



**STELCO INC.
QUARTER 3, 2004
REPORT TO THE SHAREHOLDERS**

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MANAGEMENT'S DISCUSSION AND ANALYSIS

The following discussion and analysis is as of November 5, 2004 and should be read in conjunction with the Management's Discussion and Analysis (MD&A) and the annual audited Consolidated Financial Statements and Notes contained in the Corporation's 2003 Annual Report, and with the Interim Financial Statements and Notes contained in this report and previously released 2004 quarterly reports. This discussion of the Corporation's business may include forward-looking information with respect to the Corporation, including its business and operations and strategies, as well as its financial performance and conditions. Such statements can generally be identified by the use of forward-looking words such as, "may," "will," "expect," or similar variations. Although management believes that expectations reflected in forward-looking statements are reasonable, such statements involve risks and uncertainties including the risk factors discussed in the MD&A of the Corporation's 2003 Annual Report and previously released 2004 quarterly reports, as well as the risks associated with the restructuring process referred to below. Actual results may differ from expected results.

Creditor Protection and Restructuring

On January 29, 2004 (the "Filing Date"), Stelco Inc. obtained an order (the "Initial Order") from the Ontario Superior Court of Justice (the "Court") granting creditor protection under the Companies' Creditors Arrangement Act ("CCAA"). The order may be amended throughout the CCAA proceedings on motions from Stelco Inc., its creditors, and other interested stakeholders. On the same date, Stelco Inc. made a concurrent petition for recognition of the CCAA order and ancillary relief under Section 304 of the U.S. Bankruptcy Code. The Canadian proceedings include Stelco Inc. and its wholly owned subsidiaries, Stelwire Ltd. (Stelwire), Stelpipe Ltd. (Stelpipe), CHT Steel Company Inc. (CHT Steel), and Welland Pipe Ltd. (Welland Pipe), which are collectively referred to as the "Applicants". The U.S. proceedings include Stelco Inc., Stelwire, and Stelpipe. The Corporation's other subsidiaries and joint ventures are not included in the proceedings (see Notes 1 and 8). During the stay period, the Applicants are authorized to continue operations. Ernst & Young Inc. (the "Monitor") has been appointed by the Court as Monitor in the Canadian proceedings and has been reporting to the Court from time to time on the Applicants' cash flow and other developments during the proceedings (see Note 1 to the Consolidated Financial Statements).

The Initial Order and the U.S. proceedings provided for an initial stay period of 30 days, which has subsequently been extended to November 26, 2004, and potentially to such later date as the Court may order. The purpose of the Initial Order and stay of proceedings is to provide the Applicants with relief designed to stabilize their operations and business relationships with their customers, suppliers, employees, creditors, retirees and other stakeholders.

During the proceedings, the Corporation is seeking input from its creditors, labour unions, and other stakeholders, with a view to developing a comprehensive restructuring plan to return the Corporation to viability. The restructuring plan will likely include strategic, operational, financial, and corporate elements. As part of the restructuring plan, a formal CCAA plan of arrangement (the "Plan") will be prepared by the Corporation and submitted to affected creditors, who will vote on the Plan, and to the Court for approval. Under the CCAA plan of arrangement, claims against the Applicants will be divided into classes, and each class will vote on the Plan as it pertains to that class. No determinations or rulings have been made to date as to the classification of affected creditors.

The CCAA proceedings have triggered defaults under substantially all debt obligations of the Applicants (see Notes 13 and 14). The Initial Order generally stays actions against the Applicants including steps to collect indebtedness incurred by the Applicants prior to the Filing Date and actions to exercise control over the Applicants' property. The Initial Order grants the Applicants the authority to pay outstanding and future wages, salaries, employee pension contributions and benefit payments, and other obligations to employees; the costs of goods and services, both operating and capital, provided or supplied after the date of the Initial Order; rent payments under existing arrangements payable after the date of the filing; and principal, interest, and other payments to holders of security in respect of the property of the Applicants if the amount secured by such security is, in the reasonable opinion of the applicable Applicant with the concurrence of the Monitor, less than or equal to the fair value of such security, having regard to, among other things, the priority of such security.

