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MINSKY LLP
BARRISTERS & SOLICITORS

December 23, 2014

Andrew J. Hatnay
ahatnay@kmlaw.ca

Via Regular Mail

PRIVILEGED & CONFIDENTIAL

Dear Sir/Madam:

Re: U.S. Steel Canada Inc. – CCAA Proceeding
Representation of Non-Union and Active and Retired Employees
Our File No. 14/1751

We are the court-appointed representative counsel to George Hanson, Gary Dallin, Paul Wendling, Ron McClure, Pat Mousseau, and Frank Dalimonte, who were appointed by the Ontario Superior Court of Justice (Commercial List) as the representatives of all non-union active and salaried employees of U.S. Steel Canada Inc. ("USSC"), in its proceedings under the *Companies' Creditors Arrangement Act* ("CCAA").

We have been provided with your name by legal counsel to USSC. We are writing to make contact with you and provide a status update of this matter.

As you are likely aware, USSC obtained court protection from its creditors under the CCAA on September 16, 2014. Regional Senior Justice Morawetz issued the initial CCAA Order on the basis of USSC's application materials that it filed with the court that claimed that USSC is insolvent. The main purpose of the CCAA is to give an insolvent company "breathing room" from the claims of its creditors so it can restructure and continue as a viable business, thus avoiding a formal bankruptcy. The court also appointed the firm of Ernst & Young Inc. ("E&Y") as the Monitor. Generally, the Monitor's role is to monitor and regularly report on the company's activities while it is under CCAA protection and interact with the creditors and other stakeholders of USSC.

As you are probably also aware, this is the second time that the company has undergone CCAA proceedings. Previously, while operating as Stelco Inc., the company obtained CCAA protection from the court in 2004, restructured and emerged from CCAA protection in 2006 following which it was acquired by United States Steel Corporation, headquartered in Pittsburgh, Pennsylvania.

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Expansion of our previous CCAA mandate

In the 2004-2006 CCAA proceedings of Stelco, our firm was appointed as representative counsel to certain retirees (George Hanson, Paul Wendling, Gary Dallin, and the late John Hanson) who are on the board of your retiree association, the Stel-Salaried Pensioners Organization ("SSPO"). Our focus in the 2004-2006 CCAA proceedings were the Stelco salaried registered pension plans and benefit plans. We will refer to the USSC benefit plans as "Other Post-Employment Benefits" or "OPEBs".

In this CCAA, our mandate has been expanded to also include all non-union active employees of USSC, as well as all retirees who earned an entitlement to supplementary pension benefits pursuant to a retirement benefit contract with USSC (both funded and unfunded). We understand that our current mandate is comprised of approximately 5,200 active employees and retirees.

In order to ensure that we have regular and effective communications with all the employees and retirees who are subject to our representation order, we have set up three sub-committees in addition to the original core SSPO Committee, to dialogue with the members of the various sub-groups, respond to their questions and concerns, and relay any issues to us so that we can respond efficiently and effectively. We enclose a copy of a chart depicting the client committee structure for your reference. In addition to you contacting our firm, you may also contact the individuals listed on this chart with any questions or concerns using the e-mail addresses in the chart.

Status

There have been a number of developments over the past few months, however, it is our view that the major restructuring of USSC is still in its early stages. The company has, however, done the following with the involvement of major stakeholders, including our firm:

a) obtained additional financing from U.S. Steel in Pittsburgh called "Debtor-in-Possession" Financing ("DIP"). The latest Monitor's Report (the 5th Report) states that USSC has not yet drawn any funds on the DIP loan;

b) established a Claims Process to solicit claims of creditors who claim to be owed amounts from USSC, with the exception of any claims based on the USSC pension plans or OPEBs, which may be subject to a future claims process:

c) established a protocol for quantifying with greater precision the liabilities of USSC with respect to the pension plans and OPEBs. This process has recently started and will continue into 2015;

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d) obtained approval from the court for a Key Employee Retention Plan ("KERP") in the maximum amount of $2,570,378. The KERP operates as a stay bonus to incentivize certain key USSC employees to continue employment with the company during the CCAA proceeding, as those employees are considered critical to the restructuring process;

e) restarted the coke ovens at Hamilton Works and entered into a coke supply contract with U.S. Steel; and

f) began to formulate a sales process for the company to solicit bids from potential purchasers of all or parts of USSC.

The most recent filed actuarial valuation reports indicate that the USSC registered pension plans are currently underfunded to varying degrees on a wind up basis. This means that if the plans are terminated (i.e., wound up) in such a state, there will be insufficient assets to pay pension benefits at full amounts and monthly benefits may be reduced. USSC has not given any indication at this time of its intention to wind up the plans, however, we are monitoring the situation closely, analyzing legal remedies and working closely with the Client Committee.

Secondly, USSC takes the position that its OPEB liability to retirees is contractual, raising the possibility that USSC may seek to reduce or terminate OPEBs in the CCAA proceeding. Again, USSC has not given us an indication of an intention to do so, however, we are also monitoring the situation closely and analyzing legal remedies.

Request for documentation

We have been provided with documentation from counsel to USSC relating to the USSC registered pension plans, retirement benefit contracts, and other pension and benefit arrangements. Nevertheless, we ask that you send to us copies of any documentation you have that pertains to your pension and benefits entitlements or other amounts owing to you from USSC. These can include, for example, employment contracts, correspondence, and employee and retiree booklets. Please send copies of any such documents to us as soon as possible to the coordinates:

Via post:

U.S. Steel Canada Inc. – CCAA Proceeding
Representation of Non-Union and Active and Retired Employees
c/o Communications Department
Koskie Minsky LLP
20 Queen Street West, Suite 900
Toronto, ON M5H 3R3

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Via e-mail: usscrepcounsel@kmlaw.ca

Via facsimile: 416-977-3316

Next Steps

As noted above, the company has advised that it will be proceeding with a sales process to market itself for sale in early 2015. We have been provided with draft documents relating to the proposed sales process protocol and have sent comments on the protocol back to USSC. USSC has advised that they plan to have meetings with certain stakeholders, including us, prior to returning to court in 2015 to request an order for approval of the sales process protocol. We will keep you apprised of developments.

We will continue to provide regular updates to you as the CCAA proceeding moves forward, as well as posting updates on our firm website for USSC non-union retirees and active employees. You can access our firm website at **www.kmlaw.ca/usscrepcounsel** for information, call our toll-free hotline at **1-866-777-6341,** or e-mail us at **usscrepcounsel@kmlaw.ca** if you have any questions or concerns.

We wish you the best for the holiday season.

Yours truly,

KOSKIE MINSKY LLP

Andrew J. Hatnay
AJH:vdl/encl.

cc. Client Committee
Murray Gold, James Harnum, Barbara Walancik, Adrian Scotchmer, Natercia McLellan (Communications Manager), *Koskie Minsky LLP*

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