Court File No. CV-14-10695-00CL

ONTARIO
SUPERIOR COURT OF JUSTICE
COMMERCIAL LIST

IN THE MATTER OF THE *COMPANIES' CREDITORS ARRANGEMENT ACT*, R.S.C. 1985, c. C-36, AS AMENDED

AND IN THE MATTER OF A PROPOSED PLAN OF COMPROMISE OR ARRANGEMENT WITH RESPECT TO U. S. STEEL CANADA INC.

TWELFTH REPORT OF THE MONITOR
AUGUST 31, 2015

INTRODUCTION

1. On September 16, 2014, U. S. Steel Canada Inc. ("**USSC**" or the "**Applicant**") applied for and was granted protection from the Ontario Superior Court of Justice (Commercial List) (the "**Court**") under the *Companies' Creditors Arrangement Act* (Canada) (the "**CCAA**"). Pursuant to an Order (the "**Initial Order**") of this Court dated September 16, 2014 (the "**Filing Date**") Ernst & Young Inc. ("**EY**" or the "**Monitor**") was appointed Monitor of USSC in the CCAA proceeding. The engagement of BlueTree Advisors II Inc. and the provision of services by William E. Aziz (together, the "**CRO**") was also approved by the Court on the Filing Date.

2. The Initial Order provided for a stay of proceedings through October 15, 2014, (the "**Stay Period**"), which has been extended by subsequent Orders of the Court, most recently through September 11, 2015 by Order of the Court dated May 7, 2015.

3. In order to provide information for stakeholders, the Monitor maintains a website with materials relevant to the CCAA proceeding. The website address is www.ey.com/ca/ussc (the "**Monitor's Website**").

PURPOSE

4. The purpose of this report (the "**Twelfth Report**") is to provide an update to the Court in respect of the following:

   (a) a planned production reallocation by USS (as defined herein) to its U.S.-based facilities of certain of USSC's Hamilton automotive sector steel production (and the related hot roll steel production at Lake Erie Works) which the Monitor has been advised by USS is expected to take effect for customer shipments in early October, 2015 and the estimated impact of this reallocation on the financial and operational performance of USSC;

(b) a motion currently before the Court in respect of a request to pay lump sum entitlements to three past employees of USSC;

(c) the status of the payment and related arrangements contemplated by the Replacement DIP Facility Order (defined below);

(d) USSC's actual cash receipts and disbursements from July 4, 2015 through August 21, 2015 (the "**Reporting Period**");

(e) USSC's revised cash flow forecast (the "**Revised Forecast**") from August 22, 2015 through December 11, 2015 (the "**Forecast Period**");

(f) USSC's request to extend the Stay Period to December 10, 2015; and

(g) The Monitor's conclusions and recommendations in respect of the items above.

TERMS OF REFERENCE AND DISCLAIMER

5. In preparing this Twelfth Report and making comments herein, the Monitor has been provided with, and has relied upon, unaudited financial information, books and records and financial information prepared by USSC, and upon discussions with management of USSC ("**Management**") and further discussions with USSC's advisors and USS (collectively, the "**Information**"). Except as described in this Twelfth Report:

(a) The Monitor has reviewed the Information for reasonableness, internal consistency and use in the context in which it was provided. However, the Monitor has not audited or otherwise attempted to verify the accuracy or completeness of the Information in a manner that would wholly or partially comply with Generally Accepted Assurance Standards ("**GAAS**") pursuant to the *Chartered Professional Accountants Canada Handbook* and, accordingly, the Monitor expresses no opinion or other form of assurance contemplated under GAAS in respect of the Information; and

(b) To the extent any of the information referred to in this Twelfth Report consists of forecasts and projections, an examination or review of the financial forecasts and projections, as outlined in the *Chartered Professional Accountants Canada Handbook*, has not been performed.

6. Future oriented financial information referred to in this Twelfth Report was prepared based on Management's estimates and assumptions. Readers are cautioned that, since projections are based upon assumptions about future events and conditions that are not ascertainable, the actual results will vary from the projections, even if the assumptions materialize, and the variations could be significant.

7. Capitalized terms not defined in this Twelfth Report are as defined in previous Reports of the Monitor.

8. Unless otherwise stated all monetary amounts contained herein are expressed in Canadian dollars.

BACKGROUND

9. USSC is an indirect, wholly-owned subsidiary of United States Steel Corporation (collectively with its subsidiaries, other than USSC and its subsidiaries, "**USS**") and operates from two principal facilities: Lake Erie Works and Hamilton Works.

10. Lake Erie Works is located on the shores of Lake Erie (near Nanticoke, Ontario). It is an integrated steel mill with an annual capacity of approximately 2.7 million tons of raw steel production, although given steel market constraints, it is producing an annualized total of approximately 1.8 to 2.0 million tons of raw steel, depending on market conditions.

11. The principal operations of Lake Erie Works include coke making (the process whereby metallurgical coal is converted into coke by baking the coal in coke ovens), iron and steel making (the process whereby coke is combined with iron ore and limestone in a blast furnace and ultimately combined with scrap metal and injected with oxygen to produce liquid steel and then processed into slabs) and finishing (the process whereby slabs are rolled on a hot strip mill and formed into steel sheet and then rolled into coils).

12. Lake Erie Works also operates a pickling line finishing facility, a process whereby hot rolled coils are cleaned by running them through an acid solution. Lake Erie Works' coke making operations had been idled from April, 2013 until being re-started in early September, 2014, during which time Lake Erie Works had been sourcing its coke from Hamilton Works and other USS production facilities for its blast furnace operations.

13. A significant number of the hot rolled coils produced at Lake Erie Works are shipped to Hamilton Works for further finishing and then ultimately sold to end customers.