The Corporation will apply to the Court to extend the stay period beyond November 26, 2004, in order to provide further time to consult with stakeholders and develop the Plan. Should the stay period and any subsequent extensions, if granted, not be sufficient to develop and present its Plan, or should a United Steelworkers of America ("USWA") appeal (see Note 1 to the Consolidated Financial Statements) or a motion by certain shareholders (see Liens and other matters— page 16) be successful and the Initial Order be rescinded, or should the Plan not be accepted by the affected creditors or the Court, or if the Applicants otherwise lose the protection of the stay of proceedings, substantially all debt obligations will then be due and payable immediately, or subject to immediate acceleration. The Corporation does not currently have the financial resources to fund such a precipitous event.

An Accommodation Agreement, which provides for the continued access to Stelco's \$350 million credit facility, and a \$75 million Debtor-In-Possession (DIP) Credit Agreement were finalized in March 2004. Further information regarding the terms of these agreements is contained in Note 1 to the Consolidated Financial Statements.

As a result of the CCAA filing, the Corporation has followed accounting policies applicable to an entity under creditor protection. As described in Notes 1 and 2, revenues, expenses, gains and losses, and provisions for losses that can be directly associated with the reorganization and restructuring process have been reported on the Consolidated Statement of Earnings (Loss) as Reorganization items.

Financial and Operational Summary

Stelco Inc. (Unaudited) (Under Creditor Protection as of January 29, 2004 – Note 1) (\$ in millions, except as indicated *)	Three months ended September 30			Nine months ended September 30		
	2004	Restated (Note 3) 2003	Favourable (Unfavourable)	2004	Restated (Note 3) 2003	Favourable (Unfavourable)
Net sales	\$ 953	650	303	\$ 2,611	2,043	568
Costs.....	820	663	(157)	2,341	2,118	(223)
Amortization of property, plant, and equipment.....	30	34	4	90	101	11
Amortization of intangible assets.....	1	–	(1)	2	–	(2)
Operating earnings (loss)	102	(47)	149	178	(176)	354
Reorganization items (Note 4)	(8)	–	(8)	(38)	–	(38)
	94	(47)	141	140	(176)	316
Financial expense						
Interest on long-term debt and debt subject to compromise.....	(11)	(11)	–	(33)	(31)	(2)
Other interest – net.....	(6)	(3)	(3)	(17)	(8)	(9)
Earnings (loss) before income tax from continuing operations	77	(61)	138	90	(215)	305
Income tax expense (recovery) (Note 11)						
Current.....	2	(1)	(3)	7	(1)	(8)
Future	27	(19)	(46)	31	(52)	(83)
Future income tax asset valuation allowance (release)...	(11)	–	11	(14)	–	14
Net earnings (loss) from continuing operations	59	(41)	100	66	(162)	228
Net loss from discontinued operations (Note 10).....	(1)	(1)	–	(2)	(7)	5
Net earnings (loss)	\$ 58	(42)	100	\$ 64	(169)	233
Earnings (loss) per common share from continuing operations (Note 18)	*\$ 0.58	(0.44)	1.02	*\$ 0.64	(1.66)	2.30
Earnings (loss) per common share (Note 18)	*\$ 0.57	(0.44)	1.01	*\$ 0.62	(1.73)	2.35
Average revenue per ton	*\$ 801	539	262	*\$ 703	563	140
Cost per ton.....	*\$ 688	549	(139)	*\$ 630	584	(46)
Semi-finished steel production (thousands of net tons)	1,385	1,244	141	4,078	3,806	272
Shipments (thousands of net tons)	1,190	1,205	(15)	3,714	3,629	85

Overview

Continued strong demand and short supply have driven steel prices to historic highs. As a result of ongoing high energy, scrap, reagent, flux, coal and coke costs, selling price surcharges continued in the third quarter of 2004. Market demand is expected to soften somewhat in the fourth quarter but overall is expected to remain strong through 2005.

