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.

THIRTIETH REPORT OF THE MONITOR
September 9, 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 Thirtieth Report is to provide information to the Court on the following:

   (a) an overview of USSC's financial results (on an accounting basis) for the month of July, 2016. The provision of such information is related to paragraph 73 of the Thirteenth Report of the Monitor dated October 2, 2015 (the "**Thirteenth Report**") wherein, as noted in paragraph 110 of the Reasons for Decision of Mr. Justice Wilton-Siegel in respect of the motions heard October 7 and 8, 2015, the Monitor indicated that such information would be provided on a monthly basis upon Court approval of the Amended and Restated DIP Facility (as described in the Thirteenth Report); and

(b) a letter to the Monitor dated September 2, 2016 (the "**USS Letter**"), received from counsel for USS, regarding statements made concerning iron ore and coal purchases by USSC from USS in the Reply Affidavit filed by Mr. Paul Bishop sworn on August 16, 2016 (the "**Bishop Affidavit**") in connection with the motion by the United Steel, Paper and Forestry, Rubber, Manufacturing, Energy, Allied Industrial and Service Workers International Union (the "**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 Reinstatement Motion**").

TERMS OF REFERENCE AND DISCLAIMER

5. In preparing this Thirtieth 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 Thirtieth 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 Thirtieth 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 Thirtieth 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 Thirtieth 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.

FINANCIAL RESULTS

Background

16. 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**"). This Thirtieth Report will provide an overview of financial results for the month of July, 2016.

17. As noted in previous reports of the Monitor, global steel markets have faced significant challenges. The North American market has been impacted by competition from imports as well as the slowdown in the oil and gas sector, which has led a number of North American steel producers to idle mills.

18. In the European markets, Tata Steel announced in late March 2016 that it was exploring its options to restructure its European operations, including the divestiture of Tata Steel UK, the UK's largest steel producer. According to a July 8, 2016 press release issued by Tata Steel, while Tata Steel received seven expressions of interest in May 2016 for its British operations, the UK's referendum regarding its exit from the EU is expected to result in increased uncertainty and volatility for the industry. Therefore, Tata Steel has also decided to look at alternative solutions such as a potential joint venture with a steel industry competitor like Thyssenkrupp AG[1]. In Asia, China announced in early February 2016 that it plans to cut its steel production capacity by 100-150 million tonnes over the next five years, with a target to cut 45 million tonnes in 2016[2]. Furthermore, leaders of the G7 countries met in Japan in late May 2016 and pledged to take united coordinated actions to address the global excess capacity in steel[3]. Then, in early September 2016, G20 leaders made a similar pledge, and the potential formation of a global forum to seek a global solution was proposed.[4] However, it will likely take some time before any reduction in supply is felt in the global market.

19. As discussed in the Twenty-Second Report of the Monitor dated March 11, 2016 (the "**Twenty-Second Report**"), India, the EU and the United States have all recently announced additional trade protection measures on specific steel products being imported into their respective countries in order to manage the impact of foreign steel imports. In early March 2016, the U.S. announced tariffs of up to 266% on cold-rolled steel imports from various countries[5]. In May, 2016, the U.S. announced that the tariffs on cold-rolled steel imports from China would be raised to effectively over 500%[6]. It is believed that China will continue to provide tax rebates to support its steel exporters. After a preliminary ruling announced in March 2016, in early August, 2016 the U.S. set final anti-dumping duties, up to 34.3%, on hot-rolled flat steel from seven countries, including the

