KOSKIE MINSKY
JUSTICE MATTERS

April 20, 2017

Andrew J. Hatnay
ahatnay@kmlaw.ca

Dear Sir/Madam:

Re: U.S. Steel Canada Inc. ("USSC" or "Stelco" or the "Company") CCAA Plan of Compromise and transaction with Bedrock Industries LLC ("Bedrock")

We are writing to you further to our letter dated October 4, 2016, to provide an update on recent developments in the proceedings of Stelco under the *Companies' Creditors Arrangement Act* ("**CCAA**").

As you are ware, on September 16, 2014, USSC was insolvent and filed for protection from its creditors under the CCAA. USSC's reorganization effort while under CCAA protection was to seek a buyer for its business through the conducting of sales processes. The first sales process was not successful in identifying a satisfactory purchaser and was concluded after several months.

Following the conclusion of the first sales process, on October 9, 2015, the CCAA Judge granted a motion by USSC for an order to allow it to conserve cash by suspending paying certain amounts such as contributions to the pension plans, health benefits, supplemental pension benefits, Ontario Pension Benefits Guarantee Fund ("**PBGF**") premiums, and municipal taxes (the "**Cash Conservation Order**"). Since the issuance of the order, Stelco suspended paying those amounts.

At the time of the Cash Conservation Order, we negotiated with USSC that life insurance premiums would continue to be paid by USSC so that the group life insurance policy remained in place, since these benefits could not be readily reinstated if the premiums were not paid and the policy lapsed. USSC agreed, and life insurance coverage has continued despite the Cash Conservation Order.

On January 12, 2016, USSC commenced a second sales process. In September 2016, it was announced that a bidder called Bedrock Industries Group ("**Bedrock**") was the successful bidder. Bedrock is a United States-based industrial investor and operates a number of metal-related businesses.

In the absence of a transaction with Bedrock or another bidder, the Monitor of USSC (Ernst & Young LLP) has reported that the risk of the shutdown of Stelco, which remains insolvent, is high. A liquidation of Stelco in a shutdown scenario would likely lead to the termination (i.e., wind-up) of the pension plans and reductions to each retirees' monthly pension benefits, the termination of all health and life insurance benefits ("**OPEBs**") and the loss of unfunded supplemental pension benefits, as well as give rise to substantial environmental claims.

Accordingly, we supported a transaction structure that would prevent the liquidation of the Stelco business and minimize losses to employees and retirees.

The USSC CCAA Plan of Compromise

The CCAA Plan contemplates that Bedrock will acquire substantially all of Stelco's operating assets and business by way of the acquisition of ownership of Stelco when its restructuring takes effect. Bedrock would then continue to operate the business on a going concern basis.

On March 15, 2017, USSC brought forward a Plan of Compromise (the "**CCAA Plan**") reflecting its reorganization through the Bedrock transaction and the treatment of creditors' claims. USSC also brought a motion before the court for authorization to hold creditor meetings to vote on the CCAA Plan. The creditor meetings are currently set for April 27, 2017 in Toronto.

If the CCAA Plan passes the required vote of creditors at the creditor meetings, it must still be approved by the CCAA Judge as being fair and reasonable in the circumstances in order to become effective. The date of the CCAA Plan court approval hearing in Toronto (also known as the "sanction" hearing) is currently scheduled for May 9, 2017 at 10:00 a.m.

As is often the case with CCAA plans, the Plan provides for broad and comprehensive releases of the parties affected by the restructuring, including Stelco, its directors and officers, United States Steel and related parties, the Representatives[1], among others, which means that those entities agree not to sue each other once the CCAA Plan is given effect. This is intended to bring finality to the restructuring process and allow for a fresh start for the Company.

The CCAA Plan is also subject to many future conditions before it can be implemented, including the entering of collective agreements with Locals 8782 and 1005.

There are also many other agreements that are required as conditions to the closing of the CCAA Plan which will continue to be negotiated and finalized after the vote of creditors (assuming the CCAA Plan passes the vote at the creditor meetings). We are in discussions with Stelco, Bedrock, the Province of Ontario, and the Representatives about the terms of the other agreements.