14. Hamilton Works is located in Hamilton, Ontario. Steelmaking operations were permanently shut down in 2013 after being idle since 2010. Its operations now consist of certain finishing lines, including a cold reduction mill (which forms hot rolled steel into thinner gauges of steel for end customer use i.e. cold-rolled steel) and two galvanizing lines (which add zinc to the cold-rolled steel), which are used to further process steel to meet specific customer requirements.

15. On October 31, 2014, USSC idled production of coke at Hamilton Works as it had produced enough coke to supply the Lake Erie Works' steelmaking operations until April, 2015. The coke battery resumed production on March 31, 2015 pursuant to an agreement between USSC and USS dated December 4, 2014 (the "**Coke Conversion Agreement**"). The Coke Conversion Agreement was approved by the Court on December 5, 2014.

USSC’S FORECAST PRODUCTION LEVELS

Background

16. As set out in the EY’s report dated September 16, 2014 (the “**Pre-Filing Report**”), USSC and many of its business processes are highly integrated with that of its parent USS and USS has historically provided, and continues to provide, operational and administrative services to USSC. The Pre-Filing Report described a number of such processes and services which include, but are not limited to, the following:

    (a) The management of cash, including treasury services, accounts receivable and accounts payable administration;

    (b) Operational services in respect of production scheduling (mill loading), sales and general procurement;

    (c) The management of a number of employee functions, including compensation and benefits, recruiting services and the administration of pension and benefit plans;

    (d) Information technology, tax, accounting and internal audit services; and

    (e) Strategic planning, insurance, research and engineering services.

17. As set out above, USS is USSC’s primary sales agent for automotive steel (in both Canada and the United States) and for steel sold to customers in the United States generally.

18. Since the commencement of the CCAA, the Monitor has been monitoring activities performed by USS on behalf of USSC. Such monitoring procedures were detailed in the Pre-Filing Report at paragraphs 39, 42, 51, 55 and 61.

19. As noted in paragraph 40 of the Pre-Filing Report, although it is not formalized in a written agreement, USS centrally plans the loading of its North American steel mills, including USSC’s Hamilton Works and Lake Erie Works. The production generated at USSC’s mills is ultimately one of the key drivers generating revenue and cash flow, as semi-finished or finished mill products are ultimately sold to Canadian and U.S.-based customers, or to other USS mills for further processing. The current mill loading and production allocation process has been followed for a number of years. Although there is no written agreement between USS and USSC with respect to USS’s allocation of production, there is a structured process that is understood among the parties and followed. This process is referred to herein as “**plant loading**”.

20. As part of the monitoring of plant loading, the Monitor has participated in weekly calls with USS’ Enterprise Planning department. This department is responsible for allocating production to each of the mills in the USS group.

Plant loading processes

21. Paragraph 41 of the Pre-Filing Report summarized the plant loading process in greater detail and is reproduced in Appendix "**A**" to this Twelfth Report.

22. Pursuant to the plant loading process, USS has been loading USSC's plants with particular products to be produced at Lake Erie Works and Hamilton Works during the course of the CCAA proceedings. Any significant changes in production since the Filing Date have been largely due to market conditions and generally challenging steel demand in the North American steel market and not as a result of reallocation to U. S. mills of automotive steel currently being manufactured by USSC.

23. As set out in the Pre-Filing Report, a large proportion of Hamilton Works' production is ultimately sold to North American automotive customers. Such steel is produced at Lake Erie Works and then further processed at Hamilton Works' cold mill and Z-line (which is a zinc coating line). As set out in the Monitor's Second Supplemental Report to the Seventh Report dated May 4, 2015, automotive contracts represented a significant proportion of steel processed at the Hamilton Works plant in fiscal 2014.

Recent plant loading developments

24. USSC and the Monitor have recently received notification from USS that approximately 15,000 tons of monthly production scheduled for customer delivery in early October will be redirected to USS mills in the United States rather than being allocated to and produced at Lake Erie Works and finished at Hamilton Works. On an annualized basis this represents 180,000 tons, which compares to total tonnage produced at Hamilton Works in fiscal 2014 of approximately 735,000 tons (and a total of approximately 381,000 tons for the seven month year-to-date period in fiscal 2015). The parts being diverted to the U.S.-based mills represent relatively higher gross margin production for Hamilton, so the impact on Hamilton's revenue, earnings and cash flow will be significant.

25. As a result of the proposed reduction of production in Canada, it will be necessary for USSC to layoff approximately 17 employees and re-deploy a further 10 employees into other work, assuming the production is not replaced from other sources. Given the lesser impact to Lake Erie Works' operations (on a proportionate basis), USSC is not contemplating layoffs at that facility as a result of the shift in production.

26. USSC has advised the Monitor that it expects it will not, on a timely basis and at the same pricing, be able to find alternate customers to make up for all the business expected to be lost in 2015 and 2016 due to the proposed change in plant loading. As stated previously, USS is USSC's primary sales agent for automotive steel, and USSC does not have its own automotive sales staff. USSC has a smaller sales group that services certain non-automotive customers in the Canadian marketplace. USSC has advised the Monitor that it may be able to replace some of the lost tonnage referred to in the previous paragraph, but it is not certain and finding new customers could take up to a year.

27. As a result of the proposed mill loading reallocation, USSC has forecast that production at each of Lake Erie Works and Hamilton Works will be reduced by approximately 45,000 tons for the remainder of 2015 and approximately 180,000 tons for 2016. Without the replacement of this tonnage through new customer orders, USSC estimates that the move of production will result in a reduction of approximately $40 million of revenue for the last three months of 2015 and approximately $162 million of revenue for 2016. Further, USSC estimates that the impact on its forecast EBITDA will be a reduction of approximately $8.8 million for the remainder of 2015 and approximately $35.1 million for 2016.

28. Although this does not represent all of Hamilton Works' automotive production the above tonnage loss represents approximately 27% of total Hamilton Works total production, based on current production levels.

