SECOND QUARTER 2020
MANAGEMENT'S DISCUSSION AND ANALYSIS
STELCO HOLDINGS INC.

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

This Management's Discussion and Analysis (MD&A) is intended to enable a reader to assess Stelco Holdings Inc.'s (Stelco Holdings) results of operations and financial performance for the three and six months ended June 30, 2020 (Q2 2020). Unless the context indicates otherwise, references to the "Company", "Stelco", "we", "us" or "our" refer to Stelco Holdings and its consolidated subsidiaries, as applicable. This MD&A, which has been prepared as of August 12, 2020, should be read in conjunction with our unaudited interim condensed consolidated financial statements and related notes for the three and six months ended June 30, 2020 (Consolidated Financial Statements) as well as the annual consolidated financial statements and MD&A for the year ended December 31, 2019 (2019 MD&A). The Consolidated Financial Statements have been prepared in accordance with International Accounting Standard (IAS) 34, *Interim Financial Reporting* and are presented in millions of Canadian dollars unless otherwise indicated.

These documents, as well as additional information relating to the Company, including our 2019 Annual Information Form dated as of February 18, 2020 (2019 AIF) have been filed electronically with the Canadian securities regulators through the System for Electronic Document Analysis and Retrieval (SEDAR) and are available through the SEDAR website at www.sedar.com.

FORWARD-LOOKING INFORMATION

Certain information included in this MD&A contains forward-looking information within the meaning of applicable securities laws. This information includes, but is not limited to, statements made in our "Business Overview"; "Strategy"; "Results of Operations"; and "Capital Resources and Liquidity" sections of this MD&A and in the "Risk Factors" section in the 2019 AIF.

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

The forward-looking information includes, among other things: expectations that our margins per nt will expand as we increase our asset utilization and regain volumes; statements relating to the long-term continuation of and improvement to our production performance; statements with respect to COVID-19 and our expectation that we are positioned to succeed along with any broad-based market recovery; expectations that we will make all payments owing in connection with the Initial Contribution (as hereinafter defined) on schedule and that the structure of such payments will help to preserve Stelco's strong balance sheet and financial flexibility; expectations that the Pellet Agreement (as hereinafter defined) will be sufficient to provide Stelco with 100% of the expected increase to Stelco's iron ore pellet supply requirements; expectations that the Option Agreement (as hereinafter defined) will allow Stelco to generate long-term, sustainable returns for our shareholders by creating a secure pathway for Stelco to become a vertically integrated steelmaker that will: (i) secure a long-term future for Stelco's steel production; and (ii) solidify Stelco's low-cost position; expectations that the Minntac Mine is and will continue to be a low-cost source of iron ore pellets; expectations regarding our shipping volumes during the second half of 2020; statements regarding the schedule and budget of the upgrade and reline of our LEW (as hereinafter defined) blast furnace currently scheduled for completion during the second half of 2020; statements with respect to expected increased production capacity of the blast furnace resulting from such upgrade and reline project; expectations that our purchase of certain semi-finished steel products for conversion to finished steel products during the period of the blast furnace outage will allow us to continue to meet some level of our customers' needs during the third quarter of 2020; statements with respect to the ongoing construction of a pig iron production facility at our LEW site; expectations that, upon completion, the pig iron production facility will produce up to one million nt of pig iron annually; statements with respect to the anticipated cost and scheduled completion date of the pig iron facility; statements with respect to the future repair of our LEW coke oven facility and capital costs associated with the project; statements with respect to the design, construction and operation of the Cogen Plant (as hereinafter defined), including, but not limited to, the anticipated schedule and expected future payment amounts; statements with respect to our strategic capital expenditure program aimed at improving our product mix to focus on more advanced steel products, including AHSS and UHSS grades; statements with respect to anticipated net capital expenditures for the duration of 2020; statements concerning our cost reduction initiatives and anticipated savings; our ability to operate successfully in diverse economic environments; expectations regarding increased domestic demand for our products as a result of existing Canadian trade measures; our ability to maximize total shareholder returns while maintaining a conservative capital structure; our ability to execute on the Company's six strategic objectives, namely: (i) operating safely and sustainably; (ii) expanding and serving our customer base; (iii) optimizing production from our assets; (iv) maintaining our strong balance sheet; (v) maximizing profitability and cash flows; and (vi) growing our business; our ability to regain higher margin business; expectations regarding the Company's ability to operate successfully in diverse economic environments; our ability to introduce new products; our ability to grow our business through complimentary acquisitions and other investments to maximize shareholder returns; our ability to successfully pursue initiatives such as capturing, recycling, and selling by-products generated by our production process, and our expectation that any such initiatives can be implemented with limited investment to improve asset utilization; our intention and ability to further pursue and complete capital projects in connection with the Strategic Innovation Fund contribution; statements with respect to the application of the Strategic Innovation Fund contribution to such capital projects; our ability to fully capitalize on the Strategic Innovation Fund contribution and expectations that the funding commitment, and any capital projects in connection therewith, will allow us to (i) increase research and development, (ii) facilitate growth and expansion, (iii) advance industrial research and technology, (iv) produce additional advanced steel products, (v) lower the Company's overall production costs, and/or (vi) improve the Company's environmental footprint; statements with respect to amounts available under our asset-based lending facility and inventory monetization arrangement, together with cash generated from operations and additional liquidity provided by the RPA (as hereinafter defined) being sufficient to meet our future operating expenses, capital expenditures, future debt services costs, and expectations that such amounts will be sufficient to support the growth of our business (primarily through working capital and capital expenditures), while also allowing the Company to repay short-term obligations and support general corporate purposes; the Company's position to grow organically; expectations regarding utilization of excess capacity; expectations regarding upgrades to existing facilities and their effect on revenue and costs; expectations regarding ongoing North American trade relations and the implementation of CUSMA (as hereinafter defined); expectations that CUSMA will result in a tariff-free North American market for our products; expectations that Section 232 measures will not be reintroduced by the U.S. government and that any import surge mechanism negotiated among North American governments does not have a material adverse impact on the Company; expectations that the Government of Canada will continue to support the businesses and workers impacted by U.S. trade measures, including statements with respect to announcements by the Government of Canada concerning regulatory amendments and policy changes, which are expected to improve the effectiveness and transparency of Canada's trade remedy system; expectations regarding the Company's access to a wider range of markets; expectations that recent policy updates issued by the CBSA (as hereinafter defined) with respect to anti-dumping measures will provide the Canadian steel industry with more effective and up- to-date protection in the face of changing market circumstances; expectations regarding the collection of provisional duties by the CBSA with respect to Turkey, the United Arab Emirates and Vietnam and further expectations that such action will discourage further injurious dumping by foreign companies; statements regarding our dividend policy; expectations concerning working capital and capital expenditures and the future actions relating thereto and the anticipation of creating value and profitability; expectations that our strategy to use foreign exchange forward contracts with a U.S. based financial institution to mitigate the Company's exposure to foreign exchange risk associated with the Initial Consideration payments will be effective; expectations regarding the Company's ability to continue to attract new customers and further develop and maintain existing customers; expectations regarding the Company's ability to continue to access markets without any further adverse trade restrictions; expectations regarding industry trends, market growth rates and the Company's future growth rates, plans and strategies to increase revenue and cut costs; expectations regarding the future pricing of steel and metals and the resulting impact; and statements regarding the impact of the steel import tariffs.

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

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

Forward-looking information is necessarily based on a number of opinions, estimates and assumptions that management considered appropriate and reasonable as of the date such statements are made, is subject to known and unknown risks, uncertainties, assumptions and other factors that may cause the actual results, level of activity, performance or achievements to be materially different from those expressed or implied by such forward-looking information, including but not limited to, those described below and referred to under the heading "Business Overview" and "Risk and Uncertainties" below, and see the section "Risk Factors" in the 2019 AIF for a description of the risks and uncertainties that impact our business. We caution that the list of risk factors and uncertainties is not exhaustive and other factors could also adversely affect our results. Readers are urged to consider the risks, uncertainties and assumptions carefully in evaluating the forward-looking information and are cautioned not to place undue reliance on such information.

KEY ASSUMPTIONS UNDERLYING THE BLAST FURNACE AND PIG IRON FACILITY PROJECTS

The estimated budget, schedule and production volumes with respect to the upgrade and reline of our blast furnace and the construction of a pig iron production facility at Lake Erie Works referenced in this MD&A are based on a number of assumptions, including, but not limited to, the following material assumptions: third party contractors and suppliers delivering, constructing and performing in accordance with agreed upon budgets, schedules and applicable performance guarantees; our ability to obtain any applicable regulatory approvals and permits required in connection with these projects; expectations that, upon completion, our facilities will produce in accordance with anticipated design capacity; expectations that the market for steel and pig iron does not experience a material adverse change in the short to medium term; expectations that our customers will continue to purchase significant volumes of our products upon completion of these projects; the upgrade and reline of our blast furnace proceeding on schedule and, upon completion, performing in such a manner so as to provide molten metal to meet our production needs; and expectations that we will fully realize production levels at our Lake Erie Works facility that are equal to or better than production levels that existed at our Lake Erie Works facility prior to the commencement of the upgrade and reline of our blast furnace and the construction of the pig iron production facility. In addition, the effect that the COVID-19 pandemic may have on the Company's ability to complete the reline and upgrade of our blast furnace and the construction of a pig iron production facility is highly unpredictable and is subject to many variables, including, but not limited to, the possibility that the applicable contractors' may be impeded and/or restricted from completing the work on schedule and within the budget.

Management's Discussion and Analysis

Table of Contents

MANAGEMENT'S DISCUSSION AND ANALYSIS

Business Overview

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

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

Overview

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

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

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

COVID-19 Pandemic

In March 2020, the World Health Organization declared the coronavirus (COVID-19) a global pandemic. This contagious disease outbreak, which has continued to spread, and any related adverse public health developments, have adversely affected workforces, economies, and financial markets globally, leading to an economic downturn. Global equity markets have experienced significant volatility, resulting in governments and central banks reacting with significant monetary and fiscal interventions designed to stabilize economic conditions.