The terms of the Bedrock Transaction, the CCAA Plan, and the other related agreements are complicated. We summarize some of the relevant terms below. The terms of the CCAA Plan are also outlined in an Information Circular that some of you have received from the Monitor. A copy is posted on our firm's website for USSC employees and retirees.

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[1] Frank Dalimonte, Gary Dallin, George Hanson, Tom Huxley, Ron McClure, Bill Missen, Pat Mousseau, and Paul Wendling

Summary of the Bedrock Transaction and the future treatment of pensions and OPEBs

From the employees' and retirees' perspectives, the CCAA Plan and the Bedrock transaction contemplate that the legal responsibility for the Stelco pension plans and OPEBs will be severed from Stelco, but would continue to be paid via different legal vehicles with different funding arrangements and, for OPEBs, different coverage levels.

In summary:

- The *registered* pension plan benefit will not be wound up and benefits will continue to be paid at this time, without reduction; and,
- The OPEBs that had been suspended due to the Cash Conservation Order will resume following the closing of the Transaction, but at a reduced benefit level and will be continuing for only approximately five years, after which time the OPEBs are expected to terminate.

a) Registered pension benefits for retirees

Registered pension benefits are paid from a registered pension plan that is regulated by the Ontario *Pension Benefits Act*. They do not include non-registered benefits such as the contractual supplemental pension benefits payable to certain Stelco retirees or benefits paid pursuant to other types of arrangements.

Stelco currently provides pension benefits to eligible non-USW employees and retirees from the following registered pension plans:

i. Hamilton Salaried Pension Plan;
ii. Lake Erie Works Salaried Pension Plan; and
iii. Lake Erie Works Pickle Line Pension Plan (together, the "**Non-USW Main Pension Plans**")

On a going-concern basis (i.e., if the plans continue and are not wound up), all three Non-USW Main Pension Plans have a surplus, as determined by the actuarial valuation as at December 31, 2015 (with the exception of the Pickle Line Plan, which was determined as of December 31, 2013). The going-concern funding surpluses of the three Non-USW Main Pension Plans are as follows:

i) Hamilton Salaried Pension Plan – $108,240,000 as at December 31, 2015;
ii) Lake Erie Works Salaried Pension Plan – $10,358,000 as at December 31, 2015; and
iii) Lake Erie Works Pickle Line Pension Plan – $474,800 as at December 31, 2013.

We expect to receive preliminary results of the funded status of the Non-USW Main Pension Plans as at December 31, 2016 in the next few weeks.

Currently, Stelco is the sponsor and administrator of the Non-USW Main Pension Plans (as well as the pension plans for the USW members at Hamilton Works and Lake Erie Works). The CCAA Plan provides that the legal administration of these plans will be transferred from Stelco to a new legal administrator to be appointed by the Ontario Superintendent of Financial Services.

Although the plans are being transferred to a new legal administrator they are not being wound up at this time and will remain on-going. The funding for the Main Pension Plans will, however, be subject to new special funding arrangements.

Upon closing of the Transaction, Bedrock will make a combined upfront pension contribution of $30 million to be allocated among the Non-USW Main Pension Plans and the registered pension plans for the USW employees and retirees. The allocation amounts of the $30 million among the different pension plans - both Salaried and USW - is under discussion with Bedrock, the Ontario government, the USW, and the Representatives. The ongoing funding contributions with respect to the Non-USW Main Pension Plans will be made according to the terms of a Pension Term Sheet agreement which is attached to the CCAA Plan and is still being negotiated.

These contribution obligations and the transfer of administration of the Non-USW Main Pension Plans will also be reflected in a new provincial Regulation enacted by the Ontario government under the PBA (the "**New Stelco Regulation**"). The contribution obligations under the New Stelco Regulation will replace the existing solvency funding obligations (while the plans are ongoing) and the wind up funding obligations (in the event of wind up) that exist under the PBA.

The future contributions for the Non-USW Main Pension Plans will also come from a new entity that will be established for the purpose of holding and monetizing the assets of the Stelco lands (the "**Land Vehicle**"), described further below.