29. USS has informed the Monitor that the decision to reallocate production to plants in the United States was made on a basis that it believe is consistent with past practice, and that USS took into consideration:

    (a) *Lower shipping costs* – due to proximity between the new proposed production location in the U.S. and the customer, there will be lower shipping costs on an enterprise-wide basis;

    (b) *Concentration of production* – USS has historically concentrated production at facilities with open production capacity, to enable fully booked facilities to seek out potential additional volumes. Hamilton Works is currently fully booked on its galvanizing lines, whereas at least one of USS' U.S.-based plants is not;

    (c) *Historical production of the part in the U.S.* – USS has informed the Monitor that over 85% of the volumes subject to the proposed change were previously produced at a U.S. facility in 2013. USSC has informed the Monitor that certain of these parts were originally produced in Canada and were moved to U.S.-based plants during a labour dispute at Lake Erie Works in 2013; and

    (d) *Higher opportunity for replacement business at Hamilton Works* – the Hamilton Works Z-line produces a wide range of products for non-automotive customers compared to the U.S.-based plant where production is being moved; therefore, Hamilton Works has a greater opportunity to replace tons moved versus the U.S.-based plant.

30. After learning of the plant loading reallocation decision from USS, the Monitor requested further details and information from USS. USS advised the Monitor that the information requested was confidential business information of USS and that it would not be provided to the Monitor unless the Monitor executed a non-disclosure agreement. A form of non-disclosure agreement has been agreed to (which, among other things, precludes the Monitor from providing any information received from USS to USSC or its stakeholders). USS has provided the Monitor with certain details and is in the process of providing the Monitor with further requested information. The Monitor is currently

reviewing the plant loading decision and the information provided by USS to assess the consistency with past practice and the rationale for the plant loading decision in light of current exchange rates, customer requirements and trends in the steel industry and will further update the Court upon completing its review of that information and any follow-up information requested by the Monitor.

31. While the Monitor will update the Court on its views regarding whether the plant loading reallocation decision is consistent with past practices in due course, USS has informed the Monitor that it has initiated the plant loading changes for customer deliveries in early October and does not intend to await any conclusions of the Monitor in that regard.

32. The CRO has advised the Monitor that he has spoken with counsel to USS and asked that the decision to transfer production be delayed until January 1, 2016 so that it will not negatively impact the cash flow forecast of USSC during the pendency of these proceedings. USS has advised the CRO that such a shift cannot be accommodated. The Monitor notes that the process to shift production to the U.S.-based mills has begun in the last week for certain of the parts.

MOTION BY THREE FORMER EMPLOYEES IN RESPECT LUMP SUM PAYMENTS

33. On or about July 24, 2015, Representative Counsel for the non-USW active employees and retirees of USSC ("**Representative Counsel**") filed a motion ("**Former Employee Motion"**) on behalf of three former employees of USSC (the "**Former Employees**") for an Order directing USSC to pay certain lump sum payments pursuant to agreements between USSC and the Former Employees. On or about August 26, 2015, counsel for USSC served an affidavit (the "**August 26 Aziz Affidavit"**) sworn by the CRO responding to the Former Employee Motion. The Monitor understands that the Former Employee Motion is scheduled to be heard by the Court on September 14, 2015.

34. At paragraph 27 of the August 26 Aziz Affidavit, the CRO states, "In accordance with the Initial Order, USSC and the Monitor concluded that the lump sum amounts payable to Ms. Saunders and Mr. Newton constitute pre-filing obligations of USSC and are therefore stayed by the Initial Order". The Monitor confirms that, in November, 2014, it reviewed the matter of the lump sum retention bonus amounts payable under the letter agreements which had been entered into between USSC and the Former Employees prior to the CCAA Filing Date and concluded that such lump sum payments constituted pre-filing obligations and were stayed by the Initial Order and ought not to be paid as payment of those amounts would be prejudicial to the interests of other creditors with claims existing as at the CCAA Filing Date.

CLOSING OF THE REPLACEMENT DIP FACILITY

35. On July 24, 2015, the Court issued an Order (the "**Replacement DIP Facility Order**") authorizing USSC to enter into the Replacement DIP with the Replacement DIP Lender.

36. On August 4, 2015, the payment and related arrangements contemplated by the Replacement DIP Facility Order to trigger the "Effective Time" in respect of the Replacement DIP occurred. USSC has not yet drawn on the Replacement DIP.

37. Under the original DIP facility, USSC was responsible for the payment of certain fees and expenses incurred by USS, USSC's former debtor-in-possession lender. The Replacement DIP Facility Order contemplated that if any portion of the amount claimed by USS was disputed; such amount was to be paid to the Monitor to be held in trust until such time as the parties reached agreement or until further Order of the Court.

38. As at the date of this Twelfth Report, the only disputed amount that the Monitor is holding relates to the exit fee claimed by USS (i.e. 3% of $185 million, or $5.55 million). All other amounts in respect of the commitment fee and professional fees that were payable by USSC to USS have been paid to USS.

USSC'S ACTUAL CASH RECEIPTS AND DISBURSEMENTS

39. Attached as Appendix "**B**" is a summary of USSC's actual cash receipts and disbursements for the Reporting Period. As set out in Appendix "**B**", total receipts for the Reporting Period were approximately $284.2 million, which is approximately $3.8 million greater than forecast. Total disbursements for the Reporting Period were approximately $342.2 million, which is approximately $14.0 million greater than forecast in the report of the Monitor dated July 19, 2015 (the "**Eleventh Report**"). Details with respect to reasons for some of the larger variances can be found in Appendix "**C**" to this Twelfth Report.

40. USSC's cash balance at the beginning of the Reporting Period was approximately $124.0 million. USSC's cash flows, including the impact of foreign exchange, were a net outflow in the approximate amount of $56.7 million, resulting in a closing cash balance of approximately $67.3 million.