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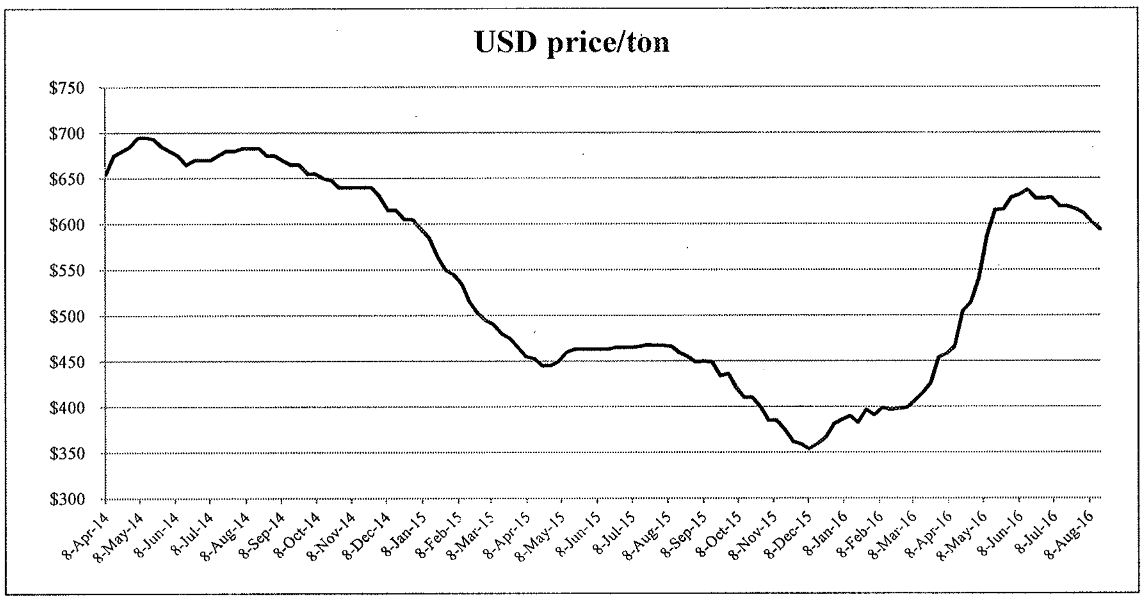
[1] http://www.tatasteeleurope.com/en/news/news/tata-steel-announces-developments-regarding-the-strategy-for-its-european-businesses, July 8, 2016
[2] "China State Council outlines 5 year plan to cut steel capacity," *Steel Guru*, 5th February 2016
[3] http://www.reuters.com/article/us-g7-summit-steel-idUSKCN0YI0IB, May 27, 2016
[4] http://www.reuters.com/article/us-g20-china-steel-idUSKCN11B161, September 5, 2016
[5] http://www.wsj.com/articles/u-s-imposes-266-duty-on-some-chinese-steel-imports-1456878180, March 1, 2016
[6] http://www.reuters.com/article/us-usa-china-steel-idUSKCN0Y82ER, May 19, 2016

Netherlands, South Korea and Brazil, as well as final anti-subsidy duties, up to 57%, against certain steelmakers in Brazil, Turkey and South Korea[7].

20. On April 6, 2016, the Canada Border Services Agency determined that an expiry of an anti-dumping order it had made in August, 2011 would likely result in the resumption of the dumping of hot rolled steel from China, Brazil and Ukraine and of the subsidizing of hot rolled steel from India[8]. On August 12, 2016, the Canadian International Trade Tribunal ("**CITT**") announced its decision to continue the orders with respect to the dumping of hot rolled steel from Brazil, China, Ukraine, and the subsidizing of these goods from India[9]. As a result, imports of hot rolled steel from Brazil, China and Ukraine will be subject to dumping duties of 77%, and imports from India will continue to be subject to countervailing duties. The order will remain in effect for five years.

21. The chart below updates benchmark per ton hot rolled steel selling market prices included in previous reports of the Monitor:



Source: Platts and CRU

22. As set out in the graph above, after a significant decline for many months, market prices began to rise beginning mid-December 2015 and throughout the first half of 2016. However, some analysts doubted the sustainability of the increase and as shown in the graph, this price rally may only have been temporary. While market prices at the end of July 2016 were higher than prices at the same time in the prior year, market prices have been declining since the middle of June 2016. The impact of this price decline on product demand is discussed in paragraph 25.

[7] http://www.reuters.com/articles/us-usa-trade-steel-idUSKCN10G290, August 5, 2016
[8] http://www.cbsa-asfc.gc.ca/sima-lmsi/er-rre/rr2015-002/rr2015-002-nd-eng.html, April 6, 2016
[9] http://www.citt-tcce.gc.ca/en/node/7817, August 12, 2016

Financial results for the month ended July 30, 2016

23. The table below sets out the financial results of USSC for the first seven months of 2016 as well as for the full year of 2015 (on a quarterly basis):

