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.

TWENTY-NINTH REPORT OF THE MONITOR

August 15, 2016

INTRODUCTION

1. On September 16, 2014, U. S. Steel Canada Inc. ("**USSC**" or the "**Applicant**") applied for and was granted protection by the Ontario Superior Court of Justice (Commercial List) (the "**Court**") under the *Companies' Creditors Arrangement Act* (Canada) (the "**CCAA**"). Pursuant to an Order, as amended and restated (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 November 30, 2016 by Order of the Court dated July 27, 2016.

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 Twenty-Ninth Report is to provide information to the Court on the following:

(a) the Applicant's motion to seek approval of a second key employee retention plan (the "**KERP 2 Motion**");

(b) an overview of USSC's financial position in relation to the motion (the "**OPEB Reinstatement Motion**") by the United Steel, Paper and Forestry, Rubber, Manufacturing, Energy, Allied Industrial and Service Workers International Union ("**USW**") and the non-USW active and retired employees of USSC (the "**Representative Counsel**") to lift the suspension of the funding of post-employment benefit plans (the "**OPEB Plans**", as defined in the Cash Conservation and Business Preservation Order) that the Court authorized USSC to suspend effective October 9, 2015 pursuant to the Cash Conservation and Business Preservation Order (as defined later herein);

(c) an update with respect to the Transition Fund established by the Province of Ontario (the "**Transition Fund**") to assist USSC's former salaried or unionized employees and their eligible spouses and beneficiaries in addressing their critical health needs; and

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

TERMS OF REFERENCE AND DISCLAIMER

5. In preparing this Twenty-Ninth 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 (collectively, the "**Information**"). Except as described in this Twenty- Ninth 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 Twenty- Ninth 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 Twenty- Ninth 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 Twenty-Ninth 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.

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 coke ovens, 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 9, 2015, the Court approved a process whereby USSC's operations would be conducted on a more stand-alone basis (the "**Independent Business Plan**") and USSC would begin the process of transitioning away from its reliance on USS for certain services, operational needs and mill loading (the "**Cash Conservation and Business Preservation Order**"). At the time the Cash Conservation and Business Preservation Order was granted, the Court also approved the transition arrangements (the "**Transition Arrangements**"), which set out a framework pursuant to which USS agreed and was directed to continue to provide certain administrative services to USSC for a period of up to 24 months.

THE PROPOSED KEY EMPLOYEE RETENTION PLAN

16. As set out in the First Report of the Monitor dated October 3, 2014 (the "**First Report**"), a Key Employee Retention Plan ("**KERP**") was established to incent certain key personnel who occupy management and operational roles and who were considered essential to the success of USSC's restructuring efforts and continued operation of USSC as a going concern ("**Key Employees**").

17. Pursuant to orders dated October 8, 2014 and January 21, 2015 (collectively, the "**KERP Approval Orders**"), the Monitor was authorized to receive and hold in trust any funds remitted to it by USSC to secure payment of the KERP once certain prescribed trigger events occurred which would entitle a Key Employee to a payment pursuant to the terms of the KERP. As a result, shortly after the Court approved the initial KERP, the Monitor received $2.6 million from USSC to hold in trust until certain criteria were met.

18. Pursuant to the KERP Approval Orders, 29 people were included in the KERP. One of the triggering events that would entitle a Key Employee to receive a payment under the KERP was to remain in employment at USSC through June 30, 2016. All of the Key Employees received their entitlements pursuant to the terms of the KERP by remaining employees of USSC through June 30, 2016. Accordingly, on June 30, 2016, USSC remitted the KERP payments to the Key Employees and on the same day, the Monitor remitted the funds held in trust back to USSC, once the Monitor received evidence from USSC that the KERP payments were paid.

19. The Applicant is now seeking approval in respect of its proposed second KERP ("**KERP 2**"). The purpose of the KERP 2 is to continue to incent certain key employees who are considered essential to the success of USSC's SISP and overall restructuring efforts, as well as the continued operation of USSC during the CCAA proceedings.

20. Although the Applicant is seeking this Court's approval of the KERP 2, it is not seeking any charge in respect thereof. Rather, the maximum amount payable under the KERP 2 is proposed to be paid by the Applicant to the Monitor, in trust, for distribution in accordance with the terms of the KERP 2, similar to the structure used to secure the original KERP.

21. The key terms of the KERP 2 are as follows:

(a) there are a total of 34 Key Employees;

(b) the aggregate maximum amount payable under the KERP 2 is $1,572,051;

(c) each Key Employee will be entitled to a cash payment upon the occurrence of a Triggering Event (as described below), provided that the Key Employee has not voluntarily resigned or terminated its employment or been terminated for cause prior to the occurrence of the Triggering Event;

(d) a "Triggering Event" means the earliest to occur of:

(i) the termination of the Key Employee's employment by USSC without cause;

(ii) the completion of a sale of all or substantially all of the assets and operations of USSC, or the implementation of a plan of arrangement under the CCAA, in either case approved by the Court and resulting in the continuation of going-concern operations;

(iii) the substantial completion of a liquidation, as determined by the Monitor in the event a going-concern sale cannot be completed;

(iv) the date that the employee’s services are no longer required to facilitate a liquidation as determined by the Monitor; and

(v) June 30, 2017;

22. In the event of a sale of all or substantially all of the assets and operations of USSC, the timing of the payment to the Key Employees will be at the closing of the transaction, but 25% of the payment will be held until 3 months after the closing of the transaction, or upon termination without cause, whichever occurs first, in order to provide continuity of employment of the Key Employees for a period of time post-closing of a transaction, if required by the purchaser.

23. In the event of a liquidation, the maximum amount payable to each Key Employee is reduced by 25%, but the employee is required to assist in the liquidation proceedings as determined by the Monitor, in order to assist the estate in maximizing recoveries for stakeholders.

