as the Monitor from the CCAA proceedings (see note 1). These parties are appointed by the Court and provide assurance to the Company's stakeholders that the Company's financial risk activities are governed by appropriate policies and procedures and that financial risks are identified, measured and managed in accordance with the Company's policies and risk objectives.

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.

The Company is exposed to price risk related to purchases of certain commodities used as raw materials. The Company may use fixed price contracts with suppliers to mitigate commodity price risk.

## STELCO INC.

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Expressed in millions of Canadian dollars except where otherwise indicated)

December 31, 2016, 2015 and 2014

#### 22. FINANCIAL INSTRUMENTS RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

##### Concentration of credit and business risks

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.

The majority of the Company's customers are located in North America. As steel and steel products can be sold through numerous traders internationally, the Company is not economically dependent on a limited number of customers for the sale of its products.

##### Insurance

The Company maintains insurance for certain property damage, equipment, business interruption, product transportation and general liability exposures; however, insurance is applicable only after certain deductibles and retainages are paid. The Company is self-insured for certain other exposures including workers' compensation and automobile liability (where permitted by law). Liabilities are recorded for workers' compensation and personal injury obligations. Other costs resulting from losses under deductible or retainage amounts or not otherwise covered by insurance are charged against income upon occurrence.

##### Market risk — 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. For the year ended December 31, 2016, a 10% strengthening in the Canadian dollar would have resulted in a \$30 increase in pre-tax income (December 31, 2015 — \$13 increase; December 31, 2014 — \$22 increase) and a 10% weakening in the Canadian dollar would have resulted in a \$30 decrease in pre-tax income (December 31, 2015 — \$13 decrease; December 31, 2014 — \$22 decrease).

##### 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 mitigate this risk, regular credit evaluations and purchase credit insurance for international customers are performed.

##### 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, 2016, six of the Company's customers made up greater than 69% of the total trade accounts receivable. The company's credit exposure to these customers was \$159 (December 31, 2015 — six customer at \$213 or 73% of trade accounts receivable; December 31, 2014 — six customers at \$217 or 64% of trade accounts receivable).

An analysis for uncollectible amounts is performed as at each reporting date on an individual basis for major clients. In addition, a large number of minor receivables are categorized into homogeneous groups and assessed for impairment collectively. The calculation is largely based on historical experience of the Company.

##### Cash deposits

Credit risk from balances with banks and financial institutions is managed by the Company in accordance with the Company's policy. Investments of surplus funds are made only with approved counterparties and within credit limits assigned to each counterparty.

**STELCO INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**(Expressed in millions of Canadian dollars except where otherwise indicated)**

**December 31, 2016, 2015 and 2014**

**22. FINANCIAL INSTRUMENTS RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)**

**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 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 Plan's assets is affected by short-term changes in nominal and real interest rates. The value of the 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.

**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, that 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. In addition to the work performed by the Chief Restructuring Officer and the Monitor, the Company prepares a quarterly cash flow analysis to identify any potential shortfall of funds and the mitigation strategy in such circumstances.

As at December 31, 2016, all of the financial liabilities of the Company were due within 12 months.

**23. 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 external restrictions.

The Company finished the process of negotiating with its stakeholders for a restructuring of its capital structure, including its long-term debts as discussed in note 21.

Stelco's capital structure comprises a mix of debt and total as follows:

	<b>December 31, 2016 \$</b>	<b>December 31, 2015 \$</b>	<b>December 31, 2014 \$</b>	<b>As at January 1, 2014 \$</b>
Total debt . . . . .	<b>1,822</b>	1,829	1,787	1,741
Total equity . . . . .	<b>(3,287)</b>	(3,111)	(2,775)	(2,310)
<b>Total</b> . . . . .	<b><u>(1,465)</u></b>	<b><u>(1,282)</u></b>	<b><u>(988)</u></b>	<b><u>(569)</u></b>

**24. COMMITMENTS AND CONTINGENCIES**

**Operating leases**

The Company has entered into operating leases on its machinery and equipment, with lease terms between 3 and 5 years.

**STELCO INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**(Expressed in millions of Canadian dollars except where otherwise indicated)**

**December 31, 2016, 2015 and 2014**

**24. COMMITMENTS AND CONTINGENCIES (Continued)**

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

	<b>2016</b>	<b>2015</b>	<b>2014</b>
	<u>\$</u>	<u>\$</u>	<u>\$</u>
Within 1 year . . . . .	4	4	—
2 to 5 years . . . . .	8	12	1
Over 5 years . . . . .	—	—	—
<b>Total</b> . . . . .	<u><b>12</b></u>	<u><b>16</b></u>	<u><b>1</b></u>

**Employee claims**

As a result of the CCAA creditor protection, Stelco may be required to pay certain amounts for employee claims relating to severance, post-retirement benefits and other amounts owing. As at December 31, 2016, the amounts payable related to these claims was not determinable.