U. S. Steel Canada Inc.
Selected financial results
CAD Millions (except tons)

	(1) Q1 2015	(2) Q2 2015	(3) Q3 2015	(4) Q4 2015	(5) = (1)+(2)+ (3)+(4) FY 2015	(6) Q1 2016	(7) Q2 2016	(8) July 2016	(9) = (6)+ (7)+ (8) 2016 Year to Date
Tons shipped	422,646	493,099	473,612	424,983	1,814,340	497,671	517,462	145,500	1,160,633
Revenue									
Combined HW and LEW	$328.0	$328.4	$329.8	$272.6	$1,258.8	$272.0	$325.6	$105.9	$703.5
Avg. selling price per ton	*$776*	*$666*	*$696*	*$641*	*$694*	*$547*	*$629*	*$728*	*$606*
EBITDA									
Combined HW and LEW	**($2.5)**	**($3.2)**	**($6.7)**	**($34.8)**	**($47.2)**	**($30.6)**	**$25.6**	**$17.1**	**$12.1**
Depreciation	24.3	24.2	24.2	24.1	96.8	24.1	24.1	8.0	56.2
Income from operations									
Combined HW and LEW	**($26.8)**	**($27.4)**	**($30.9)**	**($58.9)**	**($144.0)**	**($54.7)**	**$1.5**	**$9.1**	**($44.1)**

24. The paragraphs that follow provide certain highlights with respect to July, 2016 financial results.

25. Total shipments for the month ended July 31, 2016 were approximately 145,500 tons. The comparable figure for the month ended July 31, 2015 was approximately 151,983 tons, which is a year-over-year decrease of approximately 4.3%. Over the past months, Management has been successful in replacing the direct sales to automotive customers it lost in Q4, 2015 by expanding USSC's geographical customer base, selling greater volumes to a number of existing USSC customers and selling automotive product to the OEMs indirectly. Production volume remained strong with the Lake Erie steelmaking operating at an average of 26.0 heats[10] per day in July, 2016 compared to 24.2 heats per day in Q2, 2016, 22.8 heats per day in Q1, 2016 and 17.6 heats per day in Q4, 2015. However, new customer sales orders (a precursor to future sales volumes) have slowed since early July as customers appear to have temporarily held back from placing orders as they assess the market environment. As prices rise, customer orders generally rise as they purchase more product in anticipation of further price increases. When prices begin to decrease, customers reassess their inventory levels and temporarily hold back in

[10] A heat is a production volume unit of liquid steel.

anticipation of further price decreases. As a result, production volume is expected to decrease in Q4, 2016 in response to the reduced demand.

26. Revenue for July, 2016 was approximately $105.9 million which resulted in an average per ton selling price (for all types of steel) of approximately $728. This compares to the average selling price per ton of approximately $674 for July 2015, and an average selling price of $694 per ton for the full year of 2015. The higher average price in July, 2016 reflects the increase in the market prices for hot rolled steel sales in the spot market over prior year, along with higher sales volumes in the spot market. This increase was offset by the change in USSC's sales mix and the loss in sales made directly to automotive OEMs.

27. Earnings before interest, taxes, depreciation and amortization ("**EBITDA**") for July, 2016 were positive $17.1 million, compared to negative EBITDA of $2.7 million for the month ended July 2015. Despite the loss in automotive volume in comparison to prior year, EBITDA for July, 2016 primarily increased from prior year due to an improvement in gross margin from reduced cost of sales. It is important to note that iron ore and coal are purchased at contracted prices during each year's shipping season, which runs from approximately mid-March to December depending on the weather conditions in the Great Lakes. However, the costs of these key raw materials are only reflected in USSC's cost of sales and gross margin when the steel products made with these raw materials are sold. USSC entered into an annual fixed price contract in early 2015 for the purchase of these key raw materials over the 2015 shipping season. USSC's cost of sales and gross margin in 2015 and the first four months of 2016 reflect these contracted purchases. Subsequent to entering into the annual fixed price contract, the market prices for these raw materials declined. As a result, when USSC management entered into new contracts in Q2 2016, USSC was able to secure more favourable prices for these raw materials, which notably reduced cost of sales in May through July 2016 and contributed to the increased EBITDA.

28. Management expects the financial results for the month ended August, 2016 to also be positive. However, the financial results for the balance of the year are forecast to decline as sales volumes and pricing are expected to decrease. Additionally, the potential impact on the financial results from foreign imports being redirected into the Canadian market as a result of the anti-dumping measures of the U.S. is still to be determined, and there still remains uncertainty in the stability and direction of steel market prices generally.