Net sales for third quarter 2004 includes \$16 million of previously reserved surcharges relating to first and second quarter 2004 shipments as the criteria for revenue recognition have been met.

In third quarter 2004, Stelco earned \$58 million and its net short-term debt position improved by \$10 million from the previous quarter. Most of the cash flow generated from higher margins in the third quarter was required to finance higher working capital, primarily inventories.

Net sales and costs**Quarter**

Net sales of \$953 million for the quarter were 47% higher than in the same quarter 2003. Steel shipments of 1,190,000 tons were 1% lower, while average revenue per ton of \$801 was up 49%. The third quarter increase in average revenue per ton was primarily due to:

- improved market demand and a lack of steel availability, which had the effect of raising prices
- selling price surcharges implemented in the quarter to cover high raw material and energy costs
- higher-value-added mix of sales due to increased coated and prepaint sales and reduced slab and rod sales
- selling price surcharges related to first and second quarter 2004 shipments that were recognized as revenue in the quarter

Overall demand for steel products continued to exceed supply in the third quarter 2004. Market demand is expected to remain strong in the fourth quarter, although not at third quarter levels, due to automotive production cuts and weaker demand in the hollow structural tubing market. Overall demand is expected to remain strong through 2005.

No provision has been made for potential recovery through an insurance claim that is being processed for the Lake Erie blast furnace outage in June 2004. At this time, the claim has not progressed to the stage where it is appropriate to recognize this claim into income.

Production of semi-finished steel in third quarter 2004 of 1,385,000 tons was 141,000 tons higher than the same quarter 2003 as the year-earlier period was impacted by the August power outage and various September operational issues in the Integrated Steel segment.

Cost per ton in third quarter 2004 of \$688 was up 25% compared with the same quarter 2003 primarily due to:

- unprecedented rise in raw material and energy costs, particularly scrap, coal, coke, natural gas, reagents, and fluxes
- higher-value-added mix of sales
- higher employment costs
- higher spending for repairs and maintenance and supplies at Stelco Lake Erie
- a work stoppage at the Wabush iron ore mine
- recognition of certain pension liabilities associated with the closed Chisholm coal mine
- as stated in the Quarter 2, 2004 Report to the Shareholders, a significant portion of the input costs incurred in that period remained in inventory and would have a negative impact on future periods. This high-cost inventory flowed through in the third quarter.
- third quarter 2003 included a property tax rebate of \$14 million at Stelco Hamilton

The above cost increases were partially offset by:

- increased production and yield improvements primarily at Stelco Hamilton
- a strengthening Canadian dollar

Stelco's Integrated Steel segment's inventories at the end of the third quarter 2004 include a significant amount of high-cost purchased coke. Fourth quarter results are expected to be negatively impacted by this high-cost coke.

Amortization of property, plant, and equipment in third quarter 2004 was \$4 million less than the same quarter of 2003 as certain assets became fully amortized in 2003.

Operating earnings were \$102 million in third quarter compared with a loss of \$47 million in the same quarter 2003.

Nine months

Net sales of \$2,611 million for the nine month period were 28% higher than in the same period 2003. Steel shipments of 3,714,000 tons were 2% higher, while average revenue per ton of \$703 was up 25%. The nine month increase in average revenue per ton was primarily due to:

- improved market demand and a lack of steel availability, which had the effect of raising prices
- selling price surcharges implemented to cover high raw material and energy costs
- higher-value-added mix of sales due to increased coated and prepaint sales and reduced slab and rod sales

No provision has been made for potential recovery through an insurance claim that is being processed for the Lake Erie blast furnace outage in June 2004. At this time, the claim has not progressed to the stage where it is appropriate to recognize this claim into income.