The extent to which these events may impact the Company's business activities will depend on future developments, such as the ultimate geographic spread of the disease, the duration of the outbreak, travel restrictions, business disruptions, and the effectiveness of actions taken in Canada and other countries to contain and treat the disease. The Company may incur expenses or delays relating to such events outside of our control, which could have a material adverse impact on our business, operating results and financial condition.

The Company will continue to evaluate all developments and make any necessary modifications and enhancements to our COVID-19 response as new and updated information is provided by public health authorities and governments. While it is currently unclear how quickly a broad-based market recovery from COVID-19 will take place, we are confident that as one of North America's most technologically advanced steel companies we are well positioned to succeed. Our tactical flexibility business model will ensure that Stelco remains competitive, versatile and ready to capitalize on the expected economic recovery across North America.

Pellet Supply Agreement and Option to Acquire 25% Interest in the Minntac Mine

On April 30, 2020, the Company announced that Stelco entered into a new eight-year pellet sale and purchase agreement (the Pellet Agreement) with United States Steel Corporation (U.S. Steel) which runs until January 31, 2028. This contract provides for the supply of 100% of Stelco's anticipated requirements of iron ore pellets at Lake Erie Works over the term of the agreement, including volume required to support the expansion in production projected after completion of the upcoming blast furnace upgrade project. The Pellet Agreement superseded and replaced the existing agreement with U.S. Steel, which was set to expire on January 31, 2022.

Concurrently, Stelco entered into an option agreement (the Option Agreement) with U.S. Steel granting Stelco a long-dated option to purchase a 25% ownership interest (the Option) in a to-be-formed joint venture that will own 100% of U.S. Steel's iron ore mine located in Mt. Iron, Minnesota and related infrastructure including the pellet plant (the Minntac Mine). The Minntac Mine is a fully-integrated iron ore mine operated by U.S. Steel and is the largest iron ore operation in the United States, with annual production capacity of up to 16 million tons per year of iron ore pellets. The Option is exercisable by Stelco at any time following the payment of the Initial Consideration (defined below) until January 31, 2027.

Stelco will pay US$100 million, in cash, to U.S. Steel in consideration for the Option (the Initial Consideration). The Initial Consideration is payable in five US$20 million installments, with the first installment paid upon closing of the Option Agreement and the second paid on June 30, 2020, with the remaining three installments payable every two months thereafter. Upon the exercise of the Option, Stelco would pay a net exercise price of US$500 million.

We believe the Pellet Agreement and Option Agreement align with Stelco's key strategic objectives to allow us to generate long-term, sustainable returns for our shareholders through the following:

- Secures long-term future of Stelco's steel production and solidifies Stelco's low-cost advantage
- Provides supply of high-quality iron ore pellets from a well-understood and consistent source for eight years, or longer if the Option is exercised
- Increases annual pellet supply to level required for Stelco's higher production capacity following completion of this year's blast furnace upgrade project
- Supports Stelco's tactical flexibility model to deliver highest margin outcomes based on prevailing market conditions
- Creates a secure pathway for Stelco to become a vertically integrated steelmaker in the future through ownership in a low-cost iron ore source which is the largest producing iron ore mine in the Mesabi iron range
- Structured in stages that will preserve Stelco's strong balance sheet and financial flexibility

Canada-United States-Mexico Agreement

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

CUSMA was signed by leaders of the three North American countries on November 30, 2018, and the removal of steel and aluminum tariffs between the three countries in 2019 helped to create a path for ratification of CUSMA, which has now been in effect since July 1, 2020.

Although CUSMA and its impact on the Canadian economy has not been fully realized, Stelco has repeatedly demonstrated its resilience as a leading advanced integrated steel producer in North America, its agility through multiple modes of transportation (water, rail and truck) and financial security through a robust balance sheet. We believe that Stelco can operate successfully in diverse economic environments.

Unfair Trade Practices

On May 17, 2019, Canada and the United States issued a joint statement agreeing to eliminate tariffs on steel and aluminum effective May 20, 2019. Tariffs imposed by the United States under Section 232 of the Trade Expansion Act of 1962 had been in place since June 1, 2018. Canada imposed retaliatory measures on steel and other product imports from the United States on July 1, 2018.

As a result of the understanding between the two countries, neither Canadian importers of steel from the United States, nor U.S. importers of steel from Canada are required to pay tariffs or surtaxes pursuant to these measures. The understanding also incorporates the development of a process for monitoring import surges beyond historical volumes of aluminum and steel between Canada and the United States. We continue to monitor these developments and anticipate that the Government of Canada will continue to support the businesses and workers impacted by the current U.S. administration's trade measures.

We also continue to monitor imports of steel products into Canada and support the utilization of the domestic trade remedy system when and where circumstances warrant to combat dumped and subsidized imports from injuring our business and to aid in the stabilization of the domestic market. We also continue to advocate for improvements to both domestic and international trade law with the intent of improving stability in both domestic and international markets.

On August 23, 2019, the Government of Canada announced regulatory and policy changes intended to improve the effectiveness and transparency of Canada's trade remedy system were in full effect. In connection with these changes, the Canada Border Services Agency (CBSA) has updated its policy to allow anti-dumping levels to be reviewed more frequently, which may provide the Canadian steel industry with more effective and up-to-date protection in the face of changing market circumstances. The CBSA and Global Affairs Canada have also taken initial steps to enhance the verification of steel import data. Furthermore, the Government of Canada has implemented regulatory amendments which are intended to provide the CBSA with greater flexibility when calculating appropriate levels of anti-dumping duties in circumstances in which price distortions may be involved.

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

On November 8, 2019, the CBSA initiated investigations respecting the injurious dumping and subsidizing of corrosion-resistant steel sheet from Turkey, the United Arab Emirates and Vietnam. As a producer of these materials, the Company will be an active participant in this investigation and subsequent proceedings at the Canadian International Trade Tribunal (CITT). On March 20, 2020, the CITT announced affirmative preliminary injury determinations against all three aforementioned countries. As a result, the CBSA is expected to collect provisional duties on shipment of corrosion-resistant steel from these three countries ranging from 36.3% to 91.8%. In response to pressures brought on by the COVID-19 pandemic, on June 18, 2020, the CBSA announced a revision to the investigation schedule for this case. As a result, provisional duties are expected to remain in force until a final determination is announced by the CITT during the fourth quarter of 2020.

Organizational Changes

At the meeting held on August 12, 2020, the Company's Board of Directors appointed Mr. Monty Baker as an additional member of the Board and Audit Committee.

Innovation, Science and Economic Development Canada Funding Commitment

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

During May 2020, the Company received $10 million in cash proceeds in connection with the Contribution. Management believes that investment in these capital projects will allow the Company to produce additional advanced steel products, lower its overall production costs and improve its environmental footprint.

Strategy

Our strategy is to maximize total shareholder returns while maintaining a conservative capital structure. In order to accomplish this strategy, we are focused on six strategic objectives: (i) operating safely and sustainability; (ii) expanding and serving our customer base; (iii) optimizing production from our assets; (iv) maintaining our strong balance sheet; (v) maximizing profitability and cash flows; and (vi) growing our business. These strategic objectives are supported by the entrepreneurial culture that underpins our return-based approach to operating our business. This culture is driven by our leadership team's ownership mentality as a result of Bedrock B.V.'s significant ownership interest in the Company, which is unique amongst North American public steel companies. We believe pursuing these strategic objectives will allow us to generate long-term, sustainable returns for our shareholders.

Operate Safely and Sustainability

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

Expand and Serve our Customer Base

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

Optimize Production from our Assets

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

Maintain our Strong Balance Sheet

We believe maintaining financial discipline leads to the delivery of sustainable, long-term shareholder returns and will ensure Stelco is well-positioned to manage the cyclical nature of the steel industry. We are committed to maintaining our strong balance sheet with sufficient liquidity and financial flexibility to support our operational and strategic initiatives. This will allow us to finance selective capital expenditure programs aimed at improving our product mix to focus on more advanced steel products, including Advanced High Steel Strength (AHSS) and Ultra High Steel Strength (UHSS) grades. Unlike many of our integrated peers, we are not encumbered by significant and uncapped liabilities associated with pensions and other pension employee benefits. Further, we have approximately $1.1 billion of non-capital loss carryforwards and other tax attributes on a pre-tax basis as at June 30, 2020, which may allow us to reduce our cash tax payments and increase free cash flow generation. We seek to preserve our capital structure with low financial leverage that is largely free from legacy liabilities in order to ensure maximum free cash flow generation.

Maximize Profitability and Cash Flow

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

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

Grow our Business

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

Non-IFRS Performance Measures

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

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

Adjusted Net Income

Adjusted net income is defined as net income or loss for the period adjusted for the impact of impairment charges related to intangibles, property, plant and equipment and investments; acquisitions/disposition gains or losses and related transaction costs; significant tax adjustments; unrealized gains or losses on derivative instruments; remeasurement impacts related to employee benefit commitment obligations; adjustment for other significant non-routine, non-recurring and/or non-cash items; and the tax effect of the adjusted items. In this MD&A, the Company adjusted for the following non-routine, non-recurring, and/or non-cash items: (i) realized gain from commodity-based swap, (ii) remeasurement of employee benefit commitment, (iii) other costs, (iv) separation costs related to United States Steel Corporation (USS) support services, (v) property related idle costs included in cost of goods sold, prior to the first quarter of 2020, (vi) share-based compensation, (vii) carbon taxes, (viii) tariff and tariff related costs, (ix) batch annealing facility startup related costs, and (x) transaction-based and other corporate-related costs.