**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 financial position, results of operations or cash flows.

**25. RELATED PARTY TRANSACTIONS AND KEY MANAGEMENT PERSONNEL REMUNERATION**

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 arrangements, investments in associates, 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 years:

	<b>2016</b>	<b>2015</b>	<b>2014</b>
	<u>\$</u>	<u>\$</u>	<u>\$</u>
<b>U. S. Steel</b>			
Sales of goods . . . . .	—	—	492
Purchases of goods and services . . . . .	—	—	222
<b>Joint ventures</b>			
Purchases of services . . . . .	19	16	15
Amounts payable to related parties . . . . .	2	2	2

As at January 1, 2014, the Company had receivables from U. S. Steel of \$88, and payable to U. S. Steel of \$98.

For the period January 1, 2014 to September 16, 2014 Stelco earned commissions of \$7 on sales under a limited risk distribution agreement with U. S. Steel.

The Company was owned and controlled by U. S. Steel for the period January 1, 2014 through September 16, 2014. After that point, Stelco ceased to have a controlling parent, due to its application for relief from its creditors. Consequently, U. S. Steel was no longer a related party after September 16, 2014. Transactions and outstanding balances with U. S. Steel include transactions and outstanding balances with U. S. Steel subsidiary companies.

**Subsidiaries**

Transactions between Stelco and its subsidiaries meet the definition of related party transactions. These transactions are eliminated on consolidation and are not disclosed in these consolidated financial statements.

**STELCO INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**(Expressed in millions of Canadian dollars except where otherwise indicated)**

**December 31, 2016, 2015 and 2014**

**25. RELATED PARTY TRANSACTIONS AND KEY MANAGEMENT PERSONNEL REMUNERATION (Continued)**

**Key management personnel**

Stelco's key management personnel, and persons connected with them, are also considered to be related parties for disclosure purposes. Key management personnel are defined as those individuals having authority and responsibility for planning, directing and controlling the activities of Stelco and comprise the Executive Senior Leadership Team, expatriates in executive positions and also include costs for U. S. Steel compensation allocations as well as contracted services provided by the Chief Restructuring Officer, General Counsel and Director of Corporate Services. Up until September 2014, U. S. Steel executives overseeing the operations of the Company were also included.

During the year ended December 31, 2016, Stelco recorded \$4 (2015 — \$4; 2014 — \$6) as an expense related to key management personnel salaries and benefits, post-employment pension, medical and termination benefits as well as share-based payment transactions.

The amount disclosed in the table are the amounts recognized as an expense during the reporting period related to key management personnel.

**Key management personnel expenses**

	2016 \$	2015 \$	2014 \$
Key management compensation . . . . .	3	3	3
U. S. Steel executive compensation . . . . .	—	—	3
Contracted services . . . . .	1	1	—
<b>Total</b> . . . . .	<b>4</b>	<b>4</b>	<b>6</b>

**26. EVENTS AFTER THE REPORTING PERIOD**

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

- Bedrock indirectly acquired all of Stelco's shares from U. S. Steel for cash proceeds of \$70;
- Secured claims amounting to US\$127 of U. S. Steel for the USS Holdings secured revolving loan and interest (discussed in note 21), which includes US\$49 of other USS trade claims recognized as related party transactions (note 25), were paid in full;
- Secured claims relating to construction liens of \$11 and realty taxes of \$16 were settled in full;
- Unsecured claims of U. S. Steel loans totalling \$1,576 plus accrued interest, consisting of the USS term loan and USS unsecured revolving loan (note 21), and net trade amounts of \$26 recognized as related party transactions (note 25), were discharged and cancelled for nominal consideration;
- General unsecured creditors with proven claims totalling approximately \$131, which consisted primarily of trade payables, participated in a pool of \$15 in respect of their claims. The Province of Ontario waived its distribution in respect of its general unsecured loan of \$150 plus interest (note 21). In addition, Stelco paid \$9 to settle certain salaried employee and retiree claims. Upon emergence from CCAA, all of these claims were compromised, released, fully discharged and barred;
- U. S. Steel agreed to continue to provide certain business and transition services to Stelco for specified periods and for agreed upon pricing;
- Stelco committed to purchasing all of its iron ore requirements from U. S. Steel through 2021 shipping season up to a specified maximum amount;
- Stelco's pension and OPEB liabilities of \$1,387 were cancelled and discharged and the Company concurrently entered into new funding commitments with the pension and OPEB trusts. Stelco committed to pay up to a maximum of \$430 (\$30 million of which was paid on June 30, 2017) to fund the Lake Erie Bargaining Unit Pension Plan, Lake Erie Salaried Pension Plan, Hamilton Bargaining Unit Pension Plan, Hamilton Salaried Pension Plan, and the Pickle Line Pension Plan (collectively the "Main Pension

**STELCO INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**(Expressed in millions of Canadian dollars except where otherwise indicated)**

**December 31, 2016, 2015 and 2014**

**26. EVENTS AFTER THE REPORTING PERIOD (Continued)**

Plans”); a portion of this funding is paid with certain tax-related savings amounts and a certain percentage of free cash flow that will be guaranteed by Bedrock up to \$160;

