

Unaudited Interim Condensed Consolidated Financial Statements

Stelco Holdings Inc.

Three and Six Months Ended June 30, 2018

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

As at	Note	June 30, 2018	December 31, 2017
ASSETS			
Current assets			
Cash and cash equivalents		\$ 421	\$ 250
Restricted cash		10	12
Trade and other receivables		263	204
Inventories		380	448
Prepaid expenses		22	18
Total current assets		\$ 1,096	\$ 932
Non-current assets			
Property, plant and equipment, net	4	382	279
Intangible assets		7	7
Investment in joint ventures		7	5
Total non-current assets		\$ 396	\$ 291
Total assets		\$ 1,492	\$ 1,223
LIABILITIES			
Current liabilities			
Trade and other payables	5	\$ 332	\$ 309
Other liabilities		35	33
Obligations to independent employee trusts	6	117	32
Total current liabilities		\$ 484	\$ 374
Non-current liabilities			
Provisions		6	5
Pension benefits	14	1	—
Other liabilities		12	35
Obligations to independent employee trusts	6	489	312
Total non-current liabilities		\$ 508	\$ 352
Total liabilities		\$ 992	\$ 726
EQUITY			
Common shares	7	512	512
Retained deficit		(12)	(15)
Total equity		\$ 500	\$ 497
Total liabilities and equity		\$ 1,492	\$ 1,223

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

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

			Three months ended June 30,	Six months ended June 30,
	Note		2018	2018
Revenue from sale of goods	8	\$	711	\$ 1,193
Cost of goods sold	9		534	946
Gross profit		\$	177	\$ 247
Selling, general and administrative expenses	10		15	27
Operating income		\$	162	\$ 220
Other loss and expenses				
Finance costs	11		(170)	(186)
Other loss	12		—	(10)
Restructuring and other costs			(2)	(5)
Share of loss of joint ventures			(1)	(1)
Income (loss) before income taxes		\$	(11)	\$ 18
Income tax expense	13		—	—
Net income (loss)		\$	(11)	\$ 18

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

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

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

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

STELCO HOLDINGS INC.
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
(In millions of Canadian dollars, except where otherwise noted, unaudited)

	Note	Common shares (in thousands)	Common shares	Retained deficit	Total equity
Balance, December 31, 2017		88,814 \$	512 \$	(15) \$	497
Changes during the period:					
Net income		—	—	18	18
Other comprehensive income		—	—	3	3
Dividends to common shareholders	7	—	—	(18)	(18)
Balance, June 30, 2018		88,814 \$	512 \$	(12) \$	500

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

STELCO HOLDINGS INC.
CONSOLIDATED STATEMENT OF CASH FLOWS
(In millions of Canadian dollars, unaudited)

	Note	Six months ended June 30, 2018
Operating activities		
Net income		\$ 18
Items not affecting cash:		
Depreciation		14
Share of loss of joint ventures		1
Bad debt recovery		(2)
Change in non-cash working capital and other operating activities	15	215
Cash provided by operating activities		\$ 246
Investing activities		
Capital expenditures on property, plant and equipment	15	(27)
Change in restricted cash		2
Cash used in investing activities		\$ (25)
Financing activities		
Advances from asset-based lending facility		29
Repayment of asset-based lending facility		(29)
Repayment of inventory monetization arrangement, net	5	(32)
Dividends paid to common shareholders	7	(18)
Cash used in financing activities		\$ (50)
Net increase in cash and cash equivalents		171
Cash and cash equivalents, beginning of period		250
Cash and cash equivalents, end of period		\$ 421
Cash flows provided by operating activities include:		
Interest paid		4
Interest received		1

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



NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

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STELCO HOLDINGS INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

THREE AND SIX MONTHS ENDED JUNE 30, 2018

1. CORPORATE INFORMATION

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

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

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

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

2. BASIS OF PREPARATION AND STATEMENT OF COMPLIANCE

Stelco Holdings' unaudited interim condensed consolidated financial statements (Consolidated Financial Statements) have been prepared by management in accordance with International Accounting Standard (IAS) 34, *Interim Financial Reporting*, as issued by the International Accounting Standards Board (IASB). The consolidated financial statements comprise the financial statements of Stelco Holdings and its subsidiaries (collectively, the Company). Under International Financial Reporting Standards (IFRS), additional disclosures are required in the annual financial statements and therefore, these Consolidated Financial Statements and accompanying notes should be read in conjunction with the notes to the Company's audited Consolidated Financial Statements for the six month period ended December 31, 2017 (2017 Annual Financial Statements).