Management believes adjusting net income by excluding the impact of specified items may be more reflective of ongoing operational results and uses this measure internally to assist with the planning and forecasting of future operating results. Management is of the view that adjusted net income is a useful measure of our performance because the aforementioned adjusting items do not reflect the underlying operating performance of our core business and are not necessarily indicative of future operating results. Adjusted net income is intended to provide additional information only and does not have a standardized definition under IFRS and therefore may not be comparable to similar measures presented by other companies.

Adjusted EBITDA

Adjusted EBITDA is defined as net income or loss for the period before finance costs, finance income, income tax expense, depreciation and amortization and the impact of certain non-routine, non-recurring, and/or non-cash items. In this MD&A, the Company adjusted for the following non-routine, non-recurring, and/or non-cash items: (i) realized gain from commodity-based swap, (ii) other costs, (iii) separation costs related to USS support services, (iv) property related idle costs included in cost of goods sold, prior to the first quarter of 2020 (v) share-based compensation, (vi) carbon taxes, (vii) tariff and tariff related costs, (viii) batch annealing facility startup related costs, and (ix) transaction-based and other corporate-related costs. Adjusted EBITDA is used by management, investors, and securities analysts to measure operating performance of the Company and is a supplement to our Consolidated Financial Statements presented in accordance with IFRS. Adjusted EBITDA is a helpful measure of operating performance before non-operating financial items such as finance costs, finance income and income tax expense, as well as depreciation which is a non-cash expense. Adjusted EBITDA also removes the impact of certain non-routine, non-recurring, and/or non-cash items to enable management, investors and securities analysts to gain a clearer understanding of the underlying financial performance of the Company. Adjusted EBITDA is also helpful to facilitate comparison of operating performance on a consistent basis from period-to-period and to provide a more complete understanding of factors and trends impacting our business. While management considers Adjusted EBITDA to be a meaningful measure for assessing the underlying financial performance of the Company, Adjusted EBITDA is a non-IFRS measure and does not have a standardized meaning prescribed by IFRS and therefore may not be comparable to similar measures presented by other companies.

Adjusted EBITDA per net ton

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

Selling Price per net ton

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

Shipping Volume

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

Selected Financial Information

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

(millions of Canadian dollars, except where otherwise noted)	Three months ended June 30, 2020	Three months ended June 30, 2019	Six months ended June 30, 2020	Six months ended June 30, 2019
Financial results				
Total revenue	**$ 411**	$ 427	**$ 856**	$ 942
Gross profit	**28**	15	**44**	73
Selling, general and administrative expenses	**12**	12	**21**	26
Net income (loss)	**—**	1	**(24)**	44
Adjusted net income (loss) [1]	**10**	6	**(16)**	66
Adjusted EBITDA [1]	**34**	32	**54**	108
Per common share (diluted)				
Net income (loss)	**$ —**	$ 0.01	**$ (0.27)**	$ 0.50
Adjusted net income (loss) [1]	**$ 0.11**	$ 0.07	**$ (0.18)**	$ 0.74
Common share dividends declared and paid	**$ —**	$ 0.10	**$ 0.10**	$ 1.33
Operating Results				
Selling Price per nt (in dollars per nt) [1]	**$ 700**	$ 754	**$ 703**	$ 791
Adjusted EBITDA per nt (in dollars per nt) [1]	**59**	59	**45**	93
Shipping volumes (in thousands of nt) [1]	**576**	545	**1,197**	1,157
Hot-rolled	**423**	375	**870**	892
Coated	**109**	67	**221**	133
Cold-rolled	**15**	19	**50**	23
Other [2]	**29**	84	**56**	109

As at	June 30, 2020	December 31, 2019
Financial position		
Total assets	**$ 1,605**	$ 1,594
Total non-current liabilities	**656**	623

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

Review of Quarterly Financial Results

For the second quarter of 2020, Stelco realized a net income of nil, compared to $1 million for the same period during 2019, representing a decrease of $1 million which is primarily due to the net effect of the following:

- $13 million increase in gross profit, resulting from $29 million decrease in cost of goods sold partly offset by $16 million in lower revenue from sale of goods; more than offset by
- $9 million increase in finance costs; and
- $5 million in other costs.

For the first six months of 2020, Stelco realized a net loss of $24 million compared to net income of $44 million for the same period during 2019, representing a decrease of $68 million which is primarily due to the net effect of the following:

- $29 million decrease in gross profit, resulting from $86 million lower revenue from sale of goods partly offset by $57 million decrease in cost of goods sold;
- $39 million increase in finance costs; and
- $6 million in other costs; partly offset by
- $5 million lower selling, general and administration expenses; and
- $1 million increase in finance and other income.

Revenue

The majority of our revenue from the sale of goods is derived from hot-rolled, cold-rolled and coated steel products. A substantial portion of the Company's revenue is derived from spot sales rather than through fixed-price contracts with customers. In addition, other product sales such as coke and by-products (tar, slag, kish, dross, light oil and ammonia) are included in revenue. Our revenues include sales to customers from the steel service centre, construction, energy, automotive and appliance industries across Canada and the United States.

Q2 2020

Revenue decreased by $16 million or 4%, from $427 million in Q2 2019 to $411 million in Q2 2020, primarily due to a general decrease in the market price of steel, partly offset by higher steel shipping volumes. Selling price per nt decreased by $54 per nt, from $754 per nt in Q2 2019 to $700 per nt in Q2 2020. Our shipping volumes increased to 576 thousand nt from 545 thousand nt in Q2 2019. The sales product mix of our hot-rolled, coated and other steel products represented approximately 73%, 19%, and 5%, respectively, of the total sales volume in Q2 2020, whereas the comparative period in 2019 was approximately 69%, 12% and 15%, respectively. Also impacting revenue for the quarter was non-steel sales which decreased to $8 million, from $16 million in the second quarter of 2019, mostly due to lower kish, breeze coke and tar sales.

YTD 2020

Revenue decreased by $86 million or 9%, from $942 million in 2019 to $856 million in 2020, primarily due to a general decrease in the market price of steel, partly offset by marginally higher steel shipping volumes. Selling price per nt decreased by $88 per nt, from $791 per nt in 2019 to $703 per nt in 2020. Our shipping volumes increased to 1,197 thousand nt from 1,157 thousand nt in 2019. The sales product mix of our hot-rolled, coated and other steel products represented approximately 73%, 18% and 5%, respectively, of the total sales volume in 2020, whereas in 2019 it was approximately 77%, 12% and 9%, respectively. Also impacting revenue for the year was non-steel sales which decreased $12 million, from $27 million in 2019 to $15 million during 2020, mostly due to lower kish, light oil, breeze coke and tar sales.

Gross profit

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

Q2 2020

Gross profit increased by $13 million, from $15 million in Q2 2019 to $28 million in Q2 2020 mainly due to a decrease in cost of goods sold of $29 million for the period, partly offset by lower revenue of $16 million as described above. The decrease in cost of goods sold was mainly attributable to certain lower production costs, reduction in freight expenses, less non-steel product sales and $15 million received in connection with the CEWS program, partly offset by higher steel shipping volumes.

The Government of Canada passed the CEWS as part of its COVID-19 response and the program is effective from March 15, 2020 to December 2020.

YTD 2020

Gross profit decreased by $29 million, from $73 million in 2019 to $44 million in 2020 mainly due to lower revenue of $86 million for the year as discussed above, partly offset by lower cost of goods sold of $57 million. The decrease in cost of goods sold was primarily due to certain lower production costs, lower non-steel product sales and $15 million received in connection with the CEWS program, partly offset by higher steel shipping volumes. The Company also incurred approximately $20 million of tariff related charges during 2019, in connection with our steel shipments to U.S. customers as a result of the U.S. imposing 25% tariffs on steel imported from Canada commencing June 1, 2018.

Selling, general and administrative expenses

	Three months ended June 30,		Six months ended June 30,	
(millions of Canadian dollars)	**2020**	2019	**2020**	2019
Employee salary and benefits expense	**$ 4**	$ 3	**$ 8**	$ 8
Professional, consulting and legal fees	**3**	2	**6**	4
Management fees [1]	**1**	2	**3**	3
Share-based compensation expense	**1**	1	**—**	3
ERP	**—**	2	**—**	4
Other [2]	**3**	2	**4**	4
	$ 12	$ 12	**$ 21**	$ 26

1 Represents management fees to an affiliate of Bedrock B.V.
2 Includes corporate, public company and travel related expenses.

Q2 2020

SG&A for the quarter of $12 million was comparable to the same period during 2019. Professional, consulting and legal fees included $2 million of costs in connection with the acquisition of the Option, refer to *'Business Overview - Pellet Supply*

Agreement and Option to Acquire 25% Interest in the Minntac Mine' section of this MD&A for further details.

YTD 2020

SG&A decreased by $5 million or 19%, from $26 million in 2019 to $21 million in 2020, primarily due to the following: $4 million in ERP costs during 2019 and $3 million lower share-based compensation expense, partly offset by $2 million higher professional, consulting and legal fees.

Finance costs

	Three months ended June 30,		Six months ended June 30,	
(millions of Canadian dollars)	**2020**	2019	**2020**	2019
Accretion of employee benefit commitment	**$ 9**	$ 11	**$ 18**	$ 22
Interest on loans and borrowings	**7**	5	**15**	10
Foreign exchange loss (gain)	**(4)**	(4)	**12**	(10)
Accretion expense related to lease obligations	**—**	—	**1**	—
Remeasurement of employee benefit commitment	**—**	(9)	**(1)**	(16)
	$ 12	$ 3	**$ 45**	$ 6

Q2 2020

Finance costs increased by $9 million, from $3 million in Q2 2019 to $12 million in Q2 2020, primarily due to the following: $9 million related to the remeasurement impact from our employee benefit commitment and $2 million increase in interest on loans and borrowings, partly offset by $2 million in lower accretion expense in connection with the employee benefit commitment obligation.