- Stelco committed to make fixed contributions of approximately \$300 over 20 years to independent trusts created for the purpose of receiving, holding and distributing funds (the “OPEB Entities”) on account of OPEB for legacy employees of Stelco, of which \$22 will be funded through a non-revolving loan provided by the Province of Ontario (discussed further below). In addition, Stelco has agreed to pay a portion of its free cash flows and certain tax-related savings amounts to the OPEB Entities, subject to certain provincial credit facilities being repaid. Furthermore, Stelco has agreed to make a secured loan available of up to \$39 to the OPEB Entities;
- Stelco entered into a Tax Savings Agreement with the Province of Ontario, the administrator of the Main Pension Plans and the OPEB Entities pursuant to which 50% of the tax attributes of the Company as at June 30, 2017 will be cancelled. The Company will be required to make payments equal to 33.5% of its annual tax savings realized through the use of its remaining tax attributes. The Main Pension Plans are entitled to the first \$75 of the tax savings, after which they will be shared equally between the Main Pension Plans and the OPEB Entities.
- Stelco transferred all of its land assets at Hamilton Works and Lake Erie Works with a net book value of \$99 (note 11) as well as the investment property with a net book value of \$21 to an independent entity (the “Land Vehicle”) formed to hold these lands for the benefit of the independent Pension Trusts and OPEB Entities;
- Stelco entered into a 25-year lease with two 10-year renewal terms and one final 4-year term with the Land Vehicle in respect of the real property on which Hamilton Works and Lake Erie Works are situated; the undiscounted minimum lease payments for the non-cancellable lease term are \$229;
- the Province of Ontario was paid \$79 as a financial assurance that will be held by the Ontario Ministry of the Environment and Climate Change on behalf of the Land Vehicle for the purposes of addressing historical environmental contamination, if any; any amount of such financial assurance that is not required by the Province of Ontario will be released to repay first any outstanding amounts in certain provincial credit facilities, or otherwise in favour of the independent Pension Trusts and OPEB Entities;
- the Province of Ontario provided a non-revolving loan of \$22 to Stelco consisting of \$10.5 loan available to be drawn in 2017 and repayable in 2020 and \$11.5 available to be drawn in 2018 and repayable in 2021; interest rates for these non-revolving loans are the Province of Ontario four-year bond rate plus 1%; the loans are secured by general security over the Company’s assets; and
- Stelco entered into a revolving asset-based lending facility pursuant to which it has the ability to borrow up to the lesser of \$375 and a borrowing base calculation that includes a percentage of net accounts receivable, inventories less other reserves.

As a result of the implementation of the Plan, Stelco will recognize a gain on emergence from CCAA on June 30, 2017.

On September 21, 2017, Bedrock Industries B.V., the direct parent of Stelco, formed a wholly owned subsidiary, Stelco Holdings Inc. Stelco Holdings Inc. is planning to complete a public offering; should the public offering be successfully completed, it is intended that Stelco will become an indirect wholly owned subsidiary of Stelco Holdings Inc. upon closing of the offering.

## APPENDIX A BOARD MANDATE

### STATEMENT OF PRINCIPLES

The Board of Directors (the “**Board**”) of Stelco Holdings Inc. (the “**Company**”) has adopted the following Mandate of the Board (the “**Mandate**”). This Mandate, together with the charters of the committees of the Board and other policies adopted by the Board, provide the basis by which the Company is governed.

The Board recognizes that there is an active, on-going dialogue and evolution regarding corporate governance best practices and that this Mandate may be amended from time to time as the Board deems necessary and appropriate to keep pace with applicable best practices.

### ROLE OF THE BOARD

The members of the Board are elected by the shareholders of the Company to manage and supervise the management of the business and affairs of the Company. The Board serves to provide oversight and guidance to senior management with a view to increasing shareholder value over the long term. The core responsibility of the Board is to exercise its fiduciary duties to act honestly and in good faith with a view to the best interests of the Company. In all actions taken by the Board, the directors are expected to exercise the care, diligence and skill that a reasonably prudent individual would exercise in comparable circumstances.

### BOARD SELECTION AND COMPOSITION

*Election of Directors:* The Board shall consist of such number of directors as the shareholders (or the Board as authorized by the shareholders) may determine from time to time within any range as may be set out in the Company’s articles, subject to the written consent of the Bedrock Group (as defined in the investor rights agreement dated ● , 2017 between the Company and Bedrock Industries B.V. (the “**Investor Rights Agreement**”)) when required under the terms of the Investor Rights Agreement.

Except for director nominees designated by the Bedrock Group under the terms of the Investor Rights Agreement, director nominees shall be recommended to the Board by the Compensation, Governance and Nominating Committee in accordance with its charter. Directors shall be elected by the shareholders of the Company in accordance with the Company’s Majority Voting Policy at every annual general meeting of the Company (or unanimous resolution of the shareholders in lieu thereof), but if directors are not elected at any annual meeting, the incumbent directors shall continue in office until their successors are elected or appointed.

*Board Leadership:* The Chair of the Board (the “**Chair**”) shall be selected by the Board after considering the recommendation of the Compensation, Governance and Nominating Committee in accordance with its charter. The Board, in its collective judgment shall select a Chair that it believes will provide leadership in a manner that is in the best interests of the Company. The Chair shall have those duties outlined by the Board in a document entitled “Role of the Chair”, as well as any other duties and responsibilities as may be delegated by the Board from time to time.