REVISED CASH FLOW FORECAST

41. The Revised Forecast, attached as Appendix "**D**" to this Twelfth Report, is presented on a weekly basis during the Forecast Period and represents the estimates of Management of the projected cash flow during the Forecast Period. The Revised Forecast has been prepared by Management, using the probable and hypothetical assumptions set out in the notes to the Revised Forecast (the "**Probable and Hypothetical Assumptions**" or the "**Assumptions**").

42. The Monitor has reviewed the Revised Forecast to the standard required of a Court-appointed Monitor pursuant to section 23(1)(b) of the CCAA, which requires a Monitor to review the debtor's cash flow statement as to its reasonableness and to file a report with the Court on the Monitor's findings.

43. Pursuant to this standard, the Monitor's review of the Revised Forecast consisted of inquiries, analytical procedures and discussions related to information supplied to it by certain key members of Management and other employees of the Applicant. Since the Probable and Hypothetical Assumptions need not be supported, the Monitor's procedures with respect to them were limited to evaluating whether they were consistent with the purpose of the Revised Forecast. The Monitor also reviewed the support provided by

Management for the Probable and Hypothetical Assumptions and the preparation and presentation of the Revised Forecast.

44. Based on the Monitor's review, nothing has come to the Monitor's attention that causes the Monitor to believe, in any material respect, that:

(a) The Probable and Hypothetical Assumptions are not consistent with the purpose of the Revised Forecast;

(b) As at the date of this Twelfth Report, the Probable and Hypothetical Assumptions are not suitably supported and consistent with the plans of the Applicant or do not provide a reasonable basis for the Revised Forecast, given the Probable and Hypothetical Assumptions. The Revised Forecast is based on a production schedule which does not as of yet reflect the potential reallocation of production to USS' U.S.-based production facilities as set out in the preceding paragraphs. As such, USSC's cash flow forecast will need to be updated once the production schedule has been updated. Such change is forecast to have a revenue impact of approximately $40 million and an EBITDA impact of approximately $8.8 million for the remainder of calendar 2015; or

(c) The Revised Forecast does not reflect the Probable and Hypothetical Assumptions.

45. The Revised Forecast projects that USSC will have sufficient liquidity through the Forecast Period after utilizing liquidity available under the Replacement DIP. The Revised Forecast assumes that trade vendors will generally continue to provide modest levels of post-filing trade credit, which has enhanced USSC's cash flows since the Filing Date.

46. The Applicant's Revised Forecast estimates that during the Forecast Period, the Applicant will have total receipts of approximately $592.8 million and total disbursements of approximately $653.1 million. The Applicant's cash position at the commencement of the Revised Forecast was approximately $67.3 million, and the Revised Forecast projects an estimated cash position of $31.1 million at December 11, 2015, with a draw of $24.0 million on the Replacement DIP. The projected cash usage during the Forecast Period is primarily driven by the seasonal raw material build required before the winter freeze of the St. Lawrence Seaway, as well as the impact on revenues caused by weak steel industry prices.

47. There are a number of assumptions used in the development of the Revised Forecast such as steel selling prices, iron ore and coal costs, the value of the Canadian dollar, natural gas prices etc. which are beyond the control of USSC. If actual experience with respect to these items is different from those contained in the Revised Forecast, this could dramatically impact the forecast. Integrated steel mills have high fixed cost structures, so changes in operating and sales volumes, changes in the selling prices or any of the variable cost inputs can dramatically impact income and cash flow results.

MONITOR'S CONCLUSIONS AND RECOMMENDATIONS

48. Absent a further extension, the current Stay Period will expire on September 11, 2015. USSC is currently seeking to extend the Stay Period to December 10, 2015.

49. The Monitor is of the view than an extension of the Stay Period is appropriate to allow USSC to continue to explore restructuring alternatives and continue the SARP.

50. The Monitor notes that USSC continues to act in good faith and with due diligence and that the Revised Forecast projects that USSC will continue to have sufficient liquidity when utilizing the Replacement DIP.

51. For the reasons above, the Monitor recommends that the Court extend the Stay Period to December 10, 2015, should the Court see fit to do so.

All of which is respectfully submitted, this 31st day of August, 2015.

ERNST & YOUNG INC.
Solely in its role as Court-appointed Monitor
of USSC, and not in its personal capacity

Per:

Alex Morrison, CPA, CA
Senior Vice President

Appendix "A"

Excerpt of Pre-Filing Report

1. A summary of this process is detailed below:

   (a) Production planning for all North American mills is managed centrally in Pittsburgh through the Enterprise Planning department. This includes the loading of all USS' mills in the United States and USSC's facilities in Hamilton and Nanticoke;

   (b) In allocating particular orders to mills, the Enterprise Planning group works closely with the USS Sales department. The Sales department maintains a live order book and a summary of forecast sales. The summary of forecast sales is not customer specific, but it is based on tons that the Sales department thinks will eventually be ordered by customers;

   (c) When the Enterprise Planning group is allocating orders to a particular mill, there are a number of factors to consider, each of which is an input into to the ultimate allocation of production to specific mills. The main factors are summarized below:

      i. A mill's capability to manufacture a particular product is the most important factor in determining whether an order is allocated to a mill for production, for example, if a particular order requires galvanization or other similar finishing process. As not all mills have the capability to produce every product, production must be allocated firstly to the appropriate facility;

      ii. Certain customers (e.g. automotive customers) must qualify a plant from which steel is produced. Many customers, even if they are not automotive, often have preferred mills from which they would like their orders sourced. As such, whether a customer has designated a mill is a key criterion in the allocation of production of certain products;

      iii. The next criterion for the allocation of production is proximity of the customer to a USS or USSC mill. Customer orders are allocated to nearby mills in order to minimize shipping costs;

      iv. Assuming that the mills are capable of manufacturing the product and are in reasonably close proximity to the customer, the availability of capacity is then considered. For example, certain mills may be at full production for the next several months. If the customer requires delivery prior to the freeing up of production capacity at a given mill, the order may be allocated to a different mill. This will occasionally require customer approval;

(d) Certain USS plants require minimum volumes to operate on an efficient basis. The USS tinning facilities are examples of such plants, and it is possible that certain semi-finished production (e.g. steel slabs) will be allocated to tinning facilities to ensure adequate steel supply. This would involve re-allocating finishing from one mill in the USS group to another. In the past, Lake Erie Works was required to ship slabs to a mill in the U.S. rather than send its hot-rolled coils to Hamilton Works for finishing for this reason.