The Ontario Pension Benefits Guarantee Fund ("**PBGF**") will continue to be available to the Non-USW Main Pension Plans after they are transferred to the new administrator in the event the plan(s) are wound up in the future and have a deficit.

b) OPEBs

In the past, USSC provided OPEBs to eligible retirees, which included drug, medical, dental and life insurance benefits. As noted above, USSC suspended paying OPEBs (except life insurance) since the Cash Conservation Order in October, 2015.

Under the CCAA Plan, USSC will sever its legal responsibility to provide OPEBs (including life insurance) to eligible retirees. Instead, a new legal vehicle(s) will be established to resume OPEB benefits but at a reduced level (funded at approximately 70% of the person's OPEB obligations) which are expected to operate to provide OPEBs for approximately 5 years. The legal structures for the vehicles are currently being negotiated. Given the reduced funding, the type and level of OPEBs is expected to be *less* than what was provided in the past when Stelco provided OPEBs. The details regarding the type and level of OPEB benefits have not yet been determined. We are in discussions with the Representatives, and the USW, with respect to the type and level of OPEBs to be provided in the future, including the continuation of life insurance coverage.

The funding for the OPEB Entities will be available from different sources including Stelco, the new Land Vehicle (described below), and a secured loan from the Province of Ontario.

c) Stelco Land Transactions

Prior to or at the closing of the Transaction, Stelco will transfer its property at Hamilton Works and Lake Erie Works (the "**Lands**") to a newly created Land Vehicle (expected to be a limited partnership or a trust). The Land Vehicle will be governed by a newly-formed independent board of trustees or directors to be appointed by the agreement of the Province, the USW, the Representatives, and Stelco.

Stelco will then arrange to enter into long-term leases with the Land Vehicle to lease the portion of the Lands to Bedrock that are required for its business operations going forward. Stelco will pay rent to the Land Vehicle. The terms of the leases are still being negotiated. Rent payments received by the Land Vehicle, net of its administrative expenses to run the Land Vehicle, will then be used to contribute toward the funding for the OPEB vehicles and the registered Pension Plans.

The Settlement we achieved with Bedrock and Stelco

We raised a concern that the company's CCAA Plan that it brought forward on March 10, 2017 did not provide adequately for certain groups of non-USW retirees and terminated employees. We entered into extensive negotiations with Bedrock and USSC for them to make certain improvements to the CCAA Plan in particular for such employees and retirees.

We are pleased to report that we recently reached a favourable settlement with Bedrock and USSC (the "**Settlement**"). A majority of the Representatives have confirmed their support for the Settlement. The Settlement provides for the following:

a) Improved treatment of claims of: i) retirees for their loss of unfunded supplemental pension benefits; and, ii) employees who are owed severance that arise from the termination of their employment. Both of these claims were previously included in the class of General Unsecured Creditors ("**GUC**") under the CCAA Plan where it was estimated that creditor would recover approximately 10% of their claim amounts. However, under the Settlement, USSC will increase its contribution and pay an aggregate amount of $9 million to the individuals with these claims. We estimate this will increase the distribution payment rate from 10% to approximately 30% for these individuals. Those individuals who will recover a higher percentage of their Claim as a "Convenience Creditor" (discussed below) will still be entitled to receive the lesser of $7,500 or the actual amount of their claim from the improved recovery in the Settlement.

b) The Settlement also required the company and Bedrock to provide for equivalent or "parity" treatment for OPEBs for the non-USW retirees to be the same as the treatment of OPEBs that may be negotiated between Bedrock and USW Local

1005. In other words, if Bedrock agrees with USW Local 1005 to provide more favourable contributions in respect of OPEBs for the negotiation of its current collective agreement, then those OPEB improvements will also be passed on to the non-USW retirees.

c) Active salaried employees accruing defined benefits will have their credited service in the defined benefit plans "frozen" as of December 31, 2017. As of January 1, 2018, they would commence enrollment in the USSC Opportunity Plan (a group RRSP). There are three beneficial aspects of this arrangement: a) they would have their years of service and top 5 years of salary taken into account for the purpose of calculating their DB benefits payable to them; b) in addition to their account balance in the Opportunity Plan, they would have their total years with Stelco taken into account from every retirement eligibility under the DB benefit; and, c) they will have their total years of severance taken into account for company contributions in the Opportunity Plan.

   In exchange for the above, we and the majority of the Representatives agreed to support the CCAA Plan and vote in its favour at the creditors meeting.