*Lead Director:* If the offices of Chair and Chief Executive Officer (“**CEO**”) are held by the same person, the Board, after considering the recommendation of the Compensation, Governance and Nominating Committee in accordance with its charter, shall designate an independent director to serve as Lead Director to coordinate the activities of the other independent directors. The Lead Director shall have those duties outlined by the Board in a document entitled “Role of the Lead Director”, as well as any other duties and responsibilities as may be delegated by the Board from time to time.

*Size of the Board:* The Company’s articles provide that the Board will be comprised of a minimum of 3 directors and a maximum of 10 directors. The Board will periodically evaluate whether a larger or smaller number of directors would be preferable.

*Qualifications of Directors:* The Board, and in particular the Compensation, Governance and Nominating Committee, while considering the candidates to designate as its nominees, should endeavour to select directors that represent diverse experience in areas that are relevant to the Company’s activities, having regard to the

individuals designated as nominees by the Bedrock Group. Directors should possess the highest personal and professional ethics, integrity, and values, and be committed to representing the long-term interests of the Company and its subsidiaries.

*Length of Board Service:* Each director holds office until the earlier of (i) the date on which the director's successor is elected or appointed; and (ii) the date on which he or she otherwise ceases to hold office under the relevant corporate law or the Company's constating documents.

*Change of Director's Position:* In the event that a material change occurs with respect to the principal employment or affiliation of an independent director, such independent director will notify the Chair of the Company of such change. The Compensation, Governance and Nominating Committee will then consider whether, given such material change in such independent director's principal employment or affiliation, it is appropriate for such director to continue as a member of the Board. The Compensation, Governance and Nominating Committee will present its recommendation to the Board, including whether it has determined that continued service as a director is inappropriate, for determination by the Board as to whether it will request that the director tender his or her resignation from the Board. Each CEO, other than a CEO serving on the Board as a director that has been designated for nomination or appointment by the Bedrock Group in accordance with the Investor Rights Agreement, will provide an irrevocable undertaking to the Company upon commencement of employment to resign as a director of the Board if their employment is terminated or they resign as an employee. If the employment of the CEO is terminated or the CEO resigns as an employee, the Board will consider whether it is appropriate for that individual to continue as a member of the Board.

*Other Board Service:* The Board does not believe that its members should be prohibited from serving on the boards of other companies so long as those commitments do not create material actual or potential conflicts and do not interfere with the director's ability to fulfill his or her duties as a member of the Board. Directors will advise the Chair prior to accepting any invitation to serve on a public or private company board.

## **BOARD MEETINGS**

*Frequency of Board Meetings:* Regular meetings of the Board will be held at least quarterly. At the beginning of each calendar year, a tentative schedule of the regular Board meetings for such year will be distributed to the Board. Board meetings may be held in person or telephonically or action may be taken by written consent in accordance with the relevant corporate law. Special meetings of the Board will be held as necessary as permitted by the Company's constating documents.

*Development of Board Meeting Agenda:* The Chair, in consultation with the Lead Director (if any) and the CEO, shall prepare the notice and agenda for each Board meeting. Each director is encouraged to express their views in the agenda process.

*Board Material:* All Board materials will be distributed sufficiently in advance of the meeting to permit adequate prior review by the directors.

*Private Sessions of Independent Directors:* The independent directors (that is, directors determined to be independent in accordance with the rules of applicable stock exchanges and securities regulatory authorities) will meet in camera, outside the presence of the CEO or any other directors, at each regular meeting of the Board. Such private meetings may also be called at any time. The Chair (or, if the Chair is not independent, then the Lead Director) will preside over the private session.

## **BOARD RESPONSIBILITIES**

*Board Contact with Management and Advisors; Access to Independent Advisors:* Directors will have full and free access to officers and employees of the Company, the Company's books and records, and the Company's advisors.

*External Communications:* The Board will adopt a disclosure and insider trading policy for the Company and will monitor any investor relations programs.

*Financial Reporting and Internal Controls:* The Board shall review and monitor, with the assistance of the Audit Committee, the adequacy and effectiveness of the Company's system of internal control over financial reporting, including any significant deficiencies or changes in internal control and the quality and integrity of the Company's external financial reporting processes.

*Strategic Planning Process:* The Board shall adopt a strategic planning process to establish objectives and goals for the Company's business and shall review, approve and modify as appropriate the strategies proposed by senior executives to achieve such objectives and goals. The Board shall review and approve, at least on an annual basis, a strategic plan which takes into account, among other things, the opportunities and risks of the Company's business and affairs. In addition to the Company's long term strategic plans, the Board will review and approve the Company's annual operating and capital budgets at least annually and will also review periodically, as conditions dictate, the most significant strategic, operational, financial, accounting, human resources, legal, compliance, quality, and risk management issues and policies facing the Company.

*Risk Management:* The Board, in conjunction with management, shall be responsible for identifying the principal risks of the Company's business and oversee management's implementation of appropriate systems to seek to effectively monitor, manage and mitigate the impact of such risks. Pursuant to its duty to oversee the implementation of effective risk management policies and procedures, the Board may delegate to applicable Board committees the responsibility for assessing and implementing appropriate policies and procedures to address specified risks, including delegation of financial and related risk management to the Audit Committee and delegation of risks associated with compensation policies and practices to the Compensation, Governance and Nominating Committee.