24. The selection of Key Employees was determined by the Applicant, in consultation with USSC management, the CRO and the Monitor. The Monitor is satisfied that each Key Employee occupies an important management or operational role, is a seasoned employee of USSC with deep knowledge of its business which cannot be readily replaced, and is critical to USSC’s strategic direction and day-to-day operations and management, and whose retention will be important to complete a successful restructuring.

25. The Monitor has reviewed the role and responsibility for each individual employee and the proposed quantum of the KERP 2 for each employee, and is satisfied that the amount of the proposed KERP 2 is reasonable and appropriate in the circumstances of this case and in the Monitor's experience in other matters.

THE OPEB REINSTATEMENT MOTION

Background

26. On October 9, 2015, the Cash Conservation and Business Preservation Order authorized USSC, in order to preserve USSC’s cash flow, to suspend the payment of various amounts in respect of OPEB Claims (as defined in the Cash Conservation and Business Preservation Order), supplemental pension plan payments, salary continuance payments, past service

and benefit payments to registered defined benefit plans, PBGF assessments and amounts for municipal realty taxes (collectively the "**Suspended Payments**").

27. The Suspended Payments specifically excluded USSC's funding of life insurance benefits for former salaried and union employees of USSC pursuant to a group insurance policy, and USSC continues to fund these amounts at a cost of approximately $440,000 per month, which has totalled approximately $4.4 million since the implementation of the Cash Conservation and Business Preservation Order.

28. USSC estimates that the effect of the suspension of the Suspended Payments was to reduce its disbursements on an aggregate basis by approximately $10 million per month, assuming an extension of the Stelco regulation for pension funding purposes at the same monthly cash contributions.

29. On July 20, 2016, the USW and Representative Counsel filed a motion record for orders requiring the Applicant to resume funding of all OPEB Claims which were suspended pursuant to the Cash Conservation and Business Preservation Order.

30. Both the KERP 2 Motion and the OPEB Reinstatement Motion were initially returnable on July 27, 2016, and were adjourned on that date to allow USSC, the USW and Representative Counsel an opportunity to engage in discussions with a view to attempting to resolve the two motions. With the participation of the Monitor, USSC, the USW and Representative Counsel then engaged in without prejudice discussions, but did not resolve the two motions.

31. On August 11, 2016, the USW and Representative Counsel submitted a with prejudice offer to USSC, attached as Appendix A, to adjourn the OPEB Reinstatement Motion sine die to be brought back on for hearing at the discretion of the USW and Representative Counsel at a date in 2017, where the USW and the Representative Counsel will not oppose the KERP 2 Motion, if USSC will resume the full provision of funding for medical and dental OPEB Claims on August 16, 2016 until December 30, 2016, following which the parties will schedule a case conference to discuss whether a suspension of OPEB Claims beyond December 31, 2016 is necessary.

32. On August 15, 2016, USSC submitted an offer, attached as Appendix B, to settle the OPEB Reinstatement Motion and KERP 2 Motion on the basis that USSC would make a one-time payment to the Transition Fund (or, if necessary as a technical matter, to another fund to be administered on the same terms as the Transition Fund) of $2.7 million (the "**Additional $2.7 million Contribution**") on the condition that the KERP 2 Motion is approved and the OPEB Reinstatement Motion is otherwise dismissed (the "**USSC Offer**").

33. The Monitor believes it would be beneficial to provide the Court context with respect to USSC's financial position and the status of the SISP process, as it relates to the OPEB Reinstatement Motion, which is provided in the following section of this Twenty-Ninth Report.

34. For reference purposes, Appendix C includes a historical summary of cash payments for benefits and OPEB Claims prior to the granting of the Cash Conservation and Business Preservation Order.

USSC's Financial Results Since the Cash Conservation and Business Preservation Order was Issued

35. The Monitor has provided summary financial information for USSC in a number of past Monitor reports, the most recent being for the month of June, 2016 in the Twenty-Eighth Report of the Monitor dated July 25, 2016 (the "**Twenty-Eighth Report**").

36. The affidavit of William Aziz dated September 28, 2015 provided a summary of the Independent Business Plan ("**IBP**") financial projection. The projection included EBITDA, free cash flow and net cash flow.

37. The Monitor has been reporting on a monthly basis as to how USSC is tracking in relation to the IBP financial projection. The table below summarizes the actual financial results from October, 2015 to June, 2016, and compares it to the IBP projection for that same period:

U. S. Steel Canada Inc.
Comparison of actual financial results to IBP for October 2015 to June 2016
CAD millions (except tons)

	Actual	IBP	Variance
Tons shipped	1,440,116	1,206,146	233,969
Revenue	$ 870.2	$ 775.2	$ 95.0
Gross margin	$ 54.5	$ 42.3	$ 12.2
Adjusted Fixed expenses, excluding depreciation[1]	(115.3)	(126.5)	11.2
Adjusted EBITDA[1]	$ (60.8)	$ (84.2)	$ 23.4

Note 1: The Independent Business Plan included non-DIP related restructuring costs as part of Fixed expenses and EBITDA. However USSC does not include any restructuring-related costs in EBITDA as part of its financial statements. For the purposes of this table, Actual EBITDA has been adjusted to include non-DIP related restructuring costs in EBITDA. As such, the Actual EBITDA result in this table has been amended for purposes of this table as compared to the sum of the EBITDA results provided previous Monitor reports regarding the financial results for this same period.

38. EBITDA for the nine month period from October 1, 2015 to June 30, 2016 was higher than forecast in the IBP by approximately $23.4 million. This is due to the $12.2 million gross margin variance, with an additional $11.2 million contribution from lower than forecast fixed expenses as a result of USSC's efforts to reduce operating costs. Virtually all of the positive EBITDA variance was generated from positive financial results in the month of June, 2016, as set out in paragraph 32 of the Twenty-Eighth Report.