These Consolidated Financial Statements have been prepared using consistent accounting policies and methods used in the preparation of the Company's 2017 Annual Financial Statements, with the exception of the accounting policies impacted by the adoption of new standards and interpretations effective January 1, 2018, as noted below.

These Consolidated Financial Statements were authorized for issue in accordance with a resolution of the Board of Directors of Stelco Holdings on July 31, 2018.

Change in accounting policies

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

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

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

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 and certain duties. The Company recognizes revenue as a 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. Revenue from the sale of goods is recognized when the performance obligation is satisfied by transferring the promised good to a customer. A good is considered transferred when the customer obtains control, which is defined as the ability to direct the use of and obtain substantially all of the remaining benefits of an asset. Revenue from sale of goods under bill and hold arrangements is recognized when the buyer obtains control of the goods and the following criteria are met: the reason for the bill and hold arrangement is substantive, the product can be separately identifiable as belonging to the customer, the item is ready for delivery, the Company does not have the ability to use the product or direct it to another customer, and the usual payment terms apply.

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, volume rebates and other incentives. Shipping and other transportation costs charged to buyers are

STELCO HOLDINGS INC.

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

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recorded in sales and the related costs recorded in cost of goods sold.

b) IFRS 9 - Financial instruments (IFRS 9)

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

Stelco's financial assets and liabilities (financial instruments) include cash and cash equivalents, restricted cash, trade and other receivables, derivative financial instruments, trade and other payables, long-term debt, as well as employee benefit commitments.

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

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

Financial instruments carried at fair value through income or loss

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

Financial instruments carried at amortized cost

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

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

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

Impairment of financial assets carried at amortized cost

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

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

c) Weighted average method for raw material inventory cost measurement

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

STELCO HOLDINGS INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

THREE AND SIX MONTHS ENDED JUNE 30, 2018

3. FUTURE CHANGES IN ACCOUNTING POLICIES

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

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

IFRS 16 - Leases (IFRS 16)

IFRS 16 introduces a single, on-balance sheet accounting model for lessees. A lessee recognizes a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. There are optional exemptions for short-term leases and leases of low value items. Lessor accounting remains similar to the current standard - i.e. lessors continue to classify leases as finance or operating leases. IFRS 16 replaces existing leases guidance including IAS 17, *Leases*; IFRIC 4, *Determining Whether an Arrangement Contains a Lease* (IFRIC 4); SIC-15, *Operating Leases - Incentives*; and SIC-27, *Evaluating the Substance of Transactions Involving the legal Form of a Lease*. The standard is effective for annual periods beginning on or after January 1, 2019. Obligations under operating leases and related right of use assets will be recorded on the Consolidated Balance Sheets. To assess the impact of this new standard, the Company has formed an internal working group and continues to progress on its in-depth assessment. The Company expects to report more detailed information, including estimated quantitative financial impacts, if material, in its Consolidated Financial Statements as the effective date approaches.

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

Cost	Land	Buildings	Machinery and equipment	Vehicles	Assets under finance leases	Construction in progress	Total
Balance at December 31, 2017	\$ —	\$ —	\$ 254	\$ 4	\$ 21	\$ 11	\$ 290
Transfers	—	—	4	2	—	(6)	—
Additions	88	—	7	—	5	17	117
Acquisition of assets under finance lease	—	21	—	—	(21)	—	—
Balance at June 30, 2018	\$ 88	\$ 21	\$ 265	\$ 6	\$ 5	\$ 22	\$ 407

Accumulated depreciation	Land	Buildings	Machinery and equipment	Vehicles	Assets under finance leases	Construction in progress	Total
Balance at December 31, 2017	\$ —	\$ —	\$ 11	\$ —	\$ —	\$ —	\$ 11
Depreciation	—	—	14	—	—	—	14
Balance at June 30, 2018	\$ —	\$ —	\$ 25	\$ —	\$ —	\$ —	\$ 25