The Company has prepared an amended CCAA Plan to reflect the terms of the Settlement.

Voting on the CCAA Plan

To facilitate the voting process on the CCAA Plan at the creditor meetings in April, USSC brought a motion for the court to approve a Supplementary Claims Process. The CCAA Judge issued the Supplementary Claims Process Order on March 15, 2017 ("**SCPO**").

The SCPO is designed to identify and resolve the claims of employees and retirees for the amounts owing to them in preparation for the creditor meetings on April 27, 2017 that were excluded from the first claims process of USSC. The categories of employee and retiree claims and the voting process for each are summarized below.

a) Registered pension plan claims

As noted above, the current administrator of the Non-USW Main Pension Plans is Stelco. Under the CCAA Plan, Stelco, as the administrator, is entitled to one vote in the amount of the wind-up deficit (i.e., the amount owing to the plan if the plan were to be wound up) in respect of each Non-USW Main Pension Plan, as determined by the actuarial valuation as at December 31, 2015 (with the exception of the Pickle Line Plan, which was determined as of December 31, 2013). The wind-up deficits of the three Non-USW Main Pension Plans are as follows:

i) Hamilton Salaried Pension Plan – **$157,511,000** as at December 31, 2015;
ii) Lake Erie Works Salaried Pension Plan – **$43,682,000** as at December 31, 2015; and
iii) Lake Erie Works Pickle Line Pension Plan – **$335,200** as at December 31, 2013.

Under the SCPO, Representative Counsel is deemed to be the proxy for USSC as the administrator of each of the Non-USW Main Pension Plans for voting purposes. We intend to vote the above claim amounts in favour of the CCAA Plan.

VOTING PROCEDURE: If you are entitled to pension benefits under one of the Non-USW Main Pension Plans, you do not have to do anything for the purpose of voting on the Plan.

b) OPEB claims

The Company, in consultation with our actuary (the Segal Company) has calculated an OPEB claim for each eligible retiree based on the loss of OPEBs from the date of the suspension of these benefits at the time of the Cash Conservation Order.

Under the SCPO, Representative Counsel is also deemed to be the proxy for your OPEB claim and is authorized to vote this claim on your behalf. You are not required to attend the creditors meeting in respect of your OPEB claim nor do you have to complete any form to vote. We intend to vote the above claims in favour of the CCAA Plan.

However, if you have a claim for the loss of OPEBs and you wish to vote *against* the CCAA Plan, you may attend the meeting in person to cast your vote. If you wish to vote against the CCAA Plan but will not be attending in person, you may appoint a proxy other than Koskie Minsky LLP by completing the "Non-USW Main Pension and OPEB Claim Holder Proxy Form" that is posted on our firm's website. The Proxy Form to appoint someone else to vote for you must be received by the Monitor by no later than April 24, 2017 at 5:00 p.m. (EST).

VOTING PROCEDURE: If you are an eligible retiree entitled to OPEBs and wish to vote in favour of the Plan, you do not have to do anything for the purposes of voting on the Plan.

If you wish to vote against the Plan, you may attend the creditors meeting in person or appoint a proxy other than Koskie Minsky LLP by completing and submitting the Proxy Form.

c) Unfunded Supplemental Pension Benefit Claims

Supplemental (unregistered) pension plan benefits were provided by Stelco to certain eligible retirees under individual Retirement Benefit Contracts ("**RBCs**") or individual Retiring Allowances ("**RAs**"). The payment of these benefits by the company was also suspended by the Cash Conservation Order.

Stelco has recently disclaimed the RBCs and RAs in the CCAA proceedings (i.e., given formal legal notice it is no longer bound to its obligations under these contracts). The Monitor has sent a package to the affected retirees with a number of documents, including the USSC Notice of Disclaimer and a personal information form requesting that certain details be confirmed by each retiree, as may be necessary for claim calculation purposes. Any individual with changes to his or her personal information has been told to notify us by April 20, 2017 at the latest.

The Company's actuary has calculated a claim amount owing to each eligible retiree commencing from the suspension of payment of the supplemental pension benefits due to the Cash Conservation Order. Our actuary has calculated a higher amount owing to each eligible retiree. We are in discussions with the Company to resolve this valuation issue, and your claim amount may change for purposes of distribution payments to you.