Interest on loans and borrowings increased $2 million compared to Q2 2019, mainly due to interest costs connected to Stelco's $100 million non-revolving term loan outstanding and higher amounts advanced under Stelco's inventory monetization agreement during the period. During November 2019, Stelco Inc. amended its asset-based lending agreement to include the addition of a $100 million non-revolving term loan with a maturity date of August 16, 2023, secured by certain machinery and equipment wholly-owned by Stelco Inc. Refer to *'Credit Facility and Other Arrangements'* section in this MD&A for further details.

In connection with the Initial Consideration for the Option (refer to *'Business Overview - Pellet Supply Agreement and Option to Acquire 25% Interest in the Minntac Mine'* section of this MD&A for further details), Stelco entered into a series of foreign exchange forward contracts with a U.S.-based financial institution, as part of a strategy to mitigate the Company's foreign exchange risk associated with the Initial Consideration payments. Under the terms of the foreign exchange forward contracts, the Company agreed to sell an aggregate of $112 million and purchase US$80 million, in four specified equivalent tranches with settlement dates between June 30, 2020 and December 31, 2020. Stelco did not enter into this contract for trading or speculative purposes. For the three months ended June 30, 2020, the Company recorded a $3 million foreign exchange loss.

YTD 2020

Finance costs increased by $39 million, from $6 million in 2019 to $45 million in 2020, primarily due to the following: $22 million related to the period-over-period impact of foreign exchange translation on U.S. dollar denominated working capital and foreign exchange loss in connection with foreign exchange forward contracts outstanding as described above, $15 million decrease in recovery of the remeasurement impact from our employee benefit commitment, $5 million increase in interest on loans and borrowings, mostly due to the same factors as described above for Q2 2020 and $1 million increase in accretion expense related to lease obligations, partly offset by $4 million lower accretion expense in connection with our employee benefit commitment obligation.

Finance and other income

	Three months ended June 30,		Six months ended June 30,	
(millions of Canadian dollars)	**2020**	2019	**2020**	2019
Gain on commodity-based swap	**$ 1**	$ —	**$ 3**	$ —
Finance income	**—**	1	**1**	3
Other income	**1**	1	**2**	2
	$ 2	$ 2	**$ 6**	$ 5

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

Commodity-based swap

During March 2020, Stelco Inc. entered into a commodity-based swap with a U.S.-based financial institution as part of a strategy to mitigate the Company's exposure to hot-rolled coil steel market price fluctuations in connection with certain slabs purchased from a third party. This swap contract settled during May 2020. For the three and six months ended June 30, 2020, the Company recorded a gain of $1 million and $3 million, respectively, associated with this swap contract. Stelco did not enter into this contract for trading or speculative purposes.

Other costs

(millions of Canadian dollars)	Three months ended June 30, 2020	Three months ended June 30, 2019	Six months ended June 30, 2020	Six months ended June 30, 2019
Write-down of construction in progress	**$ 5**	$ —	**$ 5**	$ —
Other	**—**	—	**1**	—
	$ 5	$ —	**$ 6**	$ —

During the three months ended June 30, 2020, the Company recognized a $5 million write-down charge in connection with certain capital projects that are no longer being pursued by the Company, representing aborted construction in progress costs without future benefit to Stelco.

Review of Non-IFRS Measures

Adjusted net income (loss)

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

(millions of Canadian dollars)	Three months ended June 30, 2020	Three months ended June 30, 2019	Six months ended June 30, 2020	Six months ended June 30, 2019
Net income (loss)	**$ —**	$ 1	**$ (24)**	$ 44
Add back/(Deduct):				
Other costs [1]	**5**	—	**6**	—
Transaction-based and other corporate-related costs [2]	**2**	2	**3**	2
Realized gain from commodity-based swap	**2**	—	**—**	—
Share-based compensation [3]	**1**	1	**—**	3
Remeasurement of employee benefit commitment [4]	**—**	(9)	**(1)**	(16)
Tariff related costs	**—**	7	**—**	20
Separation costs related to USS support services	**—**	2	**—**	7
Carbon tax expense	**—**	—	**—**	3
Batch annealing facility startup related costs	**—**	1	**—**	1
Property related idle costs included in cost of goods sold	**—**	1	**—**	2
Adjusted net income (loss)	**$ 10**	$ 6	**$ (16)**	$ 66

1 Other costs primarily includes the write-down of certain capital projects that are no longer being pursued by the Company, representing aborted construction in progress costs without future benefit to Stelco.
2 Represents certain non-routine items that include, but are not limited to, professional fees, including those connected with the acquisition of the Option during Q2 2020 and Stelco Inc.'s withdrawn proposed senior secured notes offering during September 2019.
3 Share-based compensation consists of costs connected with share options awarded to certain members of the Company's executive senior leadership team, during the period.
4 Remeasurement of employee benefit commitment for change in the timing of estimated cash flows and future funding requirements.

Q2 2020

Adjusted net income for the quarter was $10 million compared to $6 million for Q2 2019 representing an increase of $4 million, primarily due to the net effect of the following:

- $4 million increase in gross profit (adjusted for the following Q2 2019 items: tariff related costs of $7 million, property related idle costs of $1 million and batch annealing facility startup costs of $1 million); and
- $2 million higher finance and other income (adjusted for a $2 million realized gain on commodity-based swap); partly offset by
- $2 million increase in selling, general and administrative expenses (adjusted for a decrease in separation costs related to USS support services of $2 million).

YTD 2020

Adjusted net loss for the period was $16 million compared to adjusted net income of $66 million for 2019, a decrease of $82 million, primarily due to the net effect of the following:

- $58 million decrease in gross profit (adjusted for the following 2019 items: tariff related costs of $20 million, separation costs related to USS support services of $3 million recorded in cost of goods sold, carbon tax expense of $3 million, less property related idle costs of $2 million and batch annealing facility startup costs of $1 million);
- $24 million increase in finance costs (adjusted for a $15 million gross decrease in remeasurement recovery from the employee benefit commitment);

- $1 million higher selling, general and administrative expenses (adjusted for a decrease in separation costs related to USS support services of $4 million, lower share-based compensation of $3 million, partly offset by an increase in transaction-based and other corporate-related costs of $1 million); partly offset by
- $1 million increase in finance and other income.

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

Adjusted EBITDA

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

	Three months ended June 30,		Six months ended June 30,	
(millions of Canadian dollars, except where otherwise noted)	**2020**	2019	**2020**	2019
Net income (loss)	**$ —**	$ 1	**$ (24)**	$ 44
Add back/(Deduct):				
Finance costs	**12**	3	**45**	6
Depreciation	**12**	15	**25**	23
Other costs [1]	**5**	—	**6**	—
Transaction-based and other corporate-related costs [2]	**2**	2	**3**	2
Realized gain from commodity-based swap	**2**	—	**—**	—
Share-based compensation [3]	**1**	1	**—**	3
Finance income	**—**	(1)	**(1)**	(3)
Tariff related costs	**—**	7	**—**	20
Separation costs related to USS support services	**—**	2	**—**	7
Carbon tax expense	**—**	—	**—**	3
Property related idle costs included in cost of goods sold	**—**	1	**—**	2
Batch annealing facility startup related costs	**—**	1	**—**	1
Adjusted EBITDA	**$ 34**	$ 32	**$ 54**	$ 108
Adjusted EBITDA as a percentage of total revenue	**8 %**	7 %	**6 %**	11 %

1 Other costs primarily includes the write-down of certain capital projects that are no longer being pursued by the Company, representing aborted construction in progress costs without future benefit to Stelco.
2 Represents certain non-routine items that include, but are not limited to, professional fees, including those connected with the acquisition of the Option during Q2 2020 and Stelco Inc.'s withdrawn proposed senior secured notes offering during September 2019.
3 Share-based compensation consists of costs connected with share options awarded to certain members of the Company's executive senior leadership team, during the period.

Q2 2020

Adjusted EBITDA for the quarter was $34 million compared to $32 million for Q2 2019 representing an increase of $2 million which is primarily due to the net effect of the following:

- $3 million higher other income (adjusted for a $2 million realized gain on commodity-based swap);
- $1 million increase in gross profit (adjusted for the following Q2 2019 items: tariff related costs of $7 million, property related idle costs of $1 million and batch annealing facility startup costs of $1 million; and lower depreciation expense of $3 million); partly offset by
- $2 million higher selling, general and administrative expenses (adjusted for a decrease in separation costs related to USS support services of $2 million).

YTD 2020

Adjusted EBITDA for the period was $54 million compared to $108 million for 2019 representing a decrease of $54 million which is primarily due to the net effect of the following:

- $56 million decrease in gross profit (adjusted for the following 2019 items: tariff related costs of $20 million, separation costs related to USS support services of $3 million recorded in cost of goods sold, carbon tax expense of $3 million, less property related idle costs of $2 million and batch annealing facility startup costs of $1 million; partly offset by higher depreciation expense of $2 million); party offset by
- $3 million increase in other income.

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

Review of Balance Sheets

The following table provides selected balance sheet information as at the date indicated:

(millions of Canadian dollars) As at		**June 30, 2020**		December 31, 2019
Cash	**$**	**168**	$	257
Trade and other receivables		**163**		158
Inventories		**436**		483
Derivative asset		**55**		—
Property, plant and equipment, net		**757**		670
Total assets	**$**	**1,605**	$	1,594
Trade and other payables		**454**		444
Other liabilities		**85**		82
Asset-based lending facility (ABL)		**126**		98
Obligations to independent employee trusts		**508**		507
Total liabilities	**$**	**1,188**	$	1,144
Total equity	**$**	**417**	$	450

As reflected in the selected balance sheet information above, between December 31, 2019 and June 30, 2020, the Company's trade and other receivables increased from $158 million to $163 million (representing a change of $5 million or 3%), trade and other payables increased from $444 million to $454 million (representing a change of $10 million or 2%), other liabilities increased from $82 million to $85 million (representing a change of $3 million or 4%), total liabilities increased from $1,144 million to $1,188 million (representing a change of $44 million or 4%), and total equity decreased from $450 million to $417 million (representing a change of $33 million or 7%).