39. The table below, reproduced from the Twenty-Eighth Report, summarizes the actual cumulative EBITDA and cash flow from October, 2015 through to June, 2016 based on the presentation of EBITDA in the IBP:

U.S. Steel Canada Inc.
Cumulative Cash Flow
CAD millions

	Actuals									
	Oct 2015	**Nov 2015**	**Dec 2015**	**Jan 2016**	**Feb 2016**	**Mar 2016**	**Apr 2016**	**May 2016**	**Jun 2016**	**TOTAL**
Adjusted EBITDA (Note 1)	**($5.0)**	**($7.6)**	**($10.5)**	**($24.8)**	**($17.3)**	**($10.8)**	**($5.0)**	**$5.7**	**$14.5**	**($60.8)**
Adjust for other non-cash items	(2.5)	(0.8)	(2.0)	0.2	(0.6)	0.4	(0.6)	(0.7)	(0.8)	(7.4)
Free Cash Flow from Operations	**($7.5)**	**($8.4)**	**($12.5)**	**($24.6)**	**($17.9)**	**($10.4)**	**($5.6)**	**$5.0**	**$13.7**	**($68.2)**
Net changes in working capital and intercompany	21.2	38.3	55.5	(15.4)	20.8	34.0	34.2	(14.1)	(35.9)	138.6
DIP Fees	3.9	(0.1)	(0.1)	(1.6)	(0.1)	(0.1)	(0.1)	(0.1)	(0.1)	1.6
Capital Expenditures	(0.2)	(1.0)	(1.4)	(0.1)	(0.2)	(0.5)	0.1	(0.6)	(0.3)	(4.2)
Net Cash Flow	**$17.4**	**$28.8**	**$41.5**	**($41.7)**	**$2.6**	**$23.0**	**$28.6**	**($9.8)**	**($22.6)**	**$67.8**
Beginning Cash Balance	**$63.6**	**$81.0**	**$109.8**	**$151.3**	**$109.6**	**$112.2**	**$135.2**	**$163.8**	**$154.0**	**$63.6**
Ending Cash Balance	**$81.0**	**$109.8**	**$151.3**	**$109.6**	**$112.2**	**$135.2**	**$163.8**	**$154.0**	**$131.4**	**$131.4**

Note 1: The Independent Business Plan included non-DIP related restructuring costs as part of EBITDA; however USSC does not include any restructuring-related costs in EBITDA as part of its financial statements. Additionally, in December 2015, USSC recorded an inventory valuation adjustment that affected December 2015 to April 2016's financials. This valuation adjustment on a cumulative basis for those months net to 0 but on a month to month basis was not contemplated by the IBP. Therefore, for the purposes of this table, EBITDA has been adjusted to include non-DIP related restructuring costs in EBITDA, and exclude the impacts of the valuation adjustment in December 2015 through to April 2016.

40. As set out in the table above, since the implementation of the Cash Conservation and Business Preservation Order, USSC's cash position has increased notwithstanding the continued incurrence of operating losses. However, the net increase in cash is largely driven by a net reduction of working capital that has been converted to cash.

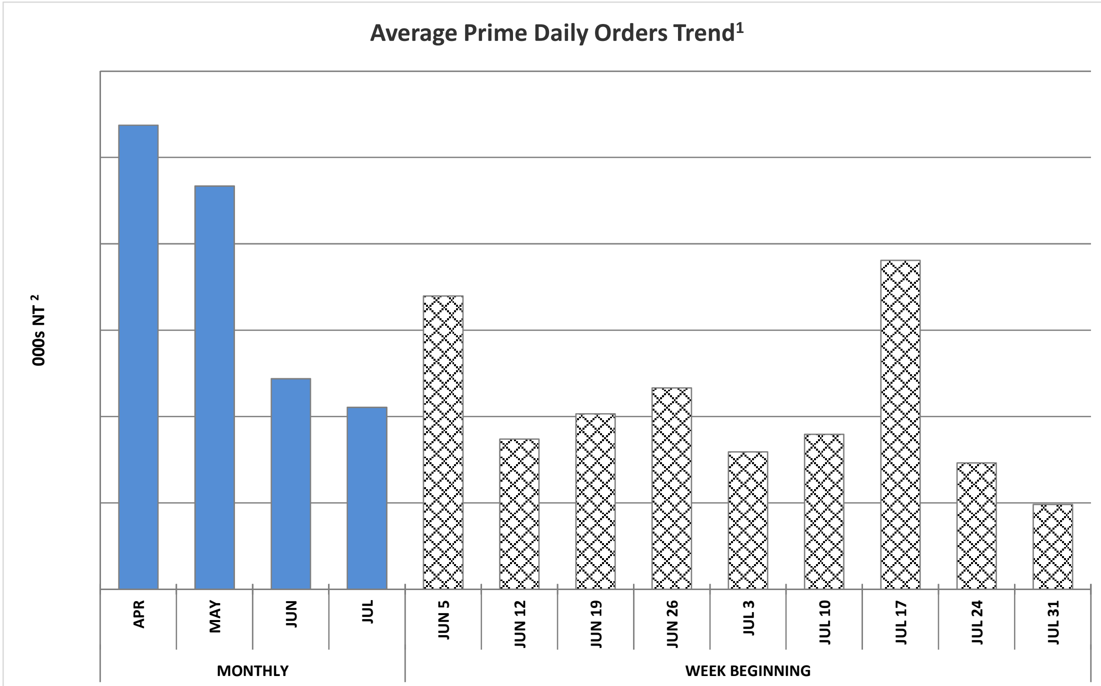
41. The table below, reproduced from the Twenty-Eighth Report, summarizes the actual cash flow results from October, 2015 to June, 2016, and compares it to the IBP cash flow projection for that same period:

U. S. Steel Canada Inc. Select financial results for Oct 2015 to June 2016 CAD millions	IBP (Note 1) Oct-15 to Jun-16	Actuals Oct-15 to Jun-16	Variance
Opening Cash, net of DIP draws	$ 57	$ 64	$ 7
Adjusted EBITDA	(84)	(61)	23
Change in Working Capital and other	90	130	40
Capital expenditures	(18)	(4)	14
Free Cash Flow, pre-DIP	**(12)**	**65**	**77**
DIP interest/fees	(6)	2	8
Net cash flow	**$ (18)**	**$ 67**	**$ 85**
Closing Cash, net of DIP draws	**$ 39**	**$ 131**	**$ 92**

Note 1: This is the total of the projected balances, for the months listed, from Exhibit B to the affidavit of William Aziz, dated September 28, 2015. As mentioned previously, EBITDA in the IBP includes non-DIP related restructuring fees.

42. As set out in the table above, cumulative net cash flow for the period from October, 2015 to June, 2016 exceeded the IBP projections by approximately $92 million. As described in detail in the Twenty-Eighth Report, most of this cash flow improvement was a result of a reduction in net working capital and a deferral of capital expenditures. In addition, while Adjusted EBITDA, on a cumulative basis, has exceeded the IBP by $23 million, almost all of this positive variance was attributable to the stronger financial results for the month of June, 2016 due to improved steel market conditions. Prior to the month of June, 2016, USSC's net cumulative Adjusted EBITDA loss was approximately equivalent to what was projected in the IBP.

43. As reported in the Twenty-Eighth Report, sales volume has exceeded the forecast of the IBP, however, new customer sales orders (a precursor to future sales volumes) have slowed from early July onwards as customers appear to have temporarily held back from placing orders as they assess the current market environment. The graph below sets out the size of the average daily orders from customers for the past four months and the past nine weeks for prime hot rolled, cold rolled and coated steel. As seen in the graph, the amount of the average daily sales orders has declined in June and July. USSC is hopeful this trend of decreasing new orders will reverse over the upcoming weeks, but if not, it will begin to impact USSC's financial results in the fall months.



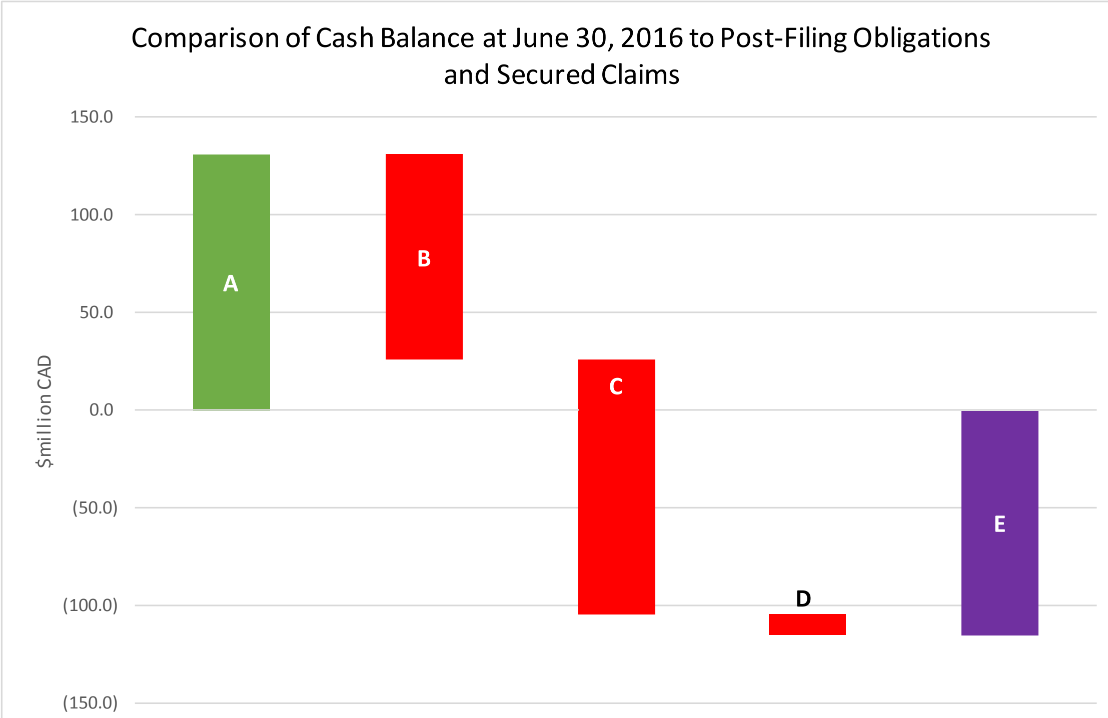
Note 1: This is a graphical overview of the average daily orders received by USSC for prime hot rolled, cold rolled and coated steel.
Note 2: The numbers on the y-axis of this graph have been redacted for confidentiality purposes.

44. Although the month of June's financial results were much better, and July should be strong as well, caution is required due to the volatility in USSC's business and the inherent challenges, including significant excess production capacity, of the steel sector globally and in North America.

Post-Filing Obligations and Secured Creditor Claims

45. The fact that USSC has been able to stabilize its operations and generate cash flow since the Cash Conservation and Business Preservation Order was granted has been a positive development for USSC and has provided some flexibility in developing restructuring initiatives and continuing the SISP. However, it should be recognized that this cash flow generation has been driven not from earnings from operations, but instead in large part by a reduction of working capital assets, the negotiation of post-filing trade terms from vendors, and the deferral of capital expenditures. USSC has been able to negotiate post filing trade credit from many vendors due to its strong liquidity position made up of cash on hand and DIP financing availability.