29. The table below reconciles income from operations to the cash flow generated during the month of July, 2016. As set out below, the net increase in cash is driven partially by a net decrease in working capital, and partially by positive operating income.

U. S. Steel Canada Inc. **Selected cash flow information** **CAD Millions**			**July 2016**
OPENING CASH			**$131.4**
Income from operations	$9.1		
Less Restructuring Costs	(2.4)		
Add back non-cash items	7.6		
Adjusted income/(loss)		$14.3	
Net changes in working capital and intercompany (Note 1)		14.5	
Capital expenditures		(0.1)	
Net cash flow			28.7
ENDING CASH			**$160.1**

Note 1: This is the net change in working capital and intercompany after adjusting for the impact of the stayed intercompany interest and finance costs.

Comparison to the Independent Business Plan Forecast for July, 2016

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

31. The Monitor has been reporting on a monthly basis as to how USSC is tracking in relation to the Independent Business Plan financial projection. The table below summarizes July, 2016 financial results, and compares it to the IBP projection:

U. S. Steel Canada Inc. **Select financial results for July 2016** **CAD millions (except tons)**	**Actual**	**IBP**	**Variance**
Tons shipped	145,500	126,473	19,027
Revenue	$ 105.9	$ 82.0	$ 23.9
Gross margin	$ 26.8	$ 4.2	$ 22.6
Fixed expenses, excluding depreciation	$ (9.7)	$ (12.0)	$ 2.3
EBITDA	$ 17.1	$ (7.8)	$ 24.9

Note: The IBP included restructuring costs as part of EBITDA. USSC does not, as part of its financial statements, include such costs in EBITDA. As such, the IBP EBITDA forecast amount in this table has been amended for purposes of this table as compared to the forecast provided in Exhibit "B" of the affidavit of William Aziz dated September 28, 2015.

32. As set out in the table above, July, 2016 results were favourable when compared to the IBP. Differences between July, 2016 results and the IBP include:

(a) Revenue was higher than the IBP by approximately $23.9 million. This is primarily due to an increase in volumes, with an additional contribution from higher prices, as described below:

(i) Actual tons shipped were approximately 15% higher than forecast in the IBP in July, 2016. This is primarily due to higher than forecast hot rolled steel shipments to customers. Generally, when steel prices are on the rise, sales orders (a precursor to future sales volumes) tend to increase also as customers seek to make purchases before prices increase further;

(ii) This positive variance in sales volumes was accompanied by higher selling prices than forecast in the IBP. Average selling price per ton of steel sold was higher than projected in the IBP;

(b) In addition to the increase in revenues, gross margin was higher than the IBP by approximately $22.6 million. This is primarily attributable to the lower cost of sales that improved margins; and

(c) EBITDA was higher than the IBP by approximately $24.9 million. This is mainly due to the gross margin variance explained above, and assisted partially by lower than forecast fixed expenses.

33. The table below summarizes the actual cumulative EBITDA and cash flow from October, 2015 through to July, 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**	**Jul 2016**	**TOTAL**
Adjusted EBITDA (Note 1)	**($5.0)**	**($7.6)**	**($10.5)**	**($24.8)**	**($17.3)**	**($10.8)**	**($5.0)**	**$5.7**	**$14.5**	**$15.5**	**($45.3)**
Adjust for other non-cash items	(2.5)	(0.8)	(2.0)	0.2	(0.6)	0.4	(0.6)	(0.7)	(0.8)	(0.4)	(7.8)
Free Cash Flow from Operations	**($7.5)**	**($8.4)**	**($12.5)**	**($24.6)**	**($17.9)**	**($10.4)**	**($5.6)**	**$5.0**	**$13.7**	**$15.1**	**($53.1)**
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)	14.5	153.1
DIP Fees	3.9	(0.1)	(0.1)	(1.6)	(0.1)	(0.1)	(0.1)	(0.1)	(0.1)	(0.8)	0.8
Capital Expenditures	(0.2)	(1.0)	(1.4)	(0.1)	(0.2)	(0.5)	0.1	(0.6)	(0.3)	(0.1)	(4.3)
Net Cash Flow	**$17.4**	**$28.8**	**$41.5**	**($41.7)**	**$2.6**	**$23.0**	**$28.6**	**($9.8)**	**($22.6)**	**$28.7**	**$96.5**
Beginning Cash Bal.	**$63.6**	**$81.0**	**$109.8**	**$151.3**	**$109.6**	**$112.2**	**$135.2**	**$163.8**	**$154.0**	**$131.4**	**$63.6**
Ending Cash Bal.	**$81.0**	**$109.8**	**$151.3**	**$109.6**	**$112.2**	**$135.2**	**$163.8**	**$154.0**	**$131.4**	**$160.1**	**$160.1**

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. For the purposes of this table, EBITDA has been adjusted to include non-DIP related restructuring costs in EBITDA.