As discussed in the *'Business Overview - Pellet Supply Agreement and Option to Acquire 25% Interest in the Minntac Mine'* section of this MD&A, Stelco entered into the Option Agreement with U.S. Steel granting Stelco an option to purchase a 25% ownership interest in a to-be-formed joint venture that will own a 100% beneficial interest in U.S. Steel's Minntac iron ore mine located in Mt. Iron, Minnesota and related infrastructure including the pellet plant. The Option is a derivative instrument which is presented on the Consolidated Financial Statements as a financial asset and carried at fair value through income or loss. The Option was initially recorded at its fair value of USD$100 million, less the Initial Consideration outstanding. At June 30, 2020, the Option's carrying value of $55 million included the impact of USD$40 million in payments to U.S. Steel; as well as the remaining current consideration of USD$60 million payable to U.S. Steel. The derivative asset was presented net (of the remaining consideration payable) as a single financial instrument on the consolidated balance sheets.

Our inventories decreased by 10% from $483 million at December 31, 2019 to $436 million at June 30, 2020, primarily due to lower raw material quantities on hand which was impacted by the seasonal effect of the Company generally experiencing a higher activity of raw material receipts prior to the closure of international waterways restricting deliveries from vessel and barge shipments during the winter months of the period.

Property, plant and equipment increased to $757 million at June 30, 2020 from $670 million at December 31, 2019, mainly due to the following: capital additions of $123 million, partly offset by depreciation expense of $25 million for the period, a Strategic Innovation Fund contribution of $6 million and a write-down of certain construction in progress assets of $5 million. For discussion of the Strategic Innovation Fund contribution and write-down of certain construction in progress assets, refer to note 5 to the Consolidated Financial Statements. Our capital additions for the period include costs related to preparation for the blast furnace upgrade and reline projects that commenced in mid-July, our pig iron casting facility under development, normative projects at our coke ovens, certain assets under lease and other capital assets relating to operations.

During the period, the Company repaid approximately $49 million net, under the inventory monetization arrangement. Changes in the carrying amounts are primarily net payments related to receipts and consumption of raw materials, metallurgical coke and certain slabs by the Company monetized under this arrangement, in addition to the impacts from foreign exchange. As at June 30, 2020, amounts drawn under this arrangement amounted to $229 million compared to $267 million as at December 31, 2019 and are recorded within trade and other payables on the Company's consolidated balance sheets.

Our ABL indebtedness increased from $98 million at December 31, 2019 to $126 million at June 30, 2020, primarily due to net cash advances by the Company of $27 million during the period. Amounts available to be drawn under the revolving ABL will vary from time to time, based upon a borrowing base determined with reference to Stelco's trade receivables and certain inventory balances. Refer to note 8 of the Consolidated Financial Statements for further details.

Review of Cash Flows

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

(millions of Canadian dollars) Six months ended June 30,		**2020**		2019
Cash, beginning of period	**$**	**257**	$	438
Cash provided by (used in):				
Operating activities		**102**		146
Investing activities		**(159)**		(119)
Financing activities		**(32)**		(188)
Cash, end of period	**$**	**168**	$	277

Cash provided by Operating Activities

For the first half of 2020, cash provided by operating activities totaled $102 million compared to $146 million for the same period of 2019. Cash provided by operating activities for the period was impacted by lower gross profit primarily due to lower revenue from the sale of goods, partly offset by a decrease in cost of goods sold. Partly offsetting the impact of lower gross profit realized during the period, was the effect from changes in working capital. In particular from higher cash provided from inventory related items, partly offset by the timing of trade receivables and lower payments to the employee benefit commitment compared to the first half of 2019. Refer to note 18 to the Consolidated Financial Statements for further details.

Cash used in Investing Activities

For the six months ended June 30, 2020, cash used in investing activities totaled $159 million compared to $119 million for the same period of 2019. Cash used in investing activities in the first half of 2020 included capital expenditures (net of a Strategic Innovation Fund contribution) of $102 million primarily related to growth and normative projects at our blast furnace, including preparations for the blast furnace upgrade and reline project that commenced in mid-July 2020, pig iron casting facility under development, coke ovens, certain assets under lease and other capital assets relating to operations; and $55 million in connection with the acquisition of the Option.

Cash used in Financing Activities

For the first half of 2020, cash used in financing activities totaled $32 million which includes inventory monetization arrangement net payments of $49 million, asset-based lending facility draws and repayments of $147 million and $121 million, respectively, $9 million in dividends paid to common shareholders, lease and mortgage obligation principal repayments of $4 million and $1 million, respectively, partly offset by $5 million in proceeds in connection with the Strategic Innovation Fund contribution during the period. For discussion of the Strategic Innovation Fund contribution, refer to note 5 to the Consolidated Financial Statements.

Results of Operations

For the first half of 2020, Stelco experienced favourable pricing trends across its key products, including hot-rolled, cold-rolled and some coated products, compared to the fourth quarter of 2019, though prices declined throughout the second quarter. Our steel selling prices remain influenced by overall international demand, trade sanctions, iron ore prices, scrap steel prices and product availability. Volatile metal prices may cause fluctuations in our financial results. We expect that our shipping volumes during the second half of 2020 will be significantly below our volume in the first half of 2020 due to our blast furnace upgrade and reline project that involved the commencement of an expected 75-day shutdown of our blast furnace in mid-July 2020.

We are in the early stages of our 75-day blast furnace outage at our LEW site in connection with a reline of the refractory brick in the blast furnace and modernizing upgrades. The expected cost of the blast furnace upgrade project is anticipated to be approximately $116 million, of which approximately $64 million has already been spent and recorded on the Company's Consolidated Balance Sheet as property, plant and equipment as at June 30, 2020. Our payment terms with the primary contractor will enable us to defer a portion of the remaining project cost, and as such we anticipate that our net spend to complete the project will be $42 million during the remainder of 2020. Upon completion of the reline and related upgrades, the Company expects to increase annual hot metal production capacity by up to 300 thousand net tons. Management is actively monitoring the COVID-19 pandemic and working with its contractors to ensure the health and safety of all workers on site. In connection with the blast furnace outage, we have purchased semi-finished steel products for conversion during the period which, in connection with our existing inventories, will allow us to continue to meet some level of our customers' needs in the third quarter of 2020.

We have restarted work to complete the installation of pig iron casting capabilities in order to broaden the Company's current production mix, which will enable us to produce up to one million net tons of pig iron annually. The cost of the pig iron casting project is anticipated to be approximately $51 million, of which approximately $29 million has been already recorded on the Company's Consolidated Balance Sheet as property, plant and equipment as at June 30, 2020. We expect to complete construction of the new pig iron casting facility during the fourth quarter of 2020.

During July 2019, we commenced the rehabilitation of the LEW coke battery by idling one half of the battery and preparing the ovens for repair and related demolition work. In light of the recent COVID-19 impact on the global and domestic economies, Stelco deferred future rehabilitation work on the LEW coke battery and expects to provide an update on the status of the project when plans are finalised.

Stelco continues to focus on identifying operating efficiencies and generating returns for our shareholders, including executing initiatives that have achieved sustainable annual run rate cost reductions of up to $50 million as of the end of the second quarter of 2020.

As previously noted, the Company remains committed to its focus on maximizing profits, including regaining higher margin business, increasing our expansion into additional markets outside Canada with respect to hot-rolled, cold-rolled and coated coil sales, and assessing opportunities to introduce new products. Stelco, as a low cost advanced integrated steel producer in North America with flexible shipping and production capabilities, will continue to seek new opportunities in the domestic and international steel markets and expects to continue to maximize profitability and cash flows in the near term.

Capital Resources and Liquidity

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

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

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

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

As at June 30, 2020, the Company expects to have sufficient working capital for the remainder of 2020 based on the following:

- $168 million in cash;
- $105 million available under the asset-based lending facility;
- Liquidity on certain raw material purchases, slabs, and metallurgical coke inventories provided by the inventory monetization arrangement; and
- $47 million purchase limit remaining under the RPA with a Schedule II bank which provides Stelco Inc. with improved liquidity on certain customers' trade receivables on an uncommitted revolving basis.

Credit Facility and Other Arrangements

Asset-Based Lending Facility (ABL)

As at		**June 30, 2020**		December 31, 2019
Revolving	**$**	**27**	$	—
Non-revolving term loan		**99**		98
Asset-based lending facility	**$**	**126**	$	98

During the three months ended June 30, 2020, Stelco's borrowing and repayment activity on the ABL revolving facility resulted in a $27 million outstanding balance as at June 30, 2020 (December 31, 2019 - nil). The amount available to be drawn under the ABL will vary from time to time, based upon a borrowing base determined with reference to eligible trade receivables and inventory, and excludes certain trade receivables that have been sold under the RPA and inventory that has been monetized under the inventory monetization arrangement, discussed further in notes 3 and 6, respectively. At June 30, 2020, the amount available to be borrowed under the ABL was $105 million (December 31, 2019 - $148 million).

The weighted average finance rate for amounts drawn under the ABL for the three and six months ended June 30, 2020 was 3.97% and 4.42% (three and six months ended June 30, 2019 - 5.79% and 5.86%), respectively. In addition, Stelco's outstanding letters of credit under the ABL were $57 million at June 30, 2020 (December 31, 2019 - $54 million) and the Company was in compliance with the financial covenants pursuant to the ABL agreement as at and during the three and six months ended June 30, 2020.