Net book value

Balance at June 30, 2018	\$ 88	\$ 21	\$ 240	\$ 6	\$ 5	\$ 22	\$ 382
Balance at December 31, 2017	\$ —	\$ —	\$ 243	\$ 4	\$ 21	\$ 11	\$ 279

Acquisition of Land and Buildings

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

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

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

THREE AND SIX MONTHS ENDED JUNE 30, 2018

In connection with the Lands acquisition, existing lease arrangements between Stelco and the Land Vehicle were terminated and the associated rental payments were cancelled, resulting in Stelco's buildings', which were previously held under a finance lease, to be reclassified and presented as wholly-owned buildings, with a carrying value of \$21 million. The total purchase consideration of \$114 million included land costs of \$85 million (which excludes \$3 million of transaction costs) and the extinguishment of lease related obligations of \$29 million, \$24 million of which related to a building finance lease obligation and \$5 million to a land lease liability.

Stelco is assessing the costs associated with environmental and future use requirements in respect of the Lands and, if required, will accrue a liability, with a corresponding increase to the acquisition cost, once the assessment is complete. In addition, in connection with the acquisition of the Lands, the Company continues to receive the benefit of the environmental release in respect of the Lands that was granted by the Ministry of the Environment and Climate Change on closing of Stelco's *Companies' Creditors Arrangement Act* (CCAA) reorganization on June 30, 2017.

Assets under finance leases

Included in property, plant and equipment are certain buildings, infrastructure and equipment acquired under finance lease arrangements. As at June 30, 2018, the net carrying amounts of these assets under finance leases was \$5 million (December 31, 2017 - \$21 million).

5. TRADE AND OTHER PAYABLES

As at	June 30, 2018	December 31, 2017
Trade payables	\$ 234	\$ 185
Inventory monetization arrangement	93	121
Payables to related parties ¹	1	1
Other payables	4	2
Total trade and other payables	\$ 332	\$ 309

¹ Refer to note 20 for further details.

Inventory monetization arrangement

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

Amounts advanced under the inventory monetization arrangement are required to be repaid when the facility expires on October 31, 2018. The agreement has an option to terminate the arrangement early on either August 31, 2018 or September 28, 2018 and an option to renew the agreement for additional one-year terms. This financing arrangement is secured by inventory, with a carrying value of \$124 million, serving as collateral. The weighted average finance rate for the inventory monetization arrangement for the period ended June 30, 2018 was 5.45% and is recorded in finance costs on the Consolidated Statements of Income (Loss).

6. OBLIGATIONS TO INDEPENDENT EMPLOYEE TRUSTS

As at	June 30, 2018	December 31, 2017
Employee benefit commitment	\$ 492	\$ 344
Mortgage payable	114	—
Obligations to independent employee trusts	606	344
Current	117	32
Non-current	\$ 489	\$ 312

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

STELCO HOLDINGS INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

THREE AND SIX MONTHS ENDED JUNE 30, 2018

Employee benefit commitment

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

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

In accordance with IFRS, modification of a financial liability terms that results in accounting for the original arrangement as an extinguishment of a financial liability, requires any difference between the carrying amount of the original financial liability and the amended arrangement obligation to be recognized in the statement of income in the period of modification. During the three months ended June 30, 2018, in connection with the initial recognition of the amended EBC, Stelco incurred a remeasurement charge of \$157 million recorded within finance costs on the Consolidated Statements of Income (Loss).

In addition, during the six months ended June 30, 2018, the Company paid a \$20 million advance contribution to the original employee benefit commitment (original EBC), that was estimated as at December 31, 2017 to be paid during the year 2020. As a result of this accelerated payment and the impact to the present value of the original EBC, the Company recognized an increase of \$4 million to the liability with a corresponding increase in finance costs on the Consolidated Statements of Income (Loss).

Future employee benefit commitment payments are estimated as follows:

As at	June 30, 2018
2018 ¹	\$ 21
2019	113
2020	86
2021	55
2022	56
Thereafter	623
Total estimated employee benefit commitment payments	\$ 954
Less: amounts representing future finance costs	(462)
Present value of employee benefit commitment	\$ 492

¹ Represents the remaining six months of 2018.