Production of semi-finished steel for the nine month period of 4,078,000 tons was 7% higher than the same period 2003 mainly due to reduced operating levels in the first nine months of 2003 arising from weak market conditions and planned steel inventory reduction. As well, the August 2003 power outage and various September 2003 operational issues in the Integrated Steel segment negatively impacted third quarter 2003. This was partially offset by the blast furnace outage at Stelco Lake Erie in June 2004.

Cost per ton for the nine month period of \$630 was up 8% compared with the same period 2003 primarily due to:

- unprecedented rise in raw material and energy costs, particularly scrap, coal, coke, natural gas, reagents, and fluxes
- higher-value-added mix of sales
- higher employment costs
- higher spending for repairs and maintenance and supplies at Stelco Lake Erie
- a work stoppage at the Wabush iron ore mine
- recognition of certain pension liabilities associated with the closed Chisholm coal mine
- the second quarter 2004 included the blast furnace outage at Stelco Lake Erie
- third quarter 2003 included a property tax rebate of \$14 million at Stelco Hamilton

The above cost increases were partially offset by:

- increased production at Stelco Hamilton and Norambar
- reduced repair and maintenance and labour costs, primarily at Stelco Hamilton
- yield improvements at Stelco Hamilton
- a strengthening Canadian dollar

Stelco's Integrated Steel segment's inventories at the end of the third quarter 2004 include a significant amount of high-cost purchased coke. Fourth quarter results are expected to be negatively impacted by this high-cost coke.

Amortization of property, plant, and equipment for the nine month period was \$11 million less than the same period 2003 as certain assets became fully amortized in 2003.

Operating earnings for the nine month period of \$178 million compared with a loss \$176 million in the same period 2003.

Reorganization items

In third quarter 2004, reorganization items of \$8 million (\$38 million in the first nine months of 2004) were incurred, as detailed in Note 4. First quarter 2004 included a one-time non-cash adjustment of \$15 million to the carrying value of the convertible debentures (see Note 14).

Financial expense

Interest on long-term debt and debt subject to compromise for 2004 includes interest on the convertible debentures. Prior to the CCAA filing, interest on these debentures was charged to retained earnings, net of tax (see Note 14). Interest continues to be recorded on long-term debt subject to compromise. No interest has been paid on the stayed portion of long-term debt, including the convertible debentures, since the filing.

Other interest increased from third quarter and the first nine months of 2003 due to higher levels of bank indebtedness and higher interest rates under the Accommodation Agreement (see Note 1).

Interest on stayed debt obligations will continue to be recognized under Canadian GAAP.

Income tax expense

In 2003, the Corporation recorded valuation allowances against its future income tax assets due to uncertainty regarding the availability of sufficient taxable income in carry-forward periods to allow realization of those future income tax assets. During third quarter 2004 certain entities were profitable. This resulted in a release of future income tax asset valuation allowance of \$11 million in third quarter 2004 (a net release of \$14 million in the first nine months of 2004). The total valuation allowance at September 30, 2004 was \$306 million compared with \$320 million at December 31, 2003.

Quarter-to-Quarter Comparison

Stelco Inc. (Unaudited)
(Under Creditor Protection as of January 29, 2004 – Note 1)
(\$ in millions, except as indicated *)

	Quarter 3 2004	Quarter 2 2004	Favourable (Unfavourable)
Net sales	\$ 953	884	69
Costs.....	820	781	(39)
Amortization of property, plant, and equipment.....	30	29	(1)
Amortization of intangible assets.....	1	1	–
Operating earnings	102	73	29
Reorganization items (Note 4)	(8)	(7)	(1)
	94	66	28
Financial expense			
Interest on long-term debt and debt subject to compromise	(11)	(11)	–
Other interest – net.....	(6)	(6)	–
Earnings before income tax from continuing operations	77	49	28
Income tax expense (recovery) (Note 11)			
Current.....	2	5	3
Future	27	11	(16)
Future income tax asset valuation allowance (release).....	(11)	(9)	2
Net earnings from continuing operations	59	42	17
Net loss from discontinued operations (Note 10)	(1)	–	(1)
Net earnings	\$ 58	42	16
Earnings per common share from continuing operations (Note 18)	*\$ 0.58	0.41	0.17
Earnings per common share (Note 18)	*\$ 0.57	0.41	0.16
Average revenue per ton	*\$ 801	706	95
Cost per ton	*\$ 688	623	(65)
Semi-finished steel production (thousands of net tons).....	1,385	1,327	58
Shipments (thousands of net tons).....	1,190	1,253	(63)