46. There are significant post-filing obligations owed by USSC (principally related to trade credit owed to vendors, and accrued employee obligations) which will ultimately need to be satisfied from cash on hand. The amount of the post filing obligations was approximately $95.5 million as at June 30, 2016. In addition, USSC has a number of secured claims, which, subject to final determination, will have a potential priority claim to the cash and other assets of USSC. The chart below provides an overview of some of these items in comparison to the June 30, 2016 cash balance:



Notes:

A: Represents the actual cash balance ending June 30, 2016 of $131 million

B: Represents the post-filing payables and accruals owed at June 30, 2016 (including trade, payroll and taxes but excluding accruals for banked vacation and compensated absences), as well as the suspended post-filing municipal realty taxes

C: Represents the USS secured claim of approximately USD$119 million, converted at a foreign exchange rate of 1.099

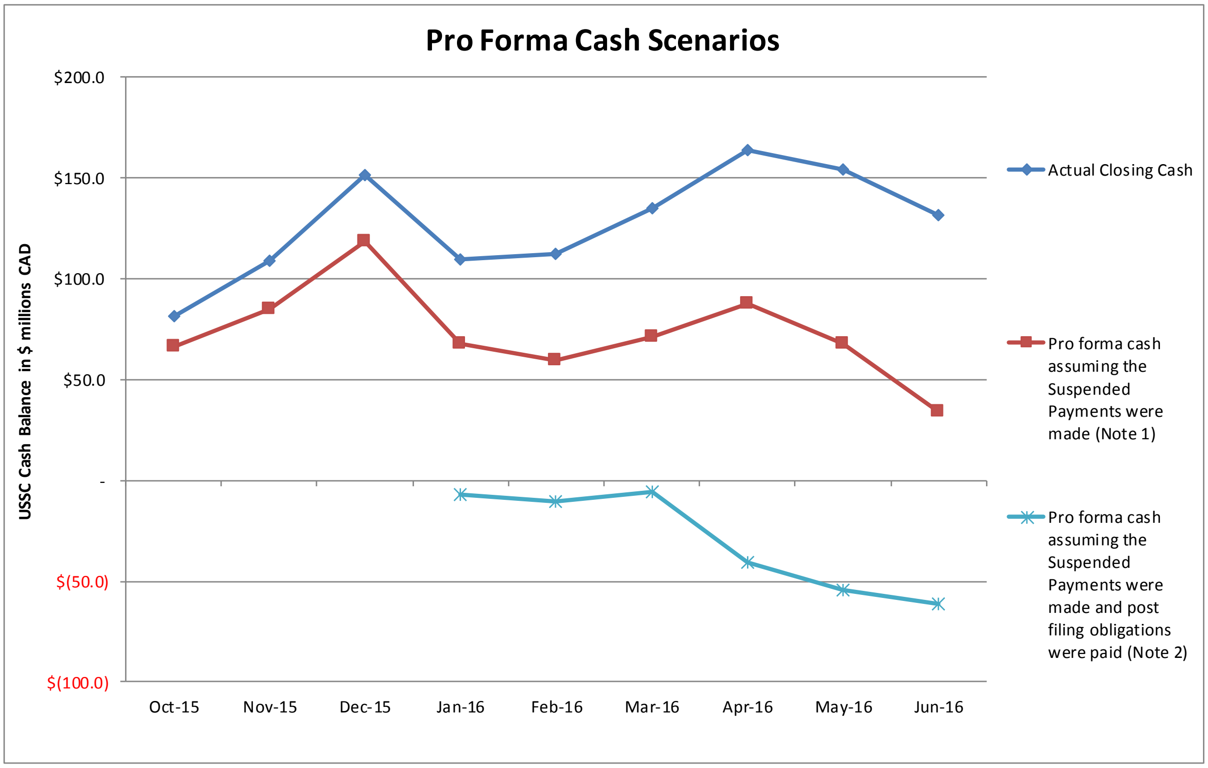
D: Represents the assumption of cash paid to extinguish construction lien claims as filed (but still subject to Court determination), in the event of a sale transaction

E: Represents the pro forma negative cash position at June 30, 2016, after deducting the items in Note B, C and D.

The potential priority claims shown in the chart do not include potential trust claims from pensions or priority environmental claim, which were not called for in the claims process conducted to date.

Impact of Cash Conservation and Business Preservation Plan Order on USSC's Cash Flow

47. If the cash conservation measures authorized in the Cash Conservation and Business Preservation Order had not been put in place, USSC's cash position would have been much less than it currently is. The following graph demonstrates USSC's cash position by month from October, 2015 to June, 2016, and also shows the pro forma impact of the Suspended Payments if the cash conservation measures had not been implemented, as well as the impact of funding all the post-filing obligations owed to vendors and employees.



Notes:

1. This Pro Forma Cash scenario represents the monthly closing cash balance if the cash conservation measures had not been implemented. It also assumes an extension of the Stelco regulation for pension funding purposes at the same monthly cash contributions, which expired in December 2015.

2. This Pro Forma Cash scenario represents the monthly closing cash balance if the cash conservation measures had not been implemented (as well as the extension of the Stelco regulation for pension funding purposes), and if the post-filing payables (including trade, payroll and taxes but excluding accruals for banked vacation and compensated absences) were paid.

SISP Status

48. As was summarized in the Twenty-Eight Report, the SISP process is well advanced and at a critical stage. As the remaining going concern bidders require the settlement of specific issues between key stakeholders and the bidders, numerous discussions (supervised by the Monitor in accordance with the SISP) have occurred and continue to take place to facilitate a going concern solution. These discussions include the topics of OPEBs and pensions.