Mortgage payable

On June 5, 2018, Stelco completed the acquisition of Lands (previously owned by Stelco) back from Legacy Lands Limited Partnership (Landco). The Lands were acquired for approximately \$114 million and were financed by Stelco through a 25-year, 8% per annum mortgage payable as purchase consideration to Land Vehicle, which is payable through quarterly fixed payments of approximately \$2.7 million over the term. In connection with the acquisition of lands from Landco, the properties acquired serve as security for Stelco's mortgage payable.

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

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

THREE AND SIX MONTHS ENDED JUNE 30, 2018

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

As at	June 30, 2018
2018 ¹	\$ 5
2019	11
2020	11
2021	11
2022	11
Thereafter	216
Total future mortgage payments	\$ 265
Less: amounts representing future finance costs	(151)
Carrying value of mortgage payable	\$ 114

¹ Represents the remaining six months of 2018.**7. EQUITY***Share capital*

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

As at	June 30, 2018	December 31, 2017
Common shares		
Outstanding (in thousands)	88,814	88,814
Carrying value	\$ 512	\$ 512

Dividends to common shareholders

During the three months ended June 30, 2018, the Company declared and paid a dividend to common shareholders of \$9 million or \$0.10 per common share, totaling \$18 million or \$0.20 per common share for the six months ended June 30, 2018.

Subsequent to the end of quarter, on July 31, 2018, Stelco Holdings' Board of Directors approved a special dividend of \$1.69 per common share, totaling \$150 million, payable on August 15, 2018 to shareholders of record as of August 10, 2018 and a cash dividend of \$0.10 per common share, payable on August 17, 2018 to shareholders of record as of August 10, 2018.

8. REVENUE FROM SALE OF GOODS

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

	Three months ended June 30, 2018	Six months ended June 30, 2018
Steel products	\$ 672	\$ 1,139
Non-steel products	39	54
Total	\$ 711	\$ 1,193

Revenue by geographical location is comprised of:

	Three months ended June 30, 2018	Six months ended June 30, 2018
Canada	\$ 485	\$ 880
United States	226	313
Total	\$ 711	\$ 1,193

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

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

THREE AND SIX MONTHS ENDED JUNE 30, 2018**9. COST OF GOODS SOLD**

Cost of goods sold is comprised of:

	Three months ended June 30, 2018	Six months ended June 30, 2018
Cost of inventories	\$ 481	\$ 855
Fixed overhead	40	63
Depreciation	7	14
Employee (active) benefits expense	4	10
Shared service expense	2	4
Total	\$ 534	\$ 946

For the six months ended June 30, 2018, cost of goods sold includes the impact of a \$6 million inventory revaluation adjustment which relates to inventory costs included in cost of goods sold that had been recorded in a period prior to 2018. The impact of this adjustment increased the carrying value of the Company's inventory with a corresponding decrease to cost of goods sold in the period ended March 31, 2018.

10. SELLING, GENERAL AND ADMINISTRATIVE

Selling, general and administrative expenses is comprised of:

	Three months ended June 30, 2018	Six months ended June 30, 2018
Enterprise resource planning system ¹	\$ 6	\$ 10
Employee (active) salary and benefits expense	4	8
Professional, consulting and legal fees	2	5
Management fees ²	1	2
Other	2	2
Total	\$ 15	\$ 27

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

² Refer to note 20 for further details.

11. FINANCE COSTS

Finance costs are comprised of:

	Three months ended June 30, 2018	Six months ended June 30, 2018
Remeasurement of employee benefit commitment ¹	\$ 157	\$ 161
Accretion of employee benefit commitment ¹	10	19
Interest on loans and borrowings	2	4
Accretion expense related to finance lease obligations	—	1
Foreign exchange loss	1	1
Total	\$ 170	\$ 186

¹ Refer to note 6 for further details.

12. OTHER LOSS

During the six months ended June 30, 2018, Stelco entered into commodity-based swaps as part of a strategy to mitigate Stelco's exposure to hot-rolled coil steel market price fluctuations in anticipation of certain slab purchases from a third party, which did not occur. These swap contracts matured and settled during May 2018, with the Company realizing a loss of \$10 million. Stelco did not enter these contracts for trading or speculative purposes.