Amendments to the ABL agreement

In June 2020, Stelco entered into an amended ABL agreement which included the following significant amendments to the previous terms disclosed in the Company's 2019 Annual Financial Statements:

i) non-revolving term loan scheduled monthly repayments of $1.3 million to commence on January 31, 2021 (previously scheduled monthly repayments of $1.1 million were to commence on June 30, 2020);

ii) Stelco is to maintain a total minimum liquidity of $50 million through December 31, 2020, consisting of excess availability under the ABL of at least $30 million (previously minimum excess availability under the ABL of at least $50 million) and cash and cash equivalents of $20 million;

iii) change of financing rate to Canadian/US prime rate plus 0.50% - 1.00% (previously 0.25% - 0.75%);

iv) change of option to index the revolving interest rate to CDOR/LIBOR plus a margin of 1.50% - 2.00% (previously 1.25% - 1.75%); and

v) an amendment to the definition of CDOR and LIBOR within the ABL to include a floor interest rate of 0.75%.

Pursuant to the terms of the ABL agreement, Stelco Inc. is restricted from making dividend payments or other distributions to its shareholders (including Stelco Holdings), unless the applicable payment conditions specified in the ABL agreement are satisfied, including:

i) Stelco Inc. must not be in default under the ABL agreement;

ii) Stelco Inc. must have certain excess availability under the terms of the ABL agreement 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 the greater of $75 million or 20% of the maximum amount of the revolver under the ABL agreement; and

iii) Stelco Inc.'s fixed charge coverage ratio (being a ratio of EBITDA to fixed charges as more fully defined in the ABL agreement) must be equal to or greater than 1.1 to 1.0 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.

Inventory Monetization Arrangement

The weighted average finance rate for the inventory monetization arrangement for the three and six months ended June 30, 2020 was 4.45% and 4.70% (three and six months ended June 30, 2019 - 5.10% and 4.98%), and related finance costs of $2 million and $5 million (three and six months ended June 30, 2019 - $2 million and $4 million), respectively, are recorded within the Consolidated Statements of Income (Loss) and Comprehensive Income (Loss). This financing arrangement is secured by inventory with a carrying value of $280 million (December 31, 2019 - $351 million) serving as collateral.

Amendments to the inventory monetization arrangement

In June 2020, Stelco Inc. entered into an amended inventory monetization arrangement, which included the following significant amendments to the previous terms as disclosed in the Company's 2019 Annual Financial Statements:

i) an extended minimum term with an expiry date of October 30, 2020;

ii) adjusted volume limits of eligible inventory to be financed through this arrangement, consistent with the Company's projected operating levels;

iii) Stelco to maintain a minimum liquidity balance of at least $50 million, which includes maintaining a minimum level of cash and cash equivalents lowered to $20 million (previously cash and cash equivalents of $30 million); and

iv) finance rate of LIBOR plus a margin of 4.50% (previously LIBOR plus a margin of 3.00%).

Unless otherwise amended or renewed, amounts advanced under the amended inventory monetization arrangement are required to be repaid when the facility expires on October 30, 2020. The Company was in compliance with the financial covenants pursuant to the inventory monetization agreement as at and for the three and six months ended June 30, 2020.

Receivables Purchase Agreement (RPA)

During June 2019, Stelco entered into a RPA with a Schedule II bank (the Purchaser), enabling Stelco from time to time, to sell certain customer trade receivables to the Purchaser on an uncommitted revolving basis. Under the terms of the RPA, the aggregate maximum purchase limit under this arrangement is $108 million (which includes a USD$12.5 million limit on certain customers' trade receivables) and requires that Stelco administer and process the collection of receivables and remit those collections to the Purchaser. The Company has derecognized the trade receivables sold under the RPA from the consolidated balance sheets as substantially all of the risks and rewards for such receivables have been transferred to the Purchaser. As at June 30, 2020, Stelco's available purchase limit remaining under the RPA was $47 million (December 31, 2019 - $96 million).

Amendments to the RPA

During August 2020, Stelco entered into an amended RPA with the Purchaser, for which the terms remained substantially similar to the original agreement. Significant amendments to the agreement include the following:

i) change of the aggregate maximum purchase limit to $66 million (which includes USD$10 million limit on certain customers' trade receivables);

ii) scheduled fixed date settlements; and

iii) finance rate of CDOR/LIBOR plus a margin of 2.75% (previously 1.75%).

Share Capital

The Company’s authorized share capital includes an unlimited number of common shares with no par value and an unlimited number of preferred shares issuable in series. No additional shares were issued during the three and six months ended June 30, 2020. Refer to note 10 of the Consolidated Financial Statements for further details.

Dividend Policy

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

Accordingly, management and the Board of Directors regularly review the Company’s rate of dividends to ensure an appropriate level of dividends.

Common Share Dividends

Common share dividends declared and paid in 2020 were as follows:

(millions of Canadian dollars, except per share amounts) Record date	Payment date	Cash dividend per common share	Total common share dividends
February 28, 2020	March 4, 2020	0.10	$ 9

In connection with Stelco entering into an Option Agreement with U.S. Steel, the Company announced on April 30, 2020, the suspension of its quarterly dividend of $0.10 per share. Refer to our *'Business overview*' section of this MD&A for further details.

Share-based compensation

During 2018, Stelco Holdings established an amended and restated long-term incentive plan (LTIP), which was approved by common shareholders at the annual general and special meeting of common shareholders held on June 28, 2018. The LTIP was designed to promote the alignment of senior management, employees and consultants of the Company with shareholder interests and the creation of sustainable shareholder value, and facilitate recruitment, motivation and retention of executives and key talent.

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

For the three and six months ended June 30, 2020, the Company recorded a share-based compensation expense of $1 million and nil (three and six months ended June 30, 2019 - $1 million and $3 million), respectively, in selling, general and administrative expenses on the Consolidated Statements of Income (Loss) and Comprehensive Income (Loss) in connection with share-based awards granted under the Company's LTIP.

Restricted Share Units (RSUs)

On March 20, 2020, 73,529 RSUs were granted to a certain member of the Company's Executive Senior Leadership Team (ESLT), with a grant date fair value of $4.08 per RSU. These RSUs are cash-settled awards with the RSUs vesting as to one-third of the total grant amount on each of the first three anniversaries of the grant date. As at June 30, 2020, there were 77,183 RSUs outstanding (December 31, 2019 - 6,313) with an estimated fair value of $7.65 per RSU under the Company's LTIP.

Share options (Options)

During February 2020, 333,333 unvested options were forfeited and canceled in connection with the departure of Stelco Holdings' Chief Executive Officer. As at June 30, 2020, 666,667 vested Options remain outstanding with an estimated fair value of $1.32 per Option under the Company's LTIP.

Stock appreciation right awards (SARs)

On March 20, 2020, 100,000 SARs were granted and issued to a certain member of the ESLT with a base price of $4.08 per share. The SARs were issued under the Company's LTIP, and are cash-settled awards with graded vesting over three years. The estimated grant date fair value using the Black-Scholes option-pricing model was $0.78 per SAR. The cost of these share-based payments is measured at fair value and expensed over the vesting period with the recognition of a corresponding liability recorded in other liabilities on the Consolidated Balance Sheets. The liability is remeasured at fair value at each reporting period date with the changes in fair value recorded in the Consolidated Statements of Income (Loss) and Comprehensive Income (Loss). As at June 30, 2020, there were 100,000 SARs outstanding (December 31, 2019 - nil) with an estimated fair value of $4.88 per Option under the Company's LTIP.

Deferred share unit plan (DSUs)

As at June 30, 2020, there were 72,575 DSUs outstanding (December 31, 2019 - 39,445) with an estimated fair value of $7.65 per DSU under the Company's LTIP.

Commitments and Contingencies

Employee Benefit Commitments

- On emergence from *Companies' Creditors Arrangement Act* on June 30, 2017, Stelco Inc. had funding commitments with certain pension and other post-employment benefit (OPEB) trusts. Stelco Inc. committed to pay up to a maximum of $430 million to fund five main defined benefit pension plans previously sponsored by Stelco Inc. (Main Pension Plans). On June 5, 2018, Stelco Inc. entered into an Amended OPEB Funding Agreement, replacing the Original OPEB Funding Agreement, and committed to fixed contributions of approximately $494.5 million over twenty-five years to the independent employee life and health trusts (ELHTs) created for receiving, holding and distributing funds on account of OPEBs for legacy employees of Stelco Inc. In addition, Stelco Inc. agreed to pay a portion of its free cash flows (as defined) and certain tax-related savings amounts to the ELHTs.
- Certain components of the employee benefit commitments are tied to Stelco Inc.'s future cash flow generation and certain tax-related savings amounts. The carrying value of the employee benefit funding commitment liability recognized by the Company in its consolidated balance sheet is determined based upon the present value of those future payments as estimated by management. Changes in the magnitude or timing of those estimated future cash payments may result in the employee benefit commitment liability balances being adjusted upward or downward in future periods. If such adjustments to the liability carrying value were to occur, the Company would also recognize a corresponding expense item in its Consolidated Statements of Income as an element of finance cost. Management will assess estimates of future cash flows related to these employee benefit funding arrangements each period.
- Refer to note 9 to the Consolidated Financial Statements for remaining payments under the employee benefit commitment at June 30, 2020.
- Bedrock has guaranteed certain minimum contributions to the Main Pension Plans up to a maximum amount of $160 million. The amount of such guarantee is reduced based upon, among other things, certain contributions being made to the Main Pension Plans over time. The guarantee will be discharged upon the earlier of the $160 million being reduced to zero or the aggregate amount of all payments made by Stelco Inc. or Bedrock reaching $300 million.