Net earnings of \$58 million in third quarter 2004 compared with \$42 million net earnings in second quarter 2004. Operating earnings of \$102 million in third quarter 2004 compared with operating earnings of \$73 million in second quarter 2004. Operating earnings improvement of \$44 million in the Integrated Steel segment was offset by a decrease in the Mini-mill and Manufactured Products segments of \$5 million and \$10 million respectively. The Mini-mill segment was negatively impacted by higher scrap prices and lower shipments at Norambar partly offset by increased revenue per ton. The Manufactured Products segment was negatively impacted by lower production at Stelpipe, and lower shipments at Stelpipe, Stelwire and Stelfil.

Net sales and costs

Net sales of \$953 million for the third quarter were 8% higher than second quarter 2004. Steel shipments of 1,190,000 tons were 5% lower than second quarter 2004 while average revenue per ton of \$801 was up 13%. The third quarter increase in average revenue per ton was primarily due to:

- continued strong demand and a lack of steel availability, which had the effect of raising prices
- increased selling price surcharges implemented to cover high raw material and energy costs
- selling price surcharges related to first and second quarter 2004 shipments that were recognized as revenue in the quarter

Cost per ton in third quarter 2004 of \$688 was up 10% compared with second quarter 2004 primarily due to:

- higher raw material costs, particularly scrap, coke and coal
- a work stoppage at the Wabush iron ore mine
- recognition of certain pension liabilities associated with the closed Chisholm coal mine
- higher employment costs

The above cost increases were partially offset by:

- lower natural gas prices
- the second quarter 2004 included the blast furnace outage at Stelco Lake Erie

Last Eight Quarters

The following table shows the Company's quarterly financial performance over the last eight quarters. The Company does not experience significant seasonal fluctuations in revenues.

Consolidated quarterly results (unaudited)

(\$ in millions, except as indicated)	Q3 2004	Q2 2004	Q1 2004	Q4 2003 **	Q3 2003 **	Q2 2003 **	Q1 2003 **	Q4 2002
Net sales	\$ 953	884	774	697	650	700	693	682
Net earnings (loss)	\$ 58	42	(36)	(395) *	(42)	(83)	(44)	20
Semi-finished steel production (thousands of net tons).....	1,385	1,327	1,366	1,329	1,244	1,261	1,301	1,205
Shipments (thousands of net tons).....	1,190	1,253	1,271	1,273	1,205	1,258	1,166	1,083

* The net loss in fourth quarter 2003 included the non-cash write-down of the plate mill of \$87 million (representing the net book value of assets) and a future income tax asset valuation allowance of \$304 million.

** Restated (Note 3)

Segmented Information

In the following segment narratives, net sales, shipments, and average revenue per ton data exclude intersegment sales.

The Corporation has three primary business segments: Integrated Steel, Mini-mill and Manufactured Products. The Integrated Steel segment has been identified as the core business. The other two segments have been identified as non-core. See restructuring developments for additional comments.

Integrated Steel segment

The Integrated Steel segment of the Corporation comprises those business units that include and are primarily associated with the Stelco Hamilton and Stelco Lake Erie integrated steel plants and their raw materials properties. The primary markets served by this segment are automotive, transportation, construction, manufacturing, pipe and tubular manufacturers, steel service centres, and steel fabricators. In the past this segment has provided a significant quantity of steel required by Stelco's Manufactured Products segment.