(e) When orders are received, they are input by the Enterprise Planning group into a production planning software program (called JDA) by staff in Pittsburgh. Also input into the production planning software is a forecast of demand for the next several months, which is received from the Sales department. Such demand forecast is not customer specific but is based on the estimates provided by the Sales department.

(f) Known orders are preliminarily assigned to the customers' preferred mills, provided that there is available capacity. If capacity is not available, the Enterprise Planning department will seek customer approval to manufacture the steel at another facility.

(g) Production for automotive customers forms a large proportion of Hamilton Works' finished production. Automotive steel products are typically assigned to designated mills and any future production of the same part will continue to be allocated to the same mill. The only time this would change in practice is when production issues are encountered at a given facility (e.g. equipment failure or another issue causing production to stop). The automotive customer would in most cases need to approve any change in the facility producing a particular steel product.

(h) Customers who purchase steel on a spot basis do not often have a preference of a particular mill. As such, these customers' orders are allocated by USS taking into account the factors set out above (i.e. capability and proximity to the customer).

(i) A proportion of production at the USS group's North American mills is intended for internal use (i.e. production bound for another USS group facility for further processing). Allocation of plant loading for steel for internal consumption is typically done on the basis of mill capacity and/or the technical capacity to produce the steel required by the recipient USS mill.

(j) The production forecast may change on an almost daily basis as forecast orders are received from USS' and USSC's customers. As such, the production forecast is most accurate in the first six weeks given that these orders are first to be confirmed by USS' and USSC's customers.

(k) Once the production has been allocated to specific mills, local plant management determines how to most efficiently produce the orders that have been received.

Appendix "B"

Actual cash receipts and disbursements

U.S. Steel Canada Inc.
13 Week Cash Flow Forecast - Variance Report
For the 7 weeks ended 21-Aug-2015
CAD$ in 000s

	Actuals 04-Jul-2015 21-Aug-2015	Forecast 04-Jul-2015 21-Aug-2015	Variance
Receipts			
Sales to Cdn customers	$ 159,840	$ 153,077	$ 6,762
Sales of USS Product to Cdn customers (LRD-N)	41,113	44,494	(3,381)
Collections from US customers (LRD-S)	19,102	20,211	(1,109)
Interco - LRD-S	58,105	56,082	2,023
Interco - Other	6,089	6,619	(530)
Total receipts	284,248	280,484	3,765
Operating disbursements			
Payroll, Pension & Benefits	36,822	37,304	482
Raw Materials, 3rd party	24,117	28,799	4,682
Raw Materials, Intercompany	117,815	100,795	(17,021)
Utilities & other consumables	25,822	26,208	386
Other payables	61,591	75,626	14,035
Interco - USS product sold in Canada (LRD-N)	31,863	33,223	1,360
Interco - Remit collections to LRD-S	20,276	17,736	(2,540)
Interco - other	5,165	3,562	(1,603)
Total operating disbursements	323,470	323,252	(218)
Net operating cash flow	(39,222)	(42,768)	3,546
Non operating disbursements/(receipts)			
Interest / Debt service	-	-	-
Professional fees	4,263	5,007	744
Restructuring costs	14,502	-	(14,502)
Total Non-Operating Disbursements	18,765	5,007	(13,758)
Total disbursements	342,235	328,259	(13,976)
Net cash receipts/(disbursements)	$ (57,987)	$ (47,775)	(10,211)
Cash balance			
Beginning balance	$ 123,998	$ 123,998	$ -
Adjustment to actual, fx adjustment	1,299	-	1,299
Cash receipts/(disbursements)	(57,987)	(47,775)	(10,211)
DIP Facility draw/(payback)	-	-	-
Ending cash balance	$ 67,310	$ 76,222	$ (8,912)
DIP Facility			
Opening Balance	$ -	$ -	$ -
DIP Facility draw/(payback)	-	-	-
Closing Balance	-	-	-

Appendix "C"

Cash flow variance analysis

1. The following paragraphs set out the reason for some of the larger variances between USSC's actual cash flows and those included in the cash flow forecast in the Eleventh Report:

   (a) Collections related to *Sales of Cdn customers* were higher than forecast by approximately $6.8 million. This variance is due to the following :

      (i) approximately $1.4 million positive permanent difference due to receipts that had not been previously forecast due to uncertainty of collection timing. Commercial issues, which have now been settled, prevented the Applicant from being able to estimate actual collection dates from certain customers;

      (ii) approximately $1.2 million negative timing difference due to forecast collections not yet received; and

      (iii) approximately $6.6 million positive variance due to sales and the resulting collections being higher than forecast;

   (b) Collections related to *Sales of USS product to Canadian customers (LRD-N)* were lower than forecast by approximately $3.4 million. The primary reasons for this variance are set out below:

      (i) approximately $1.0 million positive permanent difference due to receipts that had not been previously forecast due to uncertainty of collection timing. Commercial issues, which have now been settled, prevented the Applicant from being able to estimate actual collection dates from certain customers;

      (ii) approximately $0.6 million negative timing difference due to forecast collections of existing receivables not yet received; and

      (iii) approximately $3.8 million negative variance due to sales and the resulting collections being lower than forecast;

   (c) Payments related to *Raw materials, 3rd party* were lower than forecast by approximately $4.7 million primarily due to timing of purchases;

   (d) Disbursements for *Raw Materials, Intercompany* were higher than forecast by approximately $17.0 million mainly due to the timing of ore shipments, offset partially by the delayed invoicing of coal shipments;

   (e) Payments related to *Other payables* were less than forecast by approximately $14.0 million due to the timing of payments to suppliers; and

(f) Payments related to *Restructuring costs* were approximately $14.5 million higher than forecast due to $10.0 million in fees related to the initial DIP facility and $4.5 million in fees related to the Replacement DIP facility, which had not been forecast.