As a result of the Settlement, the CCAA Plan will be amended to reflect the increased payment to the affected retirees who have an unfunded supplemental pension claim. As a result of the Settlement, affected retirees do not have to vote in respect of this claim.

VOTING PROCEDURE: As a result of the recent Settlement, you do not have a vote on the plan. You are not required to attend the creditors meeting in respect of your unfunded supplemental pension claim, nor do you have to file any forms to vote.

d) Funded Supplemental Pension Benefit Claims (funded under RCA Trust)

Supplemental (unregistered) pension plan benefits were provided to certain retirees pursuant to RBCs and RAs, but funded through a Retirement Compensation Arrangement trust (the "**RCA Trust**") established by Stelco under the *Income Tax Act*. The RCA Trust is a separate trust fund that was set up by Stelco to pay these benefits and to provide security for the monthly benefit payments to the eligible retirees. Stelco suspended its contributions to the RCA Trust under the Cash Conservation Order, and has also recently disclaimed the individual RBCs and the RCA Trust Agreement. The Monitor has sent a package to the affected individuals with a number of documents, including USSC's Notice of Disclaimer and a personal information form requesting that certain details be confirmed by each retiree, as may be necessary for claim calculation purposes. Any individual with changes to his or her personal information has been told to notify us of such changes by April 20, 2017 at the latest.

The RCA Trust is a complex arrangement. We are working on an alternative arrangement for the RCA Trust for the best interests of all the affected retirees and their beneficiaries. In order to prevent the wind-up of the RCA Trust while we work on the alternative arrangements, we have filed a Notice of Objection to these disclaimers with the CCAA Judge. We will advise eligible retirees further as more information is available.

For voting purposes only, the Company has also valued the claim for the terminated funded supplemental pension benefit claims to be $1 to enable these individuals to vote on the CCAA Plan. We are in discussions with the Company on the valuation of the funded supplemental pension benefit claims for *distribution purposes* and your claim amount may change prior to distributions being made in the future, if any. We will advise the affected individuals further as more information is available.

VOTING PROCEDURE: You may attend the creditors meeting in respect of your funded supplemental pension benefit claim to vote on the Plan. If you cannot attend in person, you may appoint a proxy by completing the "General Unsecured Creditors' Proxy and Election Form" which you should have received from the Monitor, a copy of which is also posted on our firm's website.

e) Severance and Salary Continuance Claims ("Employee Restructuring Claims")

Certain non-USW Employees have claims Stelco for:

i). unpaid salary continuance and severance pay from the 2014 "Project Carnegie" terminations;
ii). unpaid severance pay from the January 2017 Salaried employee terminations; and,
iii). other unpaid employment related claims.

These individuals have also been sent a Notice by the Monitor stating the amount of each person's claim as calculated by Stelco and the Monitor.

The Meetings Notice together with a Proxy Form has been mailed to the affected individuals. However, in accordance with the Settlement discussed above, the CCAA Plan will be amended to deem Representative Counsel as the proxy for these Employee Restructuring claims. Representative Counsel will be authorized to vote on your behalf.

VOTING PROCEDURE: As a result of the recent Settlement, you do not have a vote on the Plan. You are not required to attend the creditors meeting in respect of your employment claim nor do you have to file any forms to vote.

Further descriptions of the different employee claims are set out below.

i) Salary Continuance Claims

Starting in February 2014, USSC began an initiative under "Project Carnegie" to save costs by reducing its non-unionized workforce by 175 employees. USSC then proceeded to terminate the employment of or re-assign approximately 175 employees under Project Carnegie.

Certain severance amounts were paid to these individuals during the CCAA proceedings. However, as a result of the Cash Conservation Order of October, 2015, the payment of other amounts owing to certain employees were suspended by USSC and remain unpaid.

The Monitor has sent these individuals a package setting out the claim they may have against Stelco.

ii) 2017 Terminated Salaried Employees

On January 30, 2017, USSC terminated the employment of 29 salaried employees and provided only two months pay in lieu of notice. These individuals have claims for additional unpaid severance pay, the details of which have been provided to them as part of a package from the Monitor, in consultation with our firm.

iii) Other Employment Related Claims

We have been informed that there are outstanding amounts owing to other former USSC employees that relate to the termination of their employment.