*Succession Planning, Appointment and Supervision of Senior Executives:* The Board shall approve the corporate goals and objectives of the CEO and review the performance of the CEO against such corporate goals and objectives. The Board shall take steps to satisfy itself as to the integrity of the CEO and other senior executives of the Company and that the CEO and other senior executives create a culture of integrity throughout the organization.

The Board shall review and approve the succession plan for the Company, including the selection, appointment, supervision and evaluation of the senior executives of the Company, and shall also approve the compensation of the senior executives of the Company upon recommendation of the Compensation, Governance and Nominating Committee.

*Regulatory Filings:* The Board shall approve applicable regulatory filings that require or are advisable for the Board to approve, which the Board may delegate in accordance with this mandate. These include, but are not limited to, the annual audited financial statements, interim financial statements and related management discussion and analysis accompanying such financial statements, management proxy circulars, annual information forms, offering documents and other applicable disclosure.

## **COMMITTEES**

*Number, Structure, Composition, and Mandates:* The Board currently has the following standing committees: (i) Audit; (ii) Compensation, Governance and Nominating; and (iii) Environment, Health and Safety Committee. The Board may establish such additional committees, and any committee may establish such subcommittees, as the Board or any committee, as applicable, deems necessary and appropriate, to the extent permissible under applicable law. The Board will adopt a written charter for each of its committees, which charter will set forth, among other things, the purpose, specific duties and responsibilities, qualifications and procedures, and reporting obligations of each committee. Periodically, as he or she deems necessary, the Chair will propose a list of committee assignments to the Board for its consideration, including the designation of a proposed chair of each committee. The Board will, however, retain its oversight function and ultimate responsibility for such matters and associated delegated responsibilities.

*Committee Meetings and Agendas:* The chair of each committee, in consultation with the appropriate members of the committee and senior management, will prepare a meeting date schedule and an agenda for each meeting, consistent with the committee's charter and the Company's needs.

## **CODE OF BUSINESS CONDUCT AND ETHICS AND CONFLICTS OF INTEREST**

The Board will adopt a Code of Business Conduct and Ethics (the “**Code**”). The Board expects all directors, officers and employees of the Company and its subsidiaries to conduct themselves in accordance with the highest ethical standards, and to adhere to the Code. All directors will disclose their interest and recuse themselves from any discussion or decision affecting their personal, business, financial or professional interests (other than as such interests related to the Company or Stelco).

## **RELIANCE ON MANAGEMENT AND OUTSIDE ADVICE**

The Board and its committees have the authority to retain, at any time, independent outside financial, legal, or other advisors at the expense of the Company or any of its subsidiaries. Any such advisors will be chosen by, and report directly to, the Board or the respective committee that has retained such advisors.

In performing its functions, the Board is entitled to rely on the advice, reports, and opinions of management, counsel, accountants, auditors, and other expert advisors.

## **INVESTOR RIGHTS AGREEMENT**

Certain of the provisions of this Mandate may be qualified by the provisions of the Investor Rights Agreement. In the event of any inconsistency or conflict between the terms of this Mandate and the terms of the Investor Rights Agreement, the terms of the Investor Rights Agreement shall prevail.

## APPENDIX B AUDIT COMMITTEE CHARTER

### FUNCTION AND PURPOSE

The Audit Committee (the “**Committee**”) shall assist the Board of Directors (the “**Board**”) of Stelco Holdings Inc. (the “**Company**”) in fulfilling its oversight responsibilities by: (i) monitoring the integrity of the corporate accounting and financial reporting processes and financial information that will be provided to shareholders and others; (ii) reviewing the compliance by the Company with certain legal and regulatory requirements; (iii) reviewing areas of potential significant financial risk to the Company; (iv) evaluating the independent auditor’s qualifications and independence; (v) monitoring the performance of the independent auditors as well as any other public accounting firm engaged to perform other audit, review, or attest services; and (vi) reporting regularly on all such matters to the Board.

While the Committee has the duties and responsibilities set forth in this Charter, the role of the Committee is that of oversight. The Committee is not responsible for planning or conducting the audit or determining whether the financial statements of the Company are complete and accurate and in accordance with applicable accounting rules. Such activities are the responsibility of management and the independent auditors. The Committee and its members are not preparers, auditors, or certifiers of the financial statements or guarantors of the independent auditors’ reports. It is not the duty or responsibility of the Committee to ensure that the Company complies with all laws and regulations. The Committee and each of its members shall be entitled to rely on: (a) the integrity of those persons and organizations within and outside of the Company from which it receives information; (b) the accuracy of the financial and other information provided to the Committee by such persons or organizations absent actual knowledge to the contrary (which shall be promptly reported to the Board); and (c) representations made by management as to any audit and non-audit services provided by the independent auditors.

### COMPOSITION AND ORGANIZATION

#### Membership and Qualifications

*Composition:* The Committee shall be composed of at least three directors, including a Chair. Except (during the one year period following the date of the receipt for the final prospectus relating to our IPO) for a director that is designated by the Bedrock Group for appointment to the Committee under the terms of the investor rights agreement between the Company and Bedrock Industries B.V. (the “**Investor Rights Agreement**”), all directors to be appointed to the Committee shall be designated by the Board taking into account any recommendation of the Compensation, Governance and Nominating Committee.