STELCO HOLDINGS INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

THREE AND SIX MONTHS ENDED JUNE 30, 2018
13. INCOME TAXES

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

	Three months ended June 30, 2018	Six months ended June 30, 2018
Deferred income tax:		
Origination and reversal of temporary differences	\$ (3)	\$ 5
Previously unrecognized deferred tax assets	3	(5)
Income tax expense reported in the consolidated statement of income (loss)	\$ —	\$ —

Reconciliation of Effective Tax Rate:

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

Deferred tax

Deferred tax relates to the following:

As at	June 30, 2018	December 31, 2017
Non-capital and capital loss carry-forwards	\$ 156	\$ 209
Employee benefit commitment	127	88
Deductible SRED expenditures	9	9
Financing fee	4	4
Provisions	2	2
Impairment provision of investment in subsidiaries	2	1
Land lease	—	1
Building finance lease	—	1
Plant and equipment	3	1
Deferred tax assets not recognized	(298)	(314)
Deferred tax asset	5	2
Plant and equipment	(3)	—
Intangibles	(2)	(2)
Deferred tax liability	(5)	(2)
Net deferred tax asset (liability)	\$ —	\$ —

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

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

THREE AND SIX MONTHS ENDED JUNE 30, 2018**Reconciliation of movements in the deferred tax asset (liability) as at:**

	June 30, 2018	Movement	December 31, 2017
Non-capital and capital loss carry-forwards	\$ 156	\$ (53)	\$ 209
Employee benefit commitment	127	39	88
Deductible SRED expenditures	9	—	9
Financing fee	4	—	4
Provisions	2	—	2
Impairment provision of investment in subsidiaries	2	1	1
Land lease	—	(1)	1
Building finance lease	—	(1)	1
Plant and equipment	3	2	1
Deferred tax assets not recognized	(298)	16	(314)
Deferred tax asset	5	3	2
Plant and equipment	(3)	(3)	—
Intangibles	(2)	—	(2)
Deferred tax liability	(5)	(3)	(2)
Net deferred tax asset (liability)	—	—	—

Non-capital loss carry forwards:

	June 30, 2018	December 31, 2017
2032	—	30
2033	217	400
2034	164	164
2035	238	238
2036	—	—
2037	7	4
Total	\$ 626	\$ 836

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

14. PENSION BENEFITS**Establishment of new pension plans**

Effective January 1, 2018, new pension plans were established for certain active hourly employees of Stelco on substantially the same terms as those contained in the main pension plans for the Hamilton Bargaining Unit Plan, the Lake Erie Bargaining Unit Plan and the Pickle Line Plan that were settled as part of Stelco's plan of compromise, arrangement and reorganization under the CCAA. Under the special regulation under the *Pension Benefits Act* (Ontario), Stelco is required to make annual contributions to the new pension plans for the years 2018 to 2027 inclusive. Required contributions for years 2018 through 2023 are \$4 million annually and decline to \$3 million annually for years 2024 through 2027. After 2027, these plans are subject to the *Pension Benefits Act* (Ontario) including, applicable solvency funding requirements. The current service costs for these plans for the three and six months ended June 30, 2018 is \$1 million and \$3 million, respectively, which is recorded as an employee (active) benefits expense within cost of goods sold on the Consolidated Statements of Income (Loss).

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

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

THREE AND SIX MONTHS ENDED JUNE 30, 2018**15. SUPPLEMENTAL CASH FLOW INFORMATION**

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

Six months ended June 30,	2018
Change in non-cash working capital:	
Trade and other receivables	\$ (56)
Inventories	76
Prepaid expenses	(3)
Trade and other payables	40
Other liabilities	5
	\$ 62
Change in other operating activities:	
Provisions	\$ 1
Pension benefits	1
Employee benefit commitment ¹	148
Other	3
	\$ 153
Change in non-cash working capital and other operating activities	\$ 215

1. Refer to note 6.

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

Six months ended June 30,	2018
Capital expenditures on property, plant and equipment	
Property, plant and equipment additions	\$ 117
Additions not affecting cash:	
Land	(85)
Finance leases - infrastructure and equipment	(5)
	\$ 27

In connection with the Lands acquisition, the Company recognized \$85 million of land costs (excluding \$3 million cash settled transaction costs) that was financed with a 25-year, 8% per annum mortgage payable as purchase consideration issued to the Land Vehicle. Refer to note 4 for further details.