Quarter

Operating earnings of \$80 million for this segment improved by \$44 million compared with the previous quarter and \$129 million compared with the same period last year.

Net sales for the third quarter 2004 includes \$16 million of previously reserved surcharges relating to first and second quarter 2004 shipments as the criteria for revenue recognition have been met.

Net sales for the Integrated Steel segment in the third quarter were \$693 million compared with \$484 million in third quarter 2003. The 43% increase in net sales and the average revenue per ton increase of \$275 was primarily due to:

- improved market demand and a lack of steel availability, which had the effect of raising prices
- selling price surcharges implemented to cover high raw material and energy costs
- higher-value-added mix of sales due to increased coated and prepaint sales and reduced slab and rod sales
- selling price surcharges related to first and second quarter 2004 shipments that were recognized as revenue in the quarter

Overall demand for steel products continued to exceed Stelco Inc.'s supply capabilities in third quarter 2004. Market demand is expected to remain strong in the fourth quarter, although not at third quarter levels, due to automotive production cuts and weaker demand in the hollow structural tubing market. Overall 2005 demand is expected to remain strong.

No provision has been made for potential recovery through an insurance claim that is being processed for the Lake Erie blast furnace outage in June 2004. At this time, the claim has not progressed to the stage where it is appropriate to recognize this claim into income.

Cost per ton increased \$148 in the third quarter compared with the same quarter of 2003. The increase was primarily due to:

- unprecedented rise in raw material and energy costs, particularly scrap, coal, coke, natural gas, reagents, and fluxes
- higher-value-added mix of sales
- higher employment costs
- higher spending for repairs and maintenance and supplies at Stelco Lake Erie
- a work stoppage at the Wabush iron ore mine
- recognition of certain pension liabilities associated with the closed Chisholm coal mine
- as stated in the Quarter 2, 2004 Report to the Shareholders, a significant portion of the input costs incurred in that period remained in inventory and would have a negative impact on future periods. This high-cost inventory flowed through in the third quarter.
- third quarter 2003 included a property tax rebate of \$14 million at Stelco Hamilton

The above cost increases were partially offset by:

- increased production and yield improvements at Stelco Hamilton
- a strengthening Canadian dollar

The Integrated Steel segment's inventories at the end of the third quarter 2004 include a significant amount of high-cost purchased coke. Fourth quarter results are expected to be negatively impacted by this high-cost coke.

Nine months

Operating earnings were \$109 million for the Integrated Steel segment in the first nine months of 2004 compared with an operating loss of \$164 million in the same period 2003.

Net sales for this segment for the first nine months were \$1,881 million compared with \$1,558 million for the same period 2003. The 21% increase in net sales was primarily due to:

- improved market demand and a lack of steel availability, which had the effect of raising prices
- selling price surcharges implemented to cover high raw material and energy costs
- higher-value-added mix of sales due to increased coated and prepaint sales and reduced slab and rod sales

Cost per ton increased \$52 in the first nine months compared with the same period 2003. The increase was primarily due to:

- unprecedented rise in raw material and energy costs, particularly scrap, coal, coke, natural gas, reagents, and fluxes
- higher-value-added mix of sales
- higher employment costs
- higher spending for repairs and maintenance and supplies at Stelco Lake Erie
- a work stoppage at the Wabush iron ore mine
- recognition of certain pension liabilities associated with the closed Chisholm coal mine
- the second quarter 2004 included the blast furnace outage at Stelco Lake Erie
- third quarter 2003 included a property tax rebate of \$14 million at Stelco Hamilton

The above cost increases were partially offset by:

- increased production and yield improvements, primarily at Stelco Hamilton
- reduced repair and maintenance and labour costs, primarily at Stelco Hamilton
- a strengthening Canadian dollar

The Integrated Steel segment's inventories at the end of the third quarter 2004 include a significant amount of high-cost purchased coke. Fourth quarter results are expected to be negatively impacted by this high-cost coke.