*Independence:* Subject to the exemption from the independence requirements afforded by Section 3.2(2) of National Instrument 52-110 — Audit Committees, each member of the Committee shall be independent, as determined in accordance with the applicable rules of applicable stock exchanges and securities regulatory authorities.

*Financial Literacy:* All members of the Committee must be financially literate, meaning that he or she has the ability to read and understand a set of financial statements that present a breadth and level of complexity of accounting issues that are generally comparable to the breadth and complexity of the issues that can reasonably be expected to be raised by the Company’s, financial statements. A director who is not financially literate may be appointed to the committee, provided that such director becomes financially literate within a reasonable period of time following such appointment.

#### Meetings

*Frequency:* The Committee shall meet as frequently as the Chair of the Committee deems appropriate. The Committee may meet with the independent auditors and management separately, to the extent the Committee deems necessary and appropriate.

*Agendas and Notice:* The Chair of the Committee shall establish the meeting dates and the meeting notice and agenda. The Chair of the Committee or the Company Secretary shall send proper notice of each Committee

meeting and, *to the extent practical*, information concerning the business to be conducted at the meeting, to the extent practical, to each member prior to each meeting. The Chair or a majority of the members of the Committee may call a special meeting of the Committee at any time if all members of the Committee waive notice of the meeting. While the Committee is expected to communicate regularly with management of the Company, the Committee shall exercise a high degree of independence in establishing its meeting agenda and in carrying out its responsibilities.

*Holding and Recording Meetings:* Committee meetings may be held in person or telephonically, or action may be taken by written consent in accordance with the applicable corporate law. The Committee may act by a majority vote at a meeting of the Committee or by a writing or writings signed by all of its members without a meeting. The Committee shall keep written minutes of its meetings and submit such minutes to the Board. The Committee may request that members of management be present at Committee meetings as needed in order to execute the Committee's primary responsibilities. The Committee shall report to the Board with respect to its meetings, and all actions taken or authorized by the Committee shall be reported to the Board at its next meeting following such action(s) by the Committee.

*Quorum:* A quorum for meetings of the Committee shall require a majority of the members of the Committee.

*Compensation of the Committee:* The compensation of Committee members shall be determined by the Compensation, Governance and Nominating Committee in compliance with the terms of the Investor Rights Agreement.

*Chair:* If the Chair of the Committee is not present at any meeting of the Committee, an acting Chair for the meeting shall be chosen by majority vote of the Committee from among the members present. In the case of a deadlock on any matter or vote, the Committee shall refer the matter to the Board.

## **AUTHORITY AND RESPONSIBILITIES**

### Independent Auditors

*Selection and Disengagement of Independent Auditors:* The Committee shall have the sole authority and the direct responsibility for the appointment, compensation, retention and oversight of the independent auditors for the Company (including the resolution of disagreements between management and the independent auditors regarding financial reporting) and the independent auditors shall report directly to the Committee.

*Performance and Independence of Independent Auditors:* The Committee shall evaluate the qualifications and performance and confirm the independence of the independent auditors on an ongoing basis, but not less frequently than annually. The Committee shall confirm receipt from the independent auditors of a formal written statement delineating all relationships between the Company and its subsidiaries and the independent auditors, consistent with applicable accounting rules and standards. The Committee shall actively engage in a dialogue with the auditors with respect to any disclosed relationships or services that may impact the objectivity and independence of the auditors and shall take, or recommend that the full Board take, appropriate action to oversee the independence of the auditors.

*Approval of Independent Auditor Services:* The Committee shall review and approve the independent auditors' annual engagement letter and all audit, audit-related, tax and other non-audit permissible services proposed to be provided by the independent auditors, and the fees for such services.

*Review of Independent Auditor Report:* The Committee shall review: (i) any reports required to be prepared by the independent auditors on all critical accounting policies and practices to be used; (ii) all alternative treatments within applicable accounting rules for policies and practices related to material items that have been discussed with management, including the ramifications of such alternative disclosures and treatments and the treatment preferred by the independent auditors; and (iii) any other material written communications between the independent auditors and management, such as any management letter or schedule of unadjusted differences.

## Financial Reporting Process

*Open Communication:* The Committee shall provide and facilitate an open avenue of communication between the independent auditors, the Board, management and the accounting and finance department of the Company. The Committee shall also provide and facilitate sufficient opportunity for the independent auditors (and internal auditors, if any) to meet with members of the Committee without members of management present.

*System of Financial Controls:* The Committee shall oversee the process in which management shall design, implement, amend, maintain, and enforce a comprehensive system of financial controls (including the right internal and external people and resources, policies, processes and enforcement) aimed at ensuring the integrity and compliance of the books and records of the Company with the International Financial Reporting Standards (“IFRS”) and other applicable laws and regulations and sound business practices, as well as protecting the value of the assets of the Company and safeguarding the credibility of its brand, employees, management team, the Board and shareholders. Such system of financial controls will embody the adoption of best practices in financial controls and foster honesty, integrity, accuracy, and transparency in all aspects of the Company and its subsidiaries. It will include but not be limited to: (i) setting the right tone at the top; (ii) active review of business unit performance by executive management, with regular reporting to and oversight by the Board; (iii) an accurate, stable and reliable general ledger; (iv) a robust internal audit function; (v) unambiguous compliance with IFRS, accounting standards, or applicable laws and regulations; and (vi) full transparency with the Board, Audit Committee, Compensation, Governance and Nominating Committee and external auditors. Such system shall also incorporate the principles contained within the Company’s Code of Business Conduct and Ethics, as adopted by the Board and as may be superseded or amended from time to time.