16. BASIC AND DILUTED INCOME (LOSS) PER SHARE

The following table sets forth the computation of basic and diluted earnings per share for the three and six months ended June 30, 2018:

	Three months ended June 30, 2018	Six months ended June 30, 2018
Net income (loss) and comprehensive income	\$ (11)	\$ 18
Weighted average number of common shares outstanding – basic and diluted (in thousands)	88,814	88,814
Income (loss) per share – basic and diluted (dollars per share)	\$ (0.12)	\$ 0.20

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

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

THREE AND SIX MONTHS ENDED JUNE 30, 2018**17. FAIR VALUE OF FINANCIAL INSTRUMENTS**

The following table provides the carrying values and fair values of financial instruments as at June 30, 2018 and December 31, 2017:

As at	June 30, 2018		December 31, 2017	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Financial assets:				
Cash and cash equivalents	\$ 421	\$ 421	\$ 250	\$ 250
Restricted cash	10	10	12	12
Trade and other receivables	263	263	204	204
Financial liabilities:				
Trade and other payables	\$ 332	\$ 332	\$ 309	\$ 309
Other liabilities	47	47	68	68
Obligations to independent employee trusts				
Employee benefit commitment	492	492	344	358
Mortgage payable	114	114	—	—

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

Derivative financial instruments are carried at their fair value and include foreign currency forward contracts. The liabilities are categorized as Level 2 on the fair value hierarchy and their fair value is determined using quoted forward exchange rates as at the financial reporting period end dates.

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

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

The Company has no level 3 financial instruments. There were no transfers between level 1, level 2 or level 3 during the period ended June 30, 2018.

18. CAPITAL MANAGEMENT

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

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

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

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

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

THREE AND SIX MONTHS ENDED JUNE 30, 2018

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

As at	June 30, 2018	December 31, 2017
Amounts drawn under inventory monetization arrangement	\$ 93	\$ 121
Amounts available under ABL facility	268	269
Total	361	390
Total equity	500	497
Total capital	\$ 861	\$ 887

Asset-based lending (ABL) facility

At June 30, 2018, the Company had a \$nil outstanding balance and \$268 million available to be drawn from its ABL facility. Additionally, the Company had letters of credit outstanding as at June 30, 2018 in the amount of \$36 million (December 31, 2017 - \$35 million).

19. COMMITMENTS AND CONTINGENCIES**Operating leases**

Stelco has entered into operating leases on certain machinery and equipment, with lease terms between 3 and 5 years. Additionally, in connection with the Company's emergence from CCAA, the Company sold and leased back under a 25-year operating lease the land on which Hamilton Works and Lake Erie Works are situated. In connection with the Lands acquisition on June 5, 2018, the existing operating lease was terminated and the associated rental payments were cancelled. Refer to note 4 for further details.

Claims and litigation

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

Purchase commitments

At June 30, 2018, the Company had future commitments of approximately \$30 million for capital expenditures.

20. RELATED PARTY TRANSACTIONS

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

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

	Three months ended June 30, 2018	Six months ended June 30, 2018
Purchases of services		
Joint ventures	4	8
Bedrock Industries B.V	1	2
As at	June 30, 2018	December 31, 2017
Amounts payable to related parties		
Bedrock Industries B.V	\$ 1	\$ 1

Subsidiaries

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

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

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

THREE AND SIX MONTHS ENDED JUNE 30, 2018**Key management personnel**

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

During the three and six months ended June 30, 2018, the Company recorded \$1 million and \$2 million, respectively, as an expense related to key management personnel salaries and benefits, post-employment pension and medical and termination benefits.

Deferred share unit plan

The Company has a deferred share unit (DSU) plan for its independent directors which provides that each independent director receives, on each date that the director fees are payable, an amount of DSUs which the director has elected. Each independent director can elect annually a specified percentage of director fees or compensation as DSUs. The number of DSUs granted to an independent director is based on the closing price of the Company's common shares on the Toronto Stock Exchange on the grant date. At such time as an independent director ceases to be a director, the Company will make a cash payment on the outstanding DSUs. As of June 30, 2018, there were 7,507 DSUs outstanding, for which the Company recognized a liability of \$0.2 million.