Pellet Supply Agreement and Option to Acquire 25% Interest in the Minntac Mine

As previously discussed in the *'Business Overview'* section of this MD&A, on April 30, 2020, Stelco entered into the Pellet Agreement with U.S. Steel ending January 31, 2028. The Pellet Agreement contains both an annual iron ore volume purchase limit and fixed pricing schedule (subject to adjustments based on certain input cost indices) for the duration of the agreement. The Pellet Agreement supersedes and replaces the current agreement with U.S. Steel, which was set to expire on January 31, 2022.

Concurrently, Stelco entered into the Option Agreement with U.S. Steel granting Stelco an option to purchase a 25% ownership interest in a to-be-formed joint venture that will own a 100% beneficial interest in U.S. Steel's Minntac iron ore mine located in Mt. Iron, Minnesota and related infrastructure including the pellet plant. The Option is exercisable by Stelco at any time following the payment of the Initial Consideration until January 31, 2027.

Stelco will pay US$100 million, in cash, to U.S. Steel in consideration for the Option. The Initial Consideration is payable in five US$20 million installments, with the first installment paid upon closing of the Option Agreement and the second paid on June 30, 2020, with the remaining three installments payable every two months thereafter. Upon the exercise of the Option, Stelco would pay a net exercise price of US$500 million.

Foreign exchange forward contracts

In connection with the Initial Consideration for the Option, Stelco entered into a series of foreign exchange forward contracts with a U.S.-based financial institution, as part of a strategy to mitigate the Company's foreign exchange risk associated with the Initial Consideration payments. Under the terms of the foreign exchange forward contracts, the Company agreed to sell an aggregate of $112 million and purchase US$80 million, in four specified equivalent tranches with settlement dates between June 30, 2020 and December 31, 2020. For the three months ended June 30, 2020, the Company recorded a $3 million foreign exchange loss within finance costs on the Consolidated Statements of Income (Loss) and Comprehensive Income (Loss) in connection with these contracts. Stelco did not enter into this contract for trading or speculative purposes.

During April 2020, Stelco Inc. entered into a series of foreign exchange forward contracts with a Schedule I bank, as part of a strategy to mitigate the Company's foreign exchange risk on slabs purchased from third parties in US dollars and future customer hot-rolled coil sales orders in Canadian dollars. Under the terms of the foreign exchange forward contracts, the Company will sell an aggregate of $29 million and purchase US$20 million, in specified tranches with settlement dates between May 7, 2020 to July 30, 2020. For the three months ended June 30, 2020, the Company recorded a $0.4 million foreign exchange loss within finance costs on the Consolidated Statements of Income (Loss) and Comprehensive Income (Loss) in connection with these contracts. Stelco did not enter into this contract for trading or speculative purposes.

Other Commitments

- During January 2020, Stelco entered into a fixed price coal contract with a third party supplier for 2020 purchases, reducing Stelco's commodity price risk in connection with this raw material.
- Union Agreements - Stelco Inc. has collective bargaining agreements with USW Local 8782, USW Local 8782(b) and USW Local 1005, each for a term of 5 years ending July 1, 2022.

Leases

Stelco Inc. has leases on certain machinery, equipment, and rail cars, with lease terms ranging between one to ten years. As at June 30, 2020, the Company had lease obligations with a carrying amount of $46 million (December 31, 2019 - $47 million), associated with certain equipment on its consolidated balance sheet.

Energy Services Agreement

On June 18, 2020, Stelco entered into an arrangement containing a lease with DTE Energy Services, Inc. (DTE) for the development, construction and operation of a 65MW cogeneration facility (Cogen Plant) at Stelco's Lake Erie facility in Nanticoke, Ontario. DTE will fund the capital costs associated with the construction of the Cogen Plant and Stelco will pay DTE a fixed annual fee pursuant to an energy services agreement (ESA) for operating the Cogen Plant for an initial term of 20 years. Stelco's total aggregate maximum fixed payments, which includes the non-lease components under the ESA, is approximately $267 million (subject to certain contingent variable cost increases under the ESA).

The Company will record a 'right-of-use' asset and corresponding lease obligation in connection with the ESA upon the completion of the Cogen Plant, which is expected to be operational during the first half of 2022. Annual fixed payments to DTE will not commence until construction is complete and the Cogen Plant is operational.

Claims and litigation

The Company is involved in claims and litigation arising in the normal course of business. While the final outcome of such legal proceedings and actions cannot be predicted with certainty, it is the opinion of management that the resolution of such proceedings and actions will not have a material impact on the Company's consolidated balance sheets, statements of income, or statements of cash flows.

Contractual Obligations

The following table sets out a summary of our future contractual obligations as at June 30, 2020:

	Payments due by period			
(millions of Canadian dollars)	**Total**	**2020** [1]	**2021-2024**	**Thereafter**
Trade payables	**$ 220**	**$ 220**	**$ —**	**$ —**
Inventory monetization arrangement	**229**	**229**	**—**	**—**
Option payment obligation	**82**	**82**	**—**	**—**
Lease obligations	**59**	**5**	**29**	**25**
Purchase obligations - non-capital [2]	**497**	**336**	**118**	**43**
Purchase obligations - capital	**86**	**81**	**5**	**—**
Asset-based lending facility:				
Non-revolving - term loan	**100**	**—**	**100**	**—**
Revolving	**27**	**—**	**27**	**—**
Obligations to independent employee trusts [3]	**1,054**	**21**	**250**	**783**
Total Contractual Obligations	**$ 2,354**	**$ 974**	**$ 529**	**$ 851**

1 Represents remaining six months of 2020.
2 Purchase Obligations — non-capital includes contractual commitments for the purchase of raw materials, energy and material processing.
3 Represents estimated undiscounted cashflows related to obligations to independent employee trusts.

The Company's contractual obligations can be funded by existing cash on hand, cash flow from operations, our inventory monetization arrangement and ABL credit facility.

Related Party Transactions

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

Upon being acquired on June 30, 2017, Stelco Inc. became a related party of Bedrock B.V. Stelco Inc. has executed a management services agreement with an affiliate of Bedrock B.V. under which Stelco Inc. receives senior management, commercial, business development, operating, financial, human resources, and executive recruitment services, as well as other services that may be required from time to time. Fees for services are based upon actual costs incurred by Bedrock B.V. and/or its affiliates, plus a 2% mark-up on management services fees up to $5 million, and any services above $5 million are reimbursed at cost. The Company has incurred expenses of $1 million and $3 million for the three and six months ended June 30, 2020 (2019 - $2 million and $3 million), respectively, in management services provided by Bedrock B.V. and its affiliated entities. Refer to note 23 of the Consolidated Financial Statements for further details.

Subsidiaries

Transactions between Stelco Holdings and its subsidiaries meet the definition of related party transactions. These transactions are eliminated on consolidation and are not disclosed in this MD&A.

Key Management Personnel

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

On January 27, 2020, the Company announced the re-appointment of Alan Kestenbaum as Chief Executive Officer of Stelco Holdings effective as of February 21, 2020. Mr. Kestenbaum is also the Executive Chairman of Stelco Holdings.

On March 16, 2020, Paul Scherzer was appointed as the Chief Financial Officer of the Company.

During the three and six months ended June 30, 2020, the Company recorded $2 million (three and six months ended June 30, 2019 - $2 million and $5 million), respectively, as a net expense related to key management personnel salaries and benefits, share-based compensation, director fees, post-employment pension and medical and termination benefits.

Selected Quarterly Information

(millions of Canadian dollars, except where otherwise noted)	**2020**		2019				2018	
As at and for the three months ended[1]	**Q2**	Q1	Q4	Q3	Q2	Q1	Q4	Q3
Financial results								
Total revenue	**$ 411**	$ 445	$ 435	$ 464	$ 427	$ 515	$ 648	$ 619
Steel products	**403**	438	417	450	411	504	617	574
Non-steel products	**8**	7	18	14	16	11	31	45
Gross profit	**28**	16	5	18	15	58	134	151
Selling, general and administrative expenses	**12**	9	11	9	12	14	16	13
Net income (loss)	**—**	(24)	(24)	—	1	43	110	125
Adjusted net income (loss) [2]	**10**	(26)	(13)	(11)	6	60	123	174
Adjusted EBITDA [2]	**34**	20	10	23	32	76	167	193
Per common share (diluted)								
Net income (loss)	**$ —**	$ (0.27)	$ (0.27)	$ —	$ 0.01	$ 0.48	$ 1.23	$ 1.41
Adjusted net income (loss) [2]	**$ 0.11**	$ (0.29)	$ (0.15)	$ (0.12)	$ 0.07	$ 0.68	$ 1.38	$ 1.96
Common shareholder dividends declared and paid	**$ —**	$ 0.10	$ 0.10	$ 0.10	$ 0.10	$ 1.23	$ 0.10	$ 1.79
Financial position								
Total assets	**1,605**	1,493	1,594	1,665	1,513	1,439	1,655	1,449
Total non-current liabilities	**656**	657	623	527	498	509	508	519
Operating results								
Selling Price per nt (in dollars per nt) [2]	**700**	705	659	688	754	824	917	980
Adjusted EBITDA per nt (in dollars per nt) [2]	**59**	32	16	35	59	124	248	329
Shipping volumes (in thousands of nt) [2]	**576**	621	633	654	545	612	673	586
Hot-rolled	**423**	447	382	425	375	517	553	446
Coated	**109**	112	106	87	67	66	79	82
Cold-rolled	**15**	35	40	26	19	4	10	19
Other	**29**	27	105	116	84	25	31	39

[1] Period end date refers to the following: "Q4" - December 31, "Q3" - September 30, "Q2" - June 30, and "Q1" - March 31.

[2] The definition and reconciliation of these non-IFRS measures are included in the "Non-IFRS Performance Measures" and "Review of Non-IFRS Measures" sections of this MD&A.