The Committee shall consider and review the adequacy and effectiveness of the Company’s internal control and management information systems through discussions with senior executives of the Company and the external auditor relating to the maintenance of: (i) necessary books, records and accounts in sufficient detail to accurately and fairly reflect the Company’s transactions; (ii) effective internal control over financial reporting, including seeking to ensure that adequate procedures are in place for the review of the Company’s public disclosure of financial information extracted or derived from the Company’s financial statements, the Company’s disclosure controls and procedures and periodically assess the adequacy of those procedures and recommend any proposed changes to the Board for consideration; (iii) adequate processes for assessing the risk of material misstatements in the financial statements and for detecting control weaknesses or fraud; and (iv) the Company’s hiring policies regarding partners, employees and former partners and employees of the present and former external auditor of the Company. The Committee shall satisfy itself, through discussions with senior executives of the Company that the adequacy of internal controls, systems and procedures has been periodically assessed in accordance with regulatory requirements and recommendations. Finally the Committee shall periodically review the Company’s policies and procedures for reviewing and approving or ratifying related party transactions.

*Annual Audit Review:* The Committee shall review with management and the independent auditors the financial statements (including the notes thereto) of the Company for each fiscal year, together with the independent auditors’ audit and audit report thereon. In performing such review, the Committee shall review the scope of the audit, the audit procedures utilized, any difficulties or disputes encountered during the audit, any changes in accounting practices or principles, and any other matters related to the conduct of the audit brought to the Committee’s attention by management or the independent auditors, or which are raised by members of the Committee. In connection with the annual reviews, the Committee shall inquire about and review with management and the independent auditors any significant risks or exposures faced by the Company and discuss with management the steps taken to minimize such risk or exposure. Such risks and exposures include, but are not limited to: (i) threatened and pending litigation; (ii) claims against the Company or its subsidiaries; (iii) tax matters, regulatory compliance and correspondence from regulatory authorities; and (iv) environmental exposure.

*Quarterly Reviews:* The Committee shall review with management and the independent auditors the financial statements of the Company each quarter, together with the independent auditors’ review thereof pursuant to professional standards and procedures for conducting such reviews, as established by generally

accepted auditing standards. In connection with the quarterly reviews, the Committee shall inquire about and review with management and the independent auditors any significant risks or exposures faced by the Company and discuss with management the steps taken to minimize such risk or exposure.

*Internal Audit:* From time to time, the Committee shall assess any requirements or changes with respect to the establishment or operations of an internal audit function having regard to the size and stage of development of the Company at any particular time.

*Review of Audit Scope:* The Committee shall consider and review with management and the independent auditors the scope of the audit for the current fiscal year and the plan of the independent auditors in conducting the audit.

*Legal Compliance; Investigations:* In connection with the annual audit review, the Committee shall inquire about and review with management any legal and regulatory matters that may have a material impact on the Company, including (without limitation) anti-bribery and trade sanction compliance matters.

*Financial Reporting Disclosure:* The Committee shall review and recommend to the Board for approval, the audited annual financial statements, including the auditors' report thereon, the quarterly financial statements, management discussion and analysis, financial reports, financial projections and other applicable financial disclosure, prior to the public disclosure of such information. Further the Committee shall review and recommend to the Board for approval, where appropriate, financial information contained in any prospectuses, annual information forms, annual reports to shareholders, management proxy circulars, material change disclosures of a financial nature and similar disclosure documents prior to the public disclosure of such documents or information.

#### Finance and Investment Oversight

*Financial Resources:* The Committee shall periodically review and make recommendations to the Board with respect to the Company's financial resources, financing requirements, currency hedging, investment strategies (if any) and related matters.

*Incurrence of Debt or Equivalents:* Irrespective of the dollar amount involved, issuance of debt securities or off-balance sheet financing shall require Committee recommendation and Board approval; borrowings under Stelco Inc.'s revolving credit facilities are not subject to this provision.

*Other Financial Matters:* The Committee shall receive and review reports from management with respect to significant financial matters, including any significant transactions outside the ordinary course of business of the Company as requested by the Board or as deemed appropriate by the Committee from time to time.

#### Risk Management

With management's input, the Committee shall review the Company's major business, operational, and financial risk exposures and the steps taken to monitor and control such exposures, including the use of any financial derivatives or hedging arrangements. With the Committee's oversight, management shall establish guidelines, policies and practices regarding risk management, including, but not limited to, derivative policies, insurance programs and necessary practices and procedures to monitor and control major business, operational and financial risks.

#### Environmental, Health & Safety, Social and Governance

The Committee shall consider and review with management and the Environment, Health and Safety Committee (the "**EHS Committee**"), once established, issues relating to the environment, health and safety and the communities in which it conducts its operations, and the Company's efforts to minimize to the extent practicable any adverse impacts in these areas. The Committee shall also consider and review with management and the EHS Committee, once established, the Company's governance structure to ensure appropriate controls and oversight with respect to issues in these areas.