49. Ultimately, how the pension and OPEB obligations will be dealt with in a going concern sale scenario will be dependent on what a bidder and the stakeholders can agree to. At this point, these discussions are advancing and are at an important stage to determine if a transaction can be completed.

TRANSITION FUND

50. As set out in the Seventeenth Report of the Monitor dated December 18, 2015 (the "**Seventeenth Report**"), the Province of Ontario proposed implementing a $3 million Transition Fund that would assist USSC's former salaried or unionized employees and their eligible spouses and beneficiaries (the "**OPEB Beneficiaries**") who were eligible for

OPEB Claims under the post-employment benefit plan maintained by USSC that was ordered suspended by the Cash Conservation and Business Preservation Order. The purpose of the Transition Fund was to assist the OPEB Beneficiaries in addressing their critical health needs, and to help the OPEB Beneficiaries transition to available Provincial programs such as the Trillium Drug Program or to permit them some time to obtain individual health insurance.

51. On December 23, 2015, the Court issued an Order (the "**Transition Fund Order**") approving the $3 million Transition Fund and the Transition Fund became available on January 1, 2016.

52. Under the terms of the Transition Fund, outlined in more detail in the Seventeenth Report, an eligible OPEB Beneficiary could be covered for claims incurred after October 9, 2015, with respect to:

(a) Prescription drugs included in the OPEB Plans and not covered by Ontario Drug Benefit Program, Trillium Drug Program or other available sources of coverage (e.g. spousal insurance);

(b) Dental claims that would have been covered under the OPEB Plans provided that they are for:

(i) dental extractions and endodontics;

(ii) major dental services in emergency situations; or

(iii) the repair of dental appliances; and

(c) Other health expense claims that would have been covered under the OPEB Plans, provided that the coverage sought:

(i) is necessary for sustaining life or maintaining self-sufficiency, including repairs or modifications to walkers, wheelchairs or prosthetics;

(ii) is necessary for preventing a prolonged stay in a hospital (including hospital-style beds at home); or

(iii) supplements government-funded programs or grants for necessary medical equipment, such as ostomy supplies or wheelchairs.

53. Under the terms of the Transition Fund outlined in more detail in the Seventeenth Report, to be eligible for payment of a claim from the Transition Fund, an eligible OPEB Beneficiary must be:

(a) a retiree of USSC or his/her eligible spouse or eligible dependent who was eligible for OPEBs under the Suspended USSC OPEB Plan prior to October 9, 2015;

(b) have a valid Ontario health card; and

(c) for non-prescription drug claims, declare that:

(i) he/she is either unable to pay for the benefit or that payment for the benefit will cause an inability to meet reasonable basic living expenses;

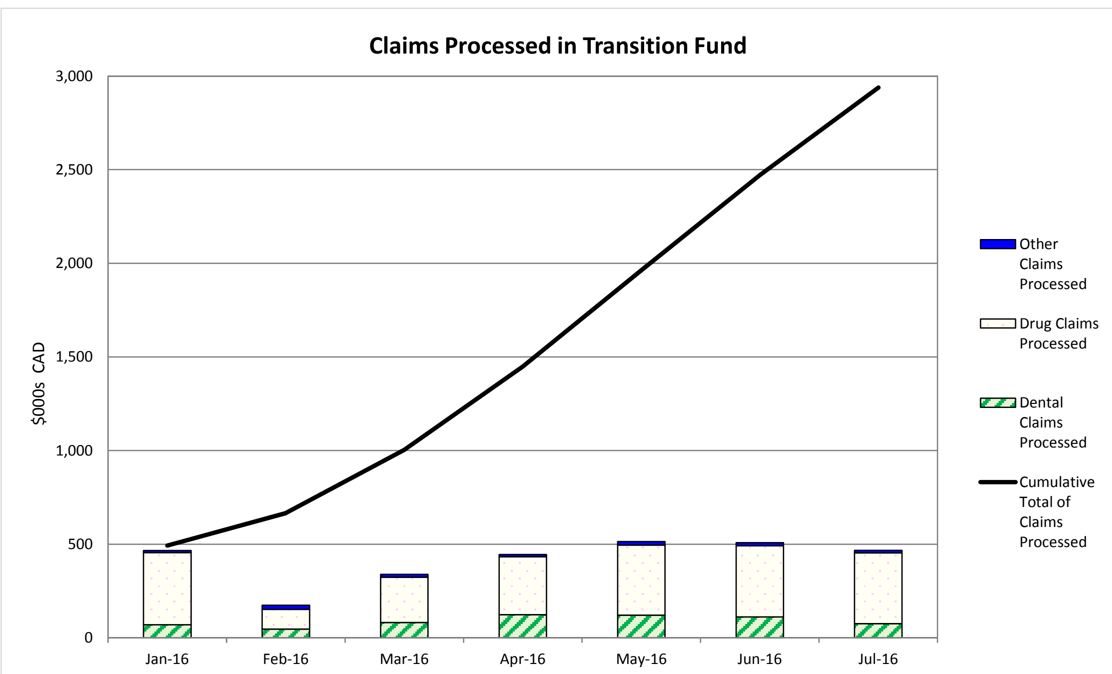
(ii) the benefit is medically necessary;

(iii) if there is a provincial program or an insurance plan that covers the eligible benefit being applied for, have applied to that provincial program or insurance plan or be in the process of applying to it; and