The Monitor has also sent these individuals a package setting out the claim they may have against Stelco. If your claim value is shown as $0 on your "Canadian CCAA Notice of Non-USW Employee Restructuring Claim", please contact us individually to discuss the details of your claim.

Any individual disputing the value of his or her Restructuring Claim has been told to notify us so that we can file a Notice of Dispute with the Monitor by April 20, 2017.

f) Convenience Creditor Claims

Under the CCAA Plan, there is the ability for an unsecured creditor with a valid claim to elect to become a "Convenience Creditor". A Convenience Creditor receives a distribution payment of up to $7,500 less any withholdings and is advantageous for two groups of unsecured creditors. This would work as follows:

a) If the creditor has a claim of $7,500 or less, then their claim will be paid in full. This means that someone with a claim of $2,000 will receive $2,000 and will have a recovery of 100%.

b) If the creditor has a claim of $75,000 or less, it is advantageous to elect to be a Convenience Creditor since the General Unsecured Class (i.e., the GUC) in the original CCAA Plan was expected to receive only about 10% of claim amounts. Thus, for a person with a claim of less than $75,000 and who was expected to recover less than $7,500, electing to become a Convenience Creditor would allow the person to receive $7,500, which is greater than the 10% recovery amount.[2]

As a result of the Settlement, we have revised the Convenience Creditor process to recognize that in some cases, individuals will have a higher recovery if they participate in the new Settlement class (the new $9 million pool) rather than remain as a Convenience Creditor in the GUC.

As a result, if an unfunded supplemental pension claimant or an employee restructuring claimant elected to become a Convenience Creditor they may now be eligible to receive a higher recovery if they were treated as a creditor under the Settlement. To remedy this, any previous election notices filed with the Monitor will be revoked for these individuals, and they will receive their (greater) distributions from the Settlement.

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[2] As another example, a creditor with a claim of $50,000, who would receive only $5,000 from the GUC, could elect to become a Convenience Creditor and instead be paid $7,500.

The Settlement is expected to generate the following recoveries:

a) A claim of $7,500 or less will be paid in full and will be deemed a Convenience Creditor claim;

b) A claim of $20,000 or less will receive $7,500 and will be deemed a Convenience Creditor claim; and

c) A claim of more than $20,000 will be paid at an amount equal to the greater of (i) $7,500, or (ii) a distribution rate of approximately 30% under the Settlement.

VOTING PROCEDURE: If you elected to become a Convenience Creditor, you are not required to attend the creditors meeting or to complete or file any forms. You are deemed to be a Convenience Creditor who will receive the lesser of $7,500 or the amount equal to the actual amount of your proven claim and will be deemed to vote in favour of the Plan. If you wish to vote against the Plan, then you are required to attend the Meeting in person or submit a Proxy Form to cast your negative vote.

i) Continuing Salaried Employees moving to the Opportunity Plan (Group RRSP)

The CCAA Plan will not alter the Group Retirement Savings Plan of U.S. Steel Canada Inc. (the "**Opportunity Plan**"). Active salaried employees participating in the Opportunity Plan do not have a claim and do not need to do anything to assert any claims in respect of the Opportunity Plan.

Active salaried employees who are currently accruing defined benefits under one of the Main Pension Plans and who will commence enrollment in the Opportunity Plan on January 1, 2018 do not have a claim in relation to their accrued pension benefits. These individuals also do not need to take any steps to assert any claims in respect of these benefits.

VOTING PROCEDURE: If you are a continuing active salaried employee, you are not required to vote on the Plan.

Next Steps

There will be further developments in the coming weeks. Please check our firm's website frequently in order to keep informed about progress and important dates at: https://kmlaw.ca/cases/usscrepcounsel/.

If you have any questions please contact us at 1-866-777-6341 or email at usscrepcounsel@kmlaw.ca

Yours truly,

KOSKIE MINSKY LLP

Andrew J. Hatnay
AJH:vdl

c. Client Committee
Barbara Walancik, James Harnum, Amy Tang, Natercia McLellan, *Koskie Minsky LLP*

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