### Review of Hiring Policy

The Committee shall review and approve any individual as an employee or director of the Company that is, or has been previously been, a partner or employee of the present or former external auditor of the Company.

### Whistleblower Policy

*Submission of Complaints:* The Committee shall establish, maintain and oversee the Whistleblower Policy for: (i) the receipt, retention, and treatment of complaints received by the Company, including incidents of retaliation received by the Company, regarding accounting, internal accounting controls, or auditing matters; and (ii) the confidential, anonymous submission by the Company's employees of concerns regarding questionable accounting or auditing matters.

### Access to Records, Legal Counsel and Advisors

*Access to Records and Personnel:* The Committee shall have full access to any relevant records of the Company that it deems necessary to carry out its responsibilities. The Committee may request that any officer or other employee of the Company or any of its subsidiaries or any advisor to the Company meet with members of the Committee or its advisors, as it deems necessary to carry out its responsibilities.

*Independent Advisors:* The Committee shall have the authority to engage and determine funding for such independent legal, accounting and other advisors as it deems necessary to carry out its responsibilities. Such independent advisors may be the regular advisors to the Company. The Committee is empowered to cause the Company or any of its subsidiaries, as applicable, to pay the compensation of such advisors as established by the Committee.

### Funding of the Audit Committee

*Funding:* The Company shall provide appropriate funding, as determined by the Committee, for: (i) payment of compensation to the independent auditors or any other registered public accounting firm engaged for the purpose of preparing or issuing an audit report or performing other audit, review or attest services for the Company; (ii) any other advisors engaged by the Committee; and (iii) ordinary administrative expenses of the Committee that are necessary or appropriate in carrying out its duties.

### Other Responsibilities

*Reports to Board of Directors:* The Committee shall report regularly to the Board regarding the meetings of the Committee with such recommendations to the Board as the Committee deems appropriate.

*Review of this Charter:* The Committee shall periodically review and reassess the adequacy of this Charter and recommend any proposed changes to the Board for its approval.

*Regulatory Developments:* The Committee shall monitor and provide reports to the Board with respect to developments in accounting rules and practices, income tax laws and regulations, and other regulatory requirements that affect matters within the scope of the Committee's authority and responsibilities.

*IT and Information Security:* The Committee shall assess with management, the material risk exposures relating to the Company's information technology systems and information security, together with the Company's actions, policies and procedures, to identify, monitor and mitigate such exposures.

*Delegation:* Subject to applicable law, the Committee may delegate any or all of its functions to any one or more of its members, or other persons, from time to time as it sees fit.

*Other Responsibilities:* The Committee shall perform such other duties as may be required by law or requested by the Board or deemed appropriate by the Committee. The Committee shall discharge its responsibilities, and shall assess the information provided to the Committee, in accordance with its business judgment. The Committee shall have the authority to conduct or authorize investigations into any matters within the scope of its responsibilities as it shall deem appropriate.

## **INVESTOR RIGHTS AGREEMENT**

Certain of the provisions of this Charter may be qualified by the provisions of the Investor Rights Agreement. In the event of any inconsistency or conflict between the terms of this Charter and the terms of the Investor Rights Agreement, the terms of the Investor Rights Agreement shall prevail.

**CERTIFICATE OF THE ISSUER**

Dated: October 20, 2017

This amended and restated prospectus, together with the documents and information incorporated by reference, will, as of the date of the supplemented prospectus providing the information permitted to be omitted from this amended and restated prospectus, constitute, full, true and plain disclosure of all material facts relating to the securities offered by this amended and restated prospectus as required under the securities legislation of each of the provinces and territories of Canada.

**STELCO HOLDINGS INC.**

By: (Signed) ALAN KESTENBAUM  
Chief Executive Officer

By: (Signed) DON P. NEWMAN  
Chief Financial Officer

On behalf of the Board of Directors

By: (Signed) BRIAN LEVITT  
Director

By: (Signed) JEFFREY B. BUNDER  
Director

## **CERTIFICATE OF THE UNDERWRITERS**

Dated: October 20, 2017

To the best of our knowledge, information and belief, this amended and restated prospectus, together with the documents and information incorporated by reference, will, as of the date of the supplemented prospectus providing the information permitted to be omitted from this amended and restated prospectus, constitute, full, true and plain disclosure of all material facts relating to the securities offered by this amended and restated prospectus as required under the securities legislation of each of the provinces and territories of Canada.

**GOLDMAN SACHS CANADA INC.**

**BMO NESBITT BURNS INC.**

By: (Signed) LUKE GORDON

By: (Signed) EGIZIO BIANCHINI

**CREDIT SUISSE SECURITIES (CANADA), INC.**

**J.P. MORGAN SECURITIES CANADA INC.**

By: (Signed) MATTHEW HIND

By: (Signed) MICHAEL BAUER

**SCOTIA CAPITAL INC.**

**TD SECURITIES INC.**

By: (Signed) CHAD GRAVES

By: (Signed) PAUL BARBERA

**NATIONAL BANK FINANCIAL INC.**

By: (Signed) MISTINE LAUZON



The Steel Company of Canada