Facilities update

The rod mill at Stelco Hamilton closed in September 2004 (see Restructuring Developments).

The cold roll and coated facilities at Stelco Hamilton registered to ISO/TS 16949. The compliance audit of Stelco Lake Erie's ISO 14001 system was satisfactorily completed.

The Stelco Hamilton coke ovens facility, 4-stand tandem cold mill and the Z-Line hot-dip galvanizing line established new monthly and quarterly production records. As well, the "E" blast furnace at Stelco Hamilton and the Stelco Lake Erie coke ovens facility and hot strip mill established quarterly production records.

Automotive quality certification

Stelco Hamilton was awarded ISO/TS 16949:2002 Quality Management System certification for its Cold Rolled and Coated Products Division. ISO/TS 16949 is a new international quality management system standard developed by the International Automotive Task Force (IATF) and the Japan Automotive Manufacturers Association (JAMA) in conjunction with the international standards community. By meeting this standard, Stelco demonstrates its ability to consistently provide product that meets customer requirements, and enhance customer satisfaction through continual improvement of processes, products and services.

Labour matters

The Stelco Lake Erie labour contract with Local 8782 of the United Steelworkers of America (USWA) expired on July 31, 2004. The local union and the Corporation had agreed to provide 90 days notice prior to the commencement of a strike or lockout. On October 1, 2004, Local 8782 delivered a 90-day notice of a potential work stoppage to Stelco. Local 8782 and the Corporation have been actively engaged in negotiations with a view to reaching a new labour contract. These negotiations are ongoing. Further details are provided under Restructuring Developments.

On July 5, 2004, Locals 6285, 6254 and 6680 of the USWA at the Wabush iron ore mine, a joint venture partnership in which Stelco has a 44.6% interest and a supplier of iron ore pellets to Stelco, commenced a strike. On October 10, 2004, new collective agreements were ratified by the relevant labour unions, thereby ending the strike.

The collective agreements at Hibbing Mine and Tilden Mining Company expired on July 31, 2004. Stelco has a 15% interest in each of these mines. On July 28, 2004, tentative contract settlements for both these mines were reached. These tentative contracts have now been ratified.

There can be no assurance that labour difficulties at any of the Corporation's business units will not result in a significant loss of production and revenue and have a material adverse effect on the business, financial condition, results of operations of the Corporation, or the ability of the Corporation to restructure.

Trade

The overall level of year-to-date steel imports as at July 31, 2004 was 44% of Canadian apparent steel consumption compared with 41% for the same period 2003. On August 26, 2004, the Canadian International Trade Tribunal (CITT) rescinded its anti-dumping finding made five years ago on cold rolled steel sheet from Belgium, the Russian Federation, the Slovak Republic and Turkey. This is the fourth such ruling on flat rolled products this year, in spite of the fact that the Canada Border Services Agency (CBSA) had determined in each instance that dumping would likely resume if the findings were to be terminated.

Mini-mill segment

The Mini-mill segment of the Corporation includes Norambar Inc. and AltaSteel Ltd. located in Contrecoeur, Quebec, and Edmonton, Alberta, respectively. These wholly owned subsidiaries comprise electric arc steelmaking, billet casting, and bar rolling facilities, and have combined steelmaking capacity of approximately 1,000,000 tons. This segment also includes the respective mini-mills' metal recyclers, 100%-owned Fers et Métaux Recyclés Ltée and 50%-owned GenAlta Recycling Inc. The primary markets served by this segment are automotive, construction, oil and gas, mining, manufacturing, and steel service centres.

The Corporation's strategic review concluded that Norambar Inc. and AltaSteel Ltd. were not core to Stelco's operations and would not likely form part of Stelco's post-restructuring business. As a result, the Corporation decided to initiate a sales process in respect of these business units. On October 19, 2004, the Court approved the sales process.