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.

USS LETTER RE: IRON ORE AND COAL PURCHASES BY USSC BETWEEN SEPTEMBER, 2014 AND FEBRUARY, 2016

34. On September 2, 2016, the Monitor received the USS Letter, a copy of which is attached as **Appendix A**. The USS Letter comments on aspects of the Bishop Affidavit, which attached as Exhibit "A" a pro-forma analysis (which was provided in confidence to the USW's financial advisor) that was prepared by USSC staff and by staff of the Monitor. The Exhibit was redacted from the version of the Bishop Affidavit that was served but the unredacted version was inadvertently made public.

35. The USS Letter comments on the assertion in the unredacted Bishop Affidavit that "USSC paid USS approximately $114 million more than market prices for iron ore and coal" during the period September 2014 to February 2016 "in accordance with supply agreements with USS in place at the start of the CCAA proceeding, and new supply agreements agreed to by USSC with USS in March/April 2015 during the CCAA proceeding".

36. The USS Letter states that iron ore pricing for the 2015 shipping season was made pursuant to fixed price contracts entered into between USS and USSC, negotiated at arms-length under the supervision of the CRO and USSC's independent board of directors, reflected commercially reasonable terms, and was approved by the Monitor. The USS letter also states that coal pricing over the same period was similarly negotiated and approved. The USS Letter also claims that, by entering into fixed-price contracts to purchase iron ore from USS, USSC enjoyed savings over market prices totaling US$340 million over the period 2011 to 2014.

37. The Monitor confirms that the pro-forma analysis in Exhibit "A" to the Bishop Affidavit was prepared to demonstrate the potential improvement in USSC's financial results once USSC was able to enter into new iron ore and coal contracts in 2016. For the 2014 shipping season, USSC obtained iron ore and coal from USS pursuant to contracts that were entered into prior to the CCAA filing. For the 2015 shipping season, USSC obtained iron ore and coal from USS pursuant to negotiated contracts that reflected market prices at the time the contracts were entered into. The 2015 shipping season contracts were reviewed by USSC's management, financial advisors and CRO, were approved by the Monitor, and were appropriate market contracts at the point in time they were entered into. The pro-forma analysis described the approximate impact on USSC's EBITDA from September 2014 to February 2016 if USSC had purchased iron ore and coal at market prices, with iron ore prices determined on a lagging quarterly basis, and without incorporating any pricing premium that may have been required by a vendor in order to secure a contract, due to USSC being under a CCAA.

38. The Monitor has not undertaken analysis concerning fixed price contracts between USS and USSC covering the period 2011 to 2014, and offers no comment on the assertions in

the USS Letter covering this period. The Monitor also offers no comment on other assertions in the USS Letter not specifically addressed in this Report.

All of which is respectfully submitted, this 9th day of September, 2016.

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"

Thornton Grout Finnigan LLP
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September 2, 2016

VIA EMAIL

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Attention: Alex Morrison

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Attention: Robert Staley and Kevin Zych

Dear Sirs:

Re: Raw Materials Supplied by United States Steel Corporation ("USS") to U. S. Steel Canada, Inc. ("USSC")

We write to you regarding the Reply Affidavit of Paul Bishop sworn August 16, 2016 in connection with the United Steel Workers' ("**USW**") motion to lift the suspension of OPEB payments (the "**Bishop Affidavit**"). In particular, we write to correct Mr. Bishop's misleading and inaccurate statement that between September 2014 and February 20016, USS overcharged USSC $114 million for the supply of iron ore and coal used in the steel-making process. As you know, USS and its counsel did not receive an unredacted copy of the Bishop Affidavit before the relevant motion was heard, so we did not have an opportunity to correct either the public record or the record before the presiding judge. We understand that subsequent to the release of the Bishop Affidavit, the USW issued a press release repeating Mr. Bishop's statements as if they were substantiated truth. We write this letter in an attempt to ameliorate that circumstance.