Appendix "D"

Revised Forecast

U.S. Steel Canada Inc.

Weekly Cash Flow Projection

CCAA Filing on 16-Sep-2014

In 000s of CAD$

		1	2	3	4	5	6	7	8	9	10	11
	Week:	1	2	3	4	5	6	7	8	9	10	11
		22-Aug-2015	29-Aug-2015	05-Sep-2015	12-Sep-2015	19-Sep-2015	26-Sep-2015	03-Oct-2015	10-Oct-2015	17-Oct-2015	24-Oct-2015	31-Oct-2015
	Notes	28-Aug-2015	04-Sep-2015	11-Sep-2015	18-Sep-2015	25-Sep-2015	02-Oct-2015	09-Oct-2015	16-Oct-2015	23-Oct-2015	30-Oct-2015	06-Nov-2015
Receipts												
Sales to Cdn customers	2	$ 24,120	$ 33,510	$ 12,950	$ 16,821	$ 35,577	$ 33,867	$ 24,386	$ 19,947	$ 19,348	$ 20,521	$ 22,911
Sales of USS Product to Cdn customers (LRD-N)	3	4,928	3,311	2,749	6,464	7,036	8,172	9,658	8,930	2,291	2,076	12,026
Collections from US customers (LRD-S)	4	323	44	306	8,683	22	-	-	9,196	-	-	-
Interco - LRD-S	5	-	-	-	30,269	-	-	-	28,758	-	-	-
Interco - Other	6	-	-	-	5,197	-	-	-	5,896	-	-	-
Total receipts		**29,370**	**36,865**	**16,005**	**67,434**	**42,635**	**42,040**	**34,044**	**72,726**	**21,640**	**22,597**	**34,937**
Operating disbursements												
Payroll, Pension & Benefits	7	10,352	8,176	3,620	3,396	4,610	14,528	7,229	3,357	4,610	11,508	5,709
Raw Materials, 3rd party	8	4,712	4,052	3,940	3,853	4,157	3,854	3,830	3,831	3,830	3,829	3,829
Raw Materials, Intercompany	9	7,968	23,708	7,016	-	-	5,203	16,023	7,750	5,203	5,098	4,913
Utilities & other consumables	10	9,223	1,766	4,461	2,292	6,794	3,883	4,480	2,197	2,197	8,307	2,194
Other payables	11	19,259	11,357	9,109	8,026	11,730	13,678	7,883	8,763	7,734	15,988	7,391
Interco - USS product sold in Canada (LRD-N)	12	6,811	6,265	6,766	7,218	2,738	1,824	10,401	5,031	2,306	2,066	3,234
Interco - Remit collections to LRD-S	13	-	-	-	8,414	-	-	-	9,011	-	-	-
Interco - other	14	671	2,600	-	-	385	-	-	-	373	-	-
Total operating disbursements		**58,996**	**57,924**	**34,912**	**33,199**	**30,415**	**42,969**	**49,846**	**39,940**	**26,253**	**46,796**	**27,270**
Net operating cash flow		**(29,625)**	**(21,059)**	**(18,906)**	**34,235**	**12,220**	**(930)**	**(15,802)**	**32,786**	**(4,613)**	**(24,199)**	**7,666**
Non operating disbursements/(receipts)												
Interest / Debt service	15	-	-	-	-	-	262	-	-	-	-	314
Professional fees	16	411	881	988	358	190	1,066	649	353	190	430	718
Restructuring costs	17	(19)	150	-	-	-	150	-	-	-	-	150
Total Non-Operating Disbursements		**391**	**1,031**	**988**	**358**	**190**	**1,477**	**649**	**353**	**190**	**430**	**1,182**
Total disbursements		59,387	58,955	35,900	33,557	30,605	44,447	50,495	40,292	26,443	47,226	28,452
Net cash receipts/(disbursements)		$ (30,017)	$ (22,089)	$ (19,894)	$ 33,877	$ 12,030	$ (2,407)	$ (16,452)	$ 32,434	$ (4,803)	$ (24,629)	$ 6,485
Cash balance												
Beginning balance	1	$ 67,310	$ 37,294	$ 15,204	$ 19,310	$ 53,186	$ 65,217	$ 62,810	$ 46,358	$ 78,792	$ 73,989	$ 49,360
Adjustment to actual, fx adjustment		-	-	-	-	-	-	-	-	-	-	-
Cash receipts/(disbursements)		(30,017)	(22,089)	(19,894)	33,877	12,030	(2,407)	(16,452)	32,434	(4,803)	(24,629)	6,485
DIP Facility draw/(payback)		-	-	24,000	-	-	-	-	-	-	-	-
Ending cash balance		$ 37,294	$ 15,204	$ 19,310	$ 53,186	$ 65,217	$ 62,810	$ 46,358	$ 78,792	$ 73,989	$ 49,360	$ 55,845
DIP Facility	18											
Opening Balance		$ -	$ -	$ -	$ 24,000	$ 24,000	$ 24,000	$ 24,000	$ 24,000	$ 24,000	$ 24,000	$ 24,000
DIP Facility Draw		-	-	24,000	-	-	-	-	-	-	-	-
DIP Facility Payback		-	-	-	-	-	-	-	-	-	-	-
Closing Balance		-	-	$ 24,000	$ 24,000	$ 24,000	$ 24,000	$ 24,000	$ 24,000	$ 24,000	$ 24,000	$ 24,000