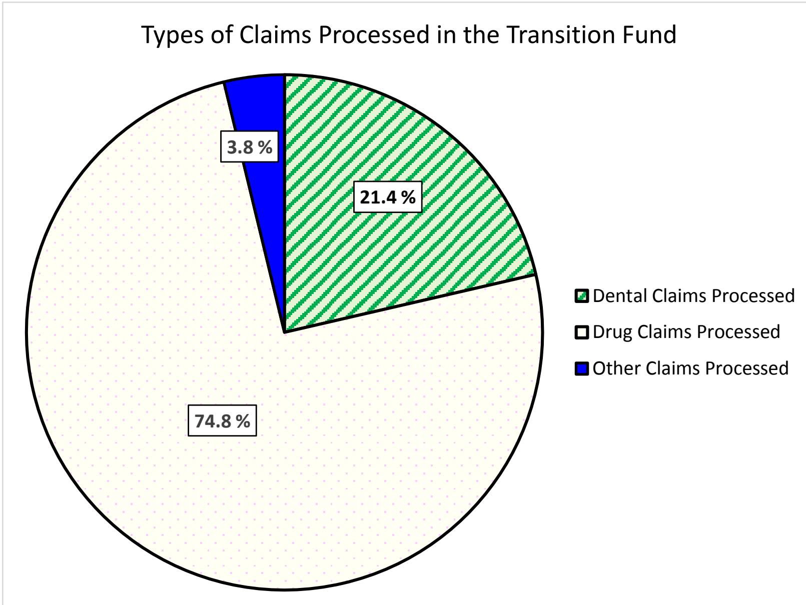
(iv) he/she undertakes to reimburse the Transition Fund in the event he/she receives funding for the benefit from both the Transition Fund and another source.

54. Under the terms of the Transition Fund Order, the terms governing the eligibility and benefit coverage of the Transition Fund, as described above and outlined in more detail in the Seventeenth Report, could be amended with the consent of the Province, USW, Representative Counsel and the Monitor. In April 2016, the terms were amended to provide coverage for repeat refills of 30-day prescription drug claims. Additionally, while the funds were initially split between prescription drug claims (Tranche 1) and non-prescription drug claims (Tranche 2), these were combined in May, 2016 upon the agreement of the Province, the USW, the Representative Counsel and the Monitor.

55. The graph below shows the amount of claims processed each month, with details as to the type of claims, as well as the cumulative amounts paid out of the Transition Fund for the total claims processed, as at the end of each month:



56. The chart below illustrates the types of claims that have been covered by the Transition Fund since its establishment through July, 2016:



57. As of July 31, 2016, $61,673 remained in the Transition Fund before taking into account the additional $2.65 million to be contributed by the Province as referenced below.

58. On July 19, 2016, the Province of Ontario announced an additional $2.65 million would be contributed into the Transition Fund. Counsel for the Province has requested that confirmation be sought that these additional funds are to be governed by the December 23, 2015 Transition Fund Order and the Monitor therefore seeks the Court's directions in that regard and has informed counsel for the USW, Representative Counsel and counsel for USSC.

MONITOR'S RECOMMENDATIONS

59. The Monitor has reviewed the details of the proposed KERP 2, and believes that a KERP is reasonable and warranted in the circumstances. Accordingly, the Monitor is supportive of the KERP 2 being approved by the Court, should it see fit to grant the order being sought by USSC.

60. Except for the $2.7 million payment proposed by USSC in the USSC Offer, the Monitor recommends against the OPEB Reinstatement Motion for the following reasons:

(a) The Applicant’s financial position remains uncertain, and although steel market conditions have improved over the last several months, USSC has incurred substantial losses since the Business Preservation and Cash Conservation order was granted (notwithstanding that USSC did not fund the Suspended Payments during this period). Although USSC’s cash position is greater than projected last October, this is principally due to a reduction of working capital and the increase of post-filing trade credit.

(b) A decision to reinstate payment of the OPEB Claims should take into consideration the legal priorities of other claimants. As noted previously herein, USSC has substantial post-filing obligations that must be satisfied from its cash on hand. Further, USS has a Court-determined secured claim of USD$118.5 million (although subject to appeal).

(c) The long term treatment of OPEB Claims should best be negotiated between a going concern bidder and the stakeholders. The SISP is at a critical stage, and apart from the fact that USSC's financial results do not warrant a reinstatement of OPEB Claims, reinstating OPEB Plans could be detrimental to a successful SISP outcome. Absent a successful negotiation between the USW and a successful bidder, there will be no going concern sale, and it is very uncertain what, if any, funds will be available to pay future OPEB Claims.

61. The Monitor has reviewed and considered the offer submitted by USW and Representative Counsel and the offer submitted by USSC in relation to the OPEB Reinstatement Motion and KERP 2 Motion. The Monitor is of the view that future of the OPEB Plans is a matter to be negotiated with a successful bidder as part of the SISP process. The Monitor is of the view that a one-time contribution by USSC, pending the outcome of SISP negotiations, represents an appropriate balancing of the interests of USSC's operating and restructuring priorities with the interests of the OPEB Beneficiaries.

62. The USSC Offer matches the Province's additional contribution and provides support to the OPEB Beneficiaries in addition to the remaining funds available in the Transition Fund. As the Additional $2.7 million Contribution will be administered in the Transition Fund (or, if necessary, a separate fund to be administered on the same terms), USW and Representative Counsel will continue to have input with respect to eligibility criteria and benefit coverage. As such, if they choose, USW and Representative Counsel can take steps to address any perceived gaps in the Transition Fund's coverage using the Additional $2.7 million Contribution. While not a full reinstatement of OPEBs, the one-time contribution is appropriate in light of USSC's financial position, priority claims, and the ongoing SISP. Accordingly, the Monitor supports the USSC Offer and is of the view that it represents an appropriate resolution of the OPEB Reinstatement Motion and KERP 2 Motion.

All of which is respectfully submitted, this 15th day of August, 2016.