USS believes it is important to correct the inaccurate information contained in the Bishop Affidavit and the USW press release. USS is hopeful that the Monitor, USSC's Chief Restructuring Officer ("**CRO**") and USSC will agree that it is appropriate and necessary to clarify the public record.

USS does not have access to the data and pricing assumptions upon which the statements in the Bishop Affidavit are based, in particular in relation to what Mr. Bishop refers to as a "spot price", and as such, it is difficult for USS to substantively comment on Mr. Bishop's analysis. However, USS is of the view that the facts and circumstances surrounding the transactions entered into between USS and USSC for iron ore and coal supply make it clear that the statements in the Bishop Affidavit are misleading.

Iron Ore

Between the date of USSC's *Companies' Creditors Arrangement Act* ("**CCAA**") filing and February 2016, USS and USSC entered into a series of fixed-price contracts for the supply of iron ore. While USSC could have entered into floating spot price contracts with USS or another supplier, it chose to enter into fixed-price contracts. Fixed price contracts allow the purchaser to control costs and protect itself against the downside risk of volatile iron ore price fluctuations while at the same time providing certainty of supply. For example, while not mentioned in the Bishop Affidavit, between 2011-2014, USSC enjoyed a substantial savings on iron ore under fixed price contracts it had with USS when compared to spot pricing available at the time. Using Platt's spot pricing as a benchmark, data maintained by USS shows that USSC saved the following amounts for iron ore purchases over market rate spot pricing between 2011-2014:

2011 - USSC saved US$218 million

2012 - USSC saved US$83 million

2013 - USSC saved US$36 million

2014 – USSC saved US$3 million

USSC total savings over market rates (2011-2014) - US$340 million

With respect to iron ore pricing between 2015-2016, the fixed contract price agreed to by USS and USSC was based on Platt's Iron Ore Index (IODEX) price that was derived from iron ore pricing forecasts prepared by five investment banks and reflected the then market rates.[1] As USSC had done in the past, and in light of the fact that it was now insolvent and required input cost predictability, we understand that USSC, through its CRO and its independent board of directors, and ultimately approved by the Court-appointed Monitor, determined that it was prudent to shield itself from price fluctuations associated with floating spot price contracts. Neither USS nor USSC could predict that shortly after the 2015-2016 contract was finalized, the IODEX price for iron ore would drop precipitously.

As the data above demonstrates, the suggestion that USSC was overcharged by USS or entered into imprudent contracts for iron ore is false. USSC paid what it agreed to pay based on a prudent business decision to enter a fixed price contract negotiated, at arm's length by and under

[1] The five investment banks were Citibank, JP Morgan, Morgan Stanley, Bank of America and Goldman Sachs.

the supervision of Court officers and the Court, which contract was on reasonable commercial terms at the time it was entered.

Coal

With respect to the suggestion that USS overcharged USSC for coal delivered between USSC's CCAA filing and February 2016, it is unclear whether the analysis underpinning this conclusion took into account that:

(a) USS provided several different blends of coal to USSC, which is not factored into the general "spot price"; and

(b) USSC was insolvent and, as a result, USS bore significant inventory build-up and non-payment risks.

Again, without access to the underlying assumptions and data, in particular in relation to delivery pricing, it is difficult for USS to offer a full commentary on the methodology used by Mr. Bishop.

As was the case with the iron ore contract, USSC negotiated at arm's length with USS through its CRO, guided by its independent board of directors and under the supervision of the Monitor and the Court. The decision to enter a fixed term coal supply contract was prudent and was thought advisable by USSC and its advisors in the circumstances at the that time. The coal supply contract was on reasonable commercial terms. USSC was not overcharged by USS.

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USS hopes that the Monitor, the CRO and the board of directors of USSC will all publicly confirm that the iron ore and coal supply contracts were entered into at commercial market rates at the time and were fair and reasonable in the circumstances.

In these unusual circumstances, where USS did not have an opportunity to correct the record on the relevant motion, we kindly request that this letter be annexed to the Monitor's next report to the Court in this matter.

Yours very truly,

Thornton Grout Finnigan LLP

Robert I. Thornton
RIT/MSS

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

THIRTIETH REPORT OF THE MONITOR
September 9, 2016

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