See accompanying notes to the Cash Flow Projection

U.S. Steel Canada Inc.
Weekly Cash Flow Projection
CCAA Filing on 16-Sep-2014
In 000s of CAD$

	Notes	Week: 12 07-Nov-2015 13-Nov-2015	Week: 13 14-Nov-2015 20-Nov-2015	Week: 14 21-Nov-2015 27-Nov-2015	Week: 15 28-Nov-2015 04-Dec-2015	Week: 16 05-Dec-2015 11-Dec-2015	TOTAL
Receipts							
Sales to Cdn customers	2	$ 23,029	$ 22,003	$ 21,891	$ 21,491	$ 20,780	$ 373,150
Sales of USS Product to Cdn customers (LRD-N)	3	3,769	5,471	2,283	5,850	5,008	90,023
Collections from US customers (LRD-S)	4	-	7,286	-	-	-	25,860
Interco - LRD-S	5	-	31,083	-	-	-	90,110
Interco - Other	6	-	2,587	-	-	-	13,679
Total receipts		**26,797**	**68,430**	**24,174**	**27,341**	**25,788**	**592,822**
Operating disbursements							
Payroll, Pension & Benefits	7	3,073	4,920	8,610	8,948	2,557	105,203
Raw Materials, 3rd party	8	3,829	3,829	3,829	3,829	3,829	62,861
Raw Materials, Intercompany	9	8,498	6,916	8,498	3,458	20,036	130,289
Utilities & other consumables	10	4,644	2,194	8,426	2,264	4,956	70,280
Other payables	11	7,785	7,683	12,387	12,030	8,370	169,172
Interco - USS product sold in Canada (LRD-N)	12	7,407	2,361	2,087	2,060	5,144	73,719
Interco - Remit collections to LRD-S	13	-	9,196	-	-	-	26,621
Interco - other	14	-	385	-	-	-	4,414
Total operating disbursements		**35,237**	**37,483**	**43,838**	**32,589**	**44,892**	**642,559**
Net operating cash flow		**(8,439)**	**30,946**	**(19,663)**	**(5,249)**	**(19,105)**	**(49,737)**
Non operating disbursements/(receipts)							
Interest / Debt service	15	-	-	-	314	-	889
Professional fees	16	659	358	190	942	642	9,023
Restructuring costs	17	-	-	-	150	-	581
Total Non-Operating Disbursements		**659**	**358**	**190**	**1,406**	**642**	**10,493**
Total disbursements		35,896	37,841	44,027	33,995	45,534	653,051
Net cash receipts/(disbursements)		$ (9,099)	$ 30,588	$ (19,853)	$ (6,654)	$ (19,747)	$ (60,230)
Cash balance							
Beginning balance	1	$ 55,845	$ 46,746	$ 77,335	$ 57,481	$ 50,827	$ 67,310
Adjustment to actual, fx adjustment		-	-	-	-	-	-
Cash receipts/(disbursements)		(9,099)	30,588	(19,853)	(6,654)	(19,747)	(60,230)
DIP Facility draw/(payback)		-	-	-	-	-	24,000
Ending cash balance		$ 46,746	$ 77,335	$ 57,481	$ 50,827	$ 31,080	$ 31,080
DIP Facility	18						
Opening Balance		$ 24,000	$ 24,000	$ 24,000	$ 24,000	$ 24,000	$ -
DIP Facility Draw		-	-	-	-	-	24,000
DIP Facility Payback		-	-	-	-	-	-
Closing Balance		$ 24,000	$ 24,000	$ 24,000	$ 24,000	$ 24,000	$ 24,000

See accompanying notes to the Cash Flow Projection

In the Matter of the CCAA of U.S. Steel Canada Inc. ("USSC" or the "Applicant")
Notes to the Applicant's Unaudited Cash Flow Forecast

Disclaimer:

In preparing this cash flow forecast (the "**Revised Forecast**"), the Applicant has relied upon unaudited financial information and the Applicant has not attempted to further verify the accuracy or completeness of such information. The Revised Forecast includes estimates concerning the operations of the plants and additional assumptions discussed below with respect to the requirements and impact of a *Companies' Creditors Arrangement Act* ("**CCAA**") filing. Since the Revised Forecast is based on assumptions about future events and conditions that are not ascertainable, the actual results achieved during the Revised Forecast period will vary from the Revised Forecast, even if the assumptions materialize, and such variation may be material. There is no representation, warranty or other assurance that any of the estimates, forecasts or projections will be realized.

Overview:

USSC filed for protection under the CCAA on September 16, 2014. The Revised Forecast reflects cash flows from USSC's operations including both the plants in Hamilton and Lake Erie, and LRD-N (a division of USSC). The Applicant, with the assistance of the Monitor, has prepared the Revised Forecast based primarily on historical results and USSC's current expectations. The cash flow forecast is presented in thousands of Canadian dollars. Receipts and disbursements denominated in U.S. currency have been converted into Canadian dollars using an exchange rate of CDN$1.3080 = U.S.$1.00.

Assumptions:

1. **Beginning balance**
   This is the opening cash balance at August 22, 2015.

2. **Sales to Canadian customers**
   Receipts from USSC's direct trade sales to Canadian customers are estimated based on a weekly forecast of collections for existing receivables for approximately the first four weeks of the forecast period. After the first four weeks, the receipts are based on forecast collections from projected sales ("**Projected Sales**"). Projected Sales are estimated based on USSC's shipping and expected sales forecast and forecast sales prices by product and market. These sales are forecast to be collected 30 days from the invoice date.

3. **Sales of USS product to Canadian customers (LRD-N)**
These are receipts from Canadian customers for United States Steel Corporation ("**USS**") product from USS plants sold through the LRD-N, a division of USSC. The corresponding payment to USS for the product sold is described in note 12. The receipts are estimated based on a weekly collections forecast for existing receivables for approximately the first four weeks, followed by forecast collections from estimated LRD-N sales for the remaining period of the forecast. Estimated LRD-N sales are based on the expected sales forecast for products sold through the LRD-N sales channel and are forecast to be collected 30 days after the invoice date.