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

Per: Alex Morrison

Alex Morrison, CPA, CA
Senior Vice President

Appendix A
With Prejudice Offer from USW and Representative Counsel

WITH PREJUDICE

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.

APPLICANT

The United Steel, Paper and Forestry, Rubber, Manufacturing, Energy, Allied Industrial and Service Workers International Union (the "United Steelworkers" or "USW") an international trade union working together with its local unions Local 1005 and Local 8782 (collectively the "Union"), and Representative Counsel to the non-USW active and retired employees of US Steel Canada Inc. ("Representative Counsel") offer to settle the motion of U.S. Steel Canada Inc. (the "Company") seeking the approval of a second key employee retention plan (the "KERP Motion") and the joint motion of the Union and Representative Counsel to lift the suspension of the provision of post-employment benefit plans (the "OPEBs Motion) as ordered by the Court on October 9, 2015 (the "Cash Conservation and Business Preservation Order"), on the following terms:

1. The Company will resume the full provision of medical and dental benefits ("OPEBs") on August 16, 2016 until December 30, 2016 following which the parties

agree to schedule a case conference to discuss whether a suspension of OPEBs beyond December 31, 2016 is necessary;

2. The Union and Representative Counsel will not oppose the KERP Motion; and

3. The Union and Representative Counsel will adjourn the OPEBs Motion *sine die* to be brought back on for a hearing at the discretion of the Union and Representative Counsel on a date in 2017 on prior notice to the Service List.

August 11, 2016

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Court-appointed Representative Counsel to the Non-USW Active and Retired Employees of US Steel Canada Inc.

Appendix B
Offer from USSC

OFFER TO SETTLE

U. S. Steel Canada Inc. ("**USSC**") offers to settle A) the motion brought by USSC for approval of a second key employee retention plan (the "**KERP Motion**"); and B) the motion brought by the United Steel, Paper and Forestry, Rubber, Manufacturing, Energy, Allied Industrial and Service Workers International Union (the "**USW**", an international trade union working together with its local unions Local 1005 and Local 8782 (collectively, the "**Union**")), and the non-USW active and retired employees of USSC (the "**Salaried Employees**"), represented by Representative Counsel ("**Representative Counsel**"), for an order reinstating the payment of other post-employment benefits ("**OPEBs**") to USSC's former salaried or unionized employees and their eligible spouses and beneficiaries (the "**OPEB Beneficiaries**") that the Court authorized USSC to suspend effective October 9, 2015 pursuant to the order dated October 9, 2015 (the "**OPEB Motion**") on the following terms:

1. USSC will make a one-time payment of $2.7 million to the Transition Fund established by the Government of the Province of Ontario for the benefit of OPEB Beneficiaries or, if necessary as a technical matter, to another fund to be administered on the same terms as the Transition Fund;

2. The KERP Motion will be approved; and

3. The OPEB Motion will otherwise be dismissed.

Appendix C
Historical Summary of Cash Payments for Benefits and OPEB Claims

Appendix C

Historical Benefits and OPEB Cash Payments Analysis
$ millions CAD

	FY2015[1]					**FY2014**					**FY2013**					**FY2012**				
	Salaried	**HAM Union**	**LE Union**	**Other[2]**	**Total**	**Salaried**	**HAM Union**	**LE Union**	**Other[2]**	**Total**	**Salaried**	**HAM Union**	**LE Union**	**Other[2]**	**Total**	**Salaried**	**HAM Union**	**LE Union**	**Other[2]**	**Total**
Benefits																				
Actives	1.3	1.7	2.7	-	5.7	1.5	1.8	2.5	-	5.8	1.5	1.7	2.1	-	5.3	1.3	1.8	2.9	-	6.0
OPEBs																				
Pensioner/Survivor																				
Dental	2.7	5.6	0.6	0.4	9.3	3.3	7.0	0.7	0.5	11.5	3.1	6.8	0.7	0.5	11.1	3.2	6.9	0.6	0.5	11.2
Drug	2.6	7.9	1.1	0.6	12.2	3.6	10.3	1.2	0.8	15.9	3.8	10.4	1.2	0.8	16.2	4.0	11.3	1.1	0.9	17.3
EHS *(Extended Health)*	0.5	3.3	0.1	0.1	4.0	0.5	3.7	0.2	0.1	4.5	0.4	3.3	0.2	0.1	4.0	0.5	3.3	0.2	0.3	4.3
HCSA *(Health Care Spending Acct)*	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Health	-	0.2	-	-	0.2	-	0.2	-	-	0.2	-	0.2	-	-	0.2	-	0.3	-	-	0.3
Vision	0.3	0.6	0.1	-	1.0	0.3	0.7	0.1	-	1.1	0.3	0.7	0.1	-	1.1	0.3	0.7	0.1	-	1.1
Subtotal	6.1	17.6	1.9	1.1	26.7	7.7	21.9	2.2	1.4	33.2	7.6	21.4	2.2	1.4	32.6	8.0	22.5	2.0	1.7	34.2
Other																				
GSC Admin Costs & Premium Tax					2.3					2.7					2.6					2.7
Provincial Sales Tax					2.6					3.1					3.0					3.2
Subtotal					37.3					44.8					43.5					46.1
Life insurance & AD&D[3]					5.9					6.1					6.1					6.4
TOTAL					**43.2**					**50.9**					**49.6**					**52.5**

Note 1: 2015 amounts are not fully comparable to 2011-2014 due to the impact of the Cash Conservation and Business Preservation Order.

Note 2: This represents the pensioners/survivors from Stelpipe, Welland and US Steel Inc. STLC USA.

Note 3: This includes the cash payment for life insurance and AD&D insurance for both Actives and Pensioner/Survivor.

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

TWENTY-NINTH REPORT OF THE MONITOR
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