Trend Analysis

Stelco Holdings' financial performance improved in Q2 2020 over Q1 2020 primarily as a result of higher gross profit from improved cost of goods sold, partly offset by lower revenue due to lower steel shipping volumes and marginally lower average selling price per nt. The following discussion reflects the Company's trend analysis in a chronological order.

Revenue increased 5% from $619 million in Q3 2018 to $648 million in Q4 2018. The increase in revenue reflects 15% higher steel shipping volumes from 586 thousand nt in Q3 2018 to 673 thousand nt in Q4 2018, partly offset by a 6% decrease in average selling prices which decreased from $980/nt in Q3 2018 to $917/nt in Q4 2018 and $14 million lower non-steel sales mostly related to metallurgical coke products. In connection with our planned hot-strip mill outage during September 2018, we experienced a general decline in our shipping volumes and lower production of steel products during the third quarter of 2018. The upgrades completed during the third quarter of 2018, were expected to provide better gauge control and increased rolling force, and enable Stelco to better participate in the AHSS, High Strength Low Alloy (HSLA), and value added coated markets. We also performed outages in our blast furnace, basic oxygen furnace and caster during September 2018. We executed a number of strategic outages throughout 2018, which were intended to improve reliability and efficiency of our production facilities, and were in preparation for coke oven repairs and hot strip mill enhancements planned for the remainder of 2019 and into 2020. Revenue decreased 21% from $648 million in Q4 2018 to $515 million in Q1 2019. The decrease in revenue reflects 9% lower steel shipping volumes from 673 thousand nt in Q4 2018 to 612 thousand nt in Q1 2019, a 10% decrease in average selling prices which decreased from $917/nt in Q4 2018 to $824/nt in Q1 2019 and $20 million lower non-steel sales mostly related to metallurgical coke products and mill scale. Revenue decreased $88 million or 17% from Q1 2019 to $428 million in Q2 2019. The decrease in revenue reflects 67 thousand nt or 11% lower steel shipped from Q1 2019 to 545 thousand nt in Q2 2019 and an 8% decrease in average selling prices which decreased $70/nt from Q1 2019 to $754/nt in Q2 2019, partly offset by $5 million in higher non-steel sales mostly related to metallurgical coke and kish. Revenue increased $37 million or 8% from Q2 2019 to $464 million in Q3 2019. The increase in revenue reflects 109 thousand nt or 20% more steel shipped from Q2 2019 to 654 thousand nt in Q3 2019, partly offset by a 7% decrease in average selling prices which decreased $66/nt from Q2 2019 to $688/nt in Q3 2019 and $2 million in lower non-steel sales mostly related to kish partly offset by higher metallurgical coke sales. Revenue decreased $29 million or 6% from Q3 2019 to $435 million in Q4 2019. The decrease in revenue reflects 21 thousand nt or 3% lower steel shipped from Q3 2019 to 633 thousand nt in Q4 2019, partly offset by a 4% decrease in average selling prices which decreased $29/nt from Q3 2019 to $659/nt in Q4 2019, partly offset by $4 million in higher non-steel sales mostly related to metallurgical coke breeze sales. Revenue increased $10 million or 2% from Q4 2019 to $445 million in Q1 2020. The increase in revenue reflects a 7% increase in average selling prices which increased $46/nt from Q4 2019 to $705/nt in Q1 2020, partly offset by 12 thousand nt or 2% less steel shipped from Q4 2019 to 621 thousand nt in Q1 2020 and $11 million in lower non-steel sales mostly related to metallurgical coke breeze and pellet fine sales. Revenue decreased $34 million or 8% from Q1 2020 to $411 million in Q2 2020. The decrease in revenue reflects a 45 thousand nt or 7% lower steel shipped from 621 thousand in Q1 2020 to 576 thousand nt in Q2 2020 and a 1% decrease in average selling prices which decreased $5/nt from Q1 2020 to $700/nt in Q2 2020.

In Q3 2018, the Company incurred $39 million of tariff related charges and approximately $10 million of unabsorbed manufacturing variances and other outage related costs connected to the hot-strip mill outage during the period. Gross profit for Q4 2018 decreased compared to Q3 2018 primarily due to lower average selling price of steel, partly offset by higher shipping volumes realized and lower tariffs and hot-strip mill outage related costs incurred during the period. The Company incurred approximately $23 million of tariff related charges during Q4 2018. Gross profit for Q1 2019 decreased compared to Q4 2018 primarily due to lower average selling price of steel, shipping volumes realized and higher cost of steel products sold, partly offset by lower tariffs incurred during the period. Gross profit for Q2 2019 decreased compared to Q1 2019 primarily due to a decrease in average selling price of steel and shipping volumes realized, partly offset by lower cost of steel products sold and tariffs incurred during the period. The Company incurred approximately $7 million of tariff related charges during Q2 2019. Gross profit for Q3 2019 increased compared to Q2 2019 primarily due to higher steel shipping volumes realized and lower average cost of steel products sold, partly offset by a decrease in average selling price of steel, higher freight costs and lower non-steel products sales. Gross profit for Q4 2019 increased compared to Q3 2019 primarily due to lower average selling price of steel and steel shipping volumes realized, partly offset by less average cost of steel products sold and non-steel products sales. Gross profit for Q1 2020 increased compared to Q4 2019 as a result of the higher revenue and a lower non-steel product costs, partly offset by higher cost of goods sold for steel products primarily due to a higher average cost of steel products sold. Gross profit for Q2 2020 increased compared to Q1 2020 mainly due to $15 million received in connection with the CEWS program and lower cost of goods sold associated with certain employee benefits, partly offset by lower steel shipping volumes and average steel selling price as described above.

Since 2018, SG&A primarily consisted of ERP implementation, employee salary and benefit related costs, professional fees, management fees, and share-based compensation related costs.

Net income for Q4 2018 decreased compared to Q3 2018 primarily due to lower gross profit and unrealized foreign exchange loss during the period, partly offset by higher other income related to lease terminations in connection with the land and buildings acquisition during the second quarter of 2018. Net income for Q1 2019 decreased compared to Q4 2018 primarily due to lower gross profit and finance and other income during the period, partly offset by lower finance costs. Net income for Q2 2019 decreased compared to Q1 2019 primarily due to lower gross profit for the period. Net income for Q3 2019 remained flat compared to Q2 2019 primarily due to higher gross profit and lower selling, general and administrative expenses for the period, offset by higher finance costs. Net income for Q4 2019 decreased compared to Q3 2019 primarily due to lower gross profit, higher selling, general and administrative expenses, increased finance costs, and restructuring and other costs for the period. Net loss for Q1 2020 was flat compared to Q4 2019, primarily due to higher gross profit, lower selling, general and administrative expenses, increased finance and other income, lower restructuring and other costs, offset by higher finance costs primarily due to the impact of unfavourable foreign exchange for the period. Net income of nil for Q2 2020 was lower compared to Q1 2020 primarily due to lower finance costs from the period over period impact of foreign exchange, higher gross profit, partly offset by an increase of other costs which includes the write-down of certain strategic capital projects no longer under construction, and higher selling, general and administrative expenses and lower finance and other income.

Significant Accounting Policies

Stelco Holdings' Consolidated Financial Statements have been prepared by management in accordance with IAS 34, *Interim Financial Reporting*, as issued by the International Accounting Standards Board (IASB). The Consolidated Financial Statements comprise the financial statements of Stelco Holdings and its subsidiaries. Under IFRS, additional disclosures are required in the annual financial statements and therefore, the Consolidated Financial Statements and accompanying notes should be read in conjunction with the notes to Stelco Holdings' audited Consolidated Financial Statements for the year ended December 31, 2019 (2019 Annual Financial Statements).

The Consolidated Financial Statements have been prepared using consistent accounting policies and methods used in the preparation of the 2019 Annual Financial Statement, with exception on accounting policies for government grants and derivative financial instruments. Refer to note 2 of the Consolidated Financial Statements for further details. Certain comparative information has been reclassified to conform to the current period's presentation.

Disclosure Controls and Procedures and Internal Control over Financial Reporting

At June 30, 2020, the Chief Executive Officer (CEO) and the Chief Financial Officer (CFO) of the Company, together with the assistance of senior management, have designed disclosure controls and procedures to provide reasonable assurance that material information relating to the Company is made known to the CEO and the CFO, and have designed internal controls over financial reporting (ICFR) and disclosure to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements in accordance with IFRS.

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

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

There were no changes in the Company's ICFR during the three and six months ended June 30, 2020 that have materially affected, or are reasonably likely to materially affect, the Company's ICFR.

Risk and Uncertainties

We believe our performance and future success depend on a number of factors that present significant opportunities for us. For a discussion of risk factors that have been identified by the Company refer to the 2019 AIF and 2019 MD&A which is available through the SEDAR website at www.sedar.com.

Corporate Information

Executive Management

Alan Kestenbaum
Chief Executive Officer

Paul D. Scherzer
Chief Financial Officer

Sujit Sanyal
Chief Operating Officer

Paul Simon
General Counsel & Corporate Secretary

Board of Directors

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

Monty Baker [2]
Corporate Director

Jeffrey B. Bunder [2]
Senior Advisor, Lindsay Goldberg

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

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

Jacob Lew
Partner, Lindsay Goldberg

Michael Mueller [1,4,6]
Corporate Director

Heather Ross [2,3,7]
Corporate Director

Indira Samarasekera [5]
Corporate Director

[1] Chair of the Audit Committee
[2] Member of the Audit Committee
[3] Chair of the Compensation, Governance and Nominating Committee
[4] Member of the Compensation, Governance and Nominating Committee
[5] Chair of the Environmental, Health and Safety Committee
[6] Member of the Environmental, Health and Safety Committee
[7] Lead Director

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Stock Exchange Listing
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Stelco Holdings Inc. trading symbol: STLC

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