4. **Collections from US customers (LRD-S)**
These are collections from the sale of Canadian product sold by the LRD-S, a division of USS, to non-automotive customers in the United States. Collections from USS customers are remitted to USS by USSC (see note 13). USS then pays USSC the same amount, net of a 2% commission as described in note 5. The receipts are estimated based on a weekly collections forecast for existing receivables for approximately the first four weeks, followed by collections from projected sales for the remaining period of the forecast. Projected sales are estimated based on USSC's shipping and expected sales forecast and forecast sales prices by product and by market. Collections from these customers are estimated to be received 30 days after the invoice date, with the exception of sales to certain USS affiliates, where the receipt is estimated to be received on the 15^{th} of the month following the invoice.

5. **Interco – LRD-S**
These are receipts from USS for payment of Canadian product sold through LRD-S, a division of USS. These receipts represent 98% of the final sale price to LRD-S customers (net of 2% commission). The receipts are forecast to continue on the 15^{th} of each month following collection from LRD-S customers. LRD-S customer collections are estimated based on a weekly collections forecast for existing receivables for approximately the first four weeks, followed by collections from projected sales for the remaining period of the forecast. Projected sales are estimated based on USSC's shipping and expected sales forecast and forecast sales prices by product and by market. These sales are forecast to be collected 30 days after the invoice date.

6. **Interco – Other**
These are receipts principally from tolling revenue from the conversion of USS's coal into coke by USSC. Projected sales are estimated based on expected coke production and forecast to be invoiced monthly and collected on the 15^{th} of the following month.

7. **Payroll, Pension & Benefits**
   These disbursements include payroll costs for all salaried and hourly employees, and are forecast based on historical run rates. Salaried employees are paid at the end of each month and hourly wages are paid bi-weekly. Payroll deductions are remitted in accordance with the statutory requirements. Pension payments are based on a series of scheduled pension payments, as well as related fees to the Pension Benefit Guarantee Fund. Benefit payments for current and retired employees are based on the estimated weekly activity rate and are paid in the normal course.

8. **Raw Materials, 3rd party**
   These disbursements relate to the purchase of scrap, reagents and other raw materials from third party suppliers. The disbursements for scrap, reagents, and other raw materials (e.g. zinc, limestone, etc.) are based on required purchases for estimated production levels, payable seven days after the invoice date.

9. **Raw Materials, Intercompany**
   These disbursements relate to the purchase of ore and coal from USS. The disbursements have been estimated based on scheduled shipment dates and to rebuild inventory levels after the opening of the shipping season in the spring of 2015. The required ore, coal and coke inventory levels have been estimated based on estimated production levels and season inventory requirements. Purchases are projected to be paid 5 days from invoicing.

10. **Utilities & other consumables**
    These disbursements relate to natural gas, oxygen, water, electricity, and refractories which are estimated based on weekly activity rates. Natural gas and oxygen vendors are being paid in advance on either a monthly or bi-weekly basis.

11. **Other payables**
    These disbursements represent payments to other suppliers not included in other specific line items, such as outside processors, freight, duty, oil & lube, repairs & maintenance, insurance, sales taxes, capital expenditures, and general office expenditures. Freight is estimated based on the scheduled and projected shipments for raw materials using an average rate per net ton. The remaining disbursements have been estimated based on historical run rates. Purchases already in accounts payable are projected to be paid when due. Forecast purchases are projected to be paid 7 days from invoicing.

12. **Interco – USS product sold in Canada (LRD-N)**
    These disbursements relate to payments to USS for USS product sold to Canadian customers through LRD-N. These are estimated to be 98% (reflecting the 2%

commission) of the final sale price to LRD-N customers, as described in note 3. Purchases are projected to be paid 5 days from invoicing.

13. Interco – Remit collections to LRD-S

These are the payment of LRD-S collections from non-automotive customers (as described in note 4) to USS. These are scheduled to occur on the 15th of the month following the collection.

14. Interco – Other

These disbursements represent payments to USS for items such as corporate service agreement costs. These have been estimated based on historical run rates. Purchases are projected to be paid 5 days from invoicing.

15. Interest / Debt service

These disbursements represent interest payments on the drawn portion of the Replacement DIP facility. Interest is assumed to be payable on the drawn amounts at the rate of 12% per annum, payable for each month at the beginning of the following month.

16. Professional Fees

These disbursements include payments to USSC's advisors and their counsel, representative counsel for the non-union active and retiree beneficiaries, legal counsel for union members, and the Monitor and its counsel.

17. Restructuring costs

These disbursements represent various restructuring fees, other than the professional fees described above, including Key Employee Retention Plan payments and fees under the DIP facility.

18. DIP facility

Draws will be made against the DIP facility to ensure a minimum cash balance appropriate for the level of the operations. Each draw is made in the minimum amount of $10 million.

Court File No. CV-14-10695-00CL

IN THE MATTER OF THE *COMPANIES' CREDITORS ARRANGEMENT ACT,* R.S.C. 1985, c. C-36, AS AMENDED

AND IN THE MATTER OF A PROPOSED PLAN OF COMPROMISE OR ARRANGEMENT WITH RESPECT TO U. S. STEEL CANADA INC.

ONTARIO

SUPERIOR COURT OF JUSTICE

COMMERCIAL LIST

TWELFTH REPORT OF THE MONITOR
August 31, 2015

BENNETT JONES LLP
3400 One First Canadian Place
Toronto, ON M5X 1A4
Fax: (416) 863-1716

Kevin J. Zych (LSUC#33129T)
Tel: (416) 777-5738

Raj Sahni (LSUC#42942U)
Tel: (416) 777-4804

Counsel to Ernst & Young Inc., the Monitor