Quarter

Operating earnings for this segment were \$19 million in third quarter 2004, compared with \$24 million in the previous quarter and \$3 million in the same quarter of 2003. The \$5 million decrease compared to the previous quarter was primarily due to higher scrap prices and lower shipments at Norambar partly offset by increased revenue per ton.

Net sales for the Mini-mill segment in the third quarter were \$130 million compared with \$70 million in third quarter 2003. Shipments of 202,000 tons in the quarter were 44,000 tons higher than in the same quarter of 2003. Average revenue per ton increased to \$644 in third quarter 2004 from \$443 per ton in the same quarter of 2003. The increase in sales revenue in third quarter 2004 was primarily due to:

- improved market demand, which had the effect of raising prices
- selling price surcharges implemented to cover high raw material and energy costs
- increased shipping volumes

Overall demand for bars, and billets from Norambar continue to be strong. Billet pricing has recently been negatively affected by more availability from offshore. Recent demand for rebar has slowed due to higher inventories at customers. Marketplace demand for AltaSteel's products continues to be strong with increases in the mining market sector driven by high metals prices.

Cost per ton increased \$135 in the third quarter compared with the same quarter of 2003. The increase was primarily due to unprecedented rise in raw material costs, particularly scrap and reagents.

The Norambar steelmaking facilities set a quarterly production record and the bar mill facilities set a monthly production record.

Nine months

Operating earnings were \$50 million in the first nine months of 2004 compared with operating earnings of \$5 million for the same period of 2003. Net sales for the Mini-mill segment for the first nine months of 2004 were \$350 million compared with \$196 million in the same period 2003. Shipments of 595,000 tons in the first nine months were 151,000 tons higher than in the same period 2003. The increase in sales revenue and shipments was primarily due to:

- improved market demand, which had the effect of raising prices
- selling price surcharges implemented to cover high raw material and energy costs
- increased shipping volumes
- Norambar shipments were low in first quarter 2003 as it returned to work after the strike

Cost per ton increased \$94 in the first nine months compared with the same period 2003. The increase was primarily due to an unprecedented rise in raw material costs, particularly scrap and reagents.

Scrap availability in fourth quarter 2004 is not expected to impact production levels.

Labour matters

The collective bargaining agreement between the USWA Local 5220 and AltaSteel expired on July 31, 2004. On October 8, 2004, the unionized employees at AltaSteel voted 82% in favour of authorizing their negotiating committee to call a strike. Under Alberta legislation, 72-hour notice is required before a strike or lockout can be called. To date, no such notice has been given.

Trade

On August 26, 2004, the CBSA expiry review of the 1999 anti-dumping finding on certain concrete reinforcing bar concluded that the expiry of the finding is likely to result in the continuation or resumption of dumping of the goods from Cuba, South Korea and Turkey. The CITT will now conduct an inquiry to determine whether the continued or resumed dumping is likely to result in injury or retardation to Canadian industry. AltaSteel and Norambar are currently preparing for a CITT injury hearing along with other Canadian producers for this trade case.

Manufactured Products segment

The Manufactured Products segment of the Corporation includes business units, both wholly and partially owned, involved in the manufacturing of value-added steel products. Products manufactured by units in this segment include a wide variety of wire and wire products, small- and large-diameter pipe and tubular products, and grinding balls.

The Corporation's strategic review concluded that Stelwire, Stelpipe, Stelfil and Stelco's 40% interest in Camrose Pipe Company were not core to Stelco's operations and would not likely form part of Stelco's post-restructuring business. As a result, the Corporation decided to initiate a sales process in respect of these business units. On October 19, 2004 the Court approved the sales process.

Quarter

Operating earnings were \$3 million for this segment during third quarter 2004 compared with \$13 million in the previous quarter and an operating loss of \$1 million for third quarter 2003. The \$10 million decrease compared to the previous quarter was primarily due to lower production at Stelpipe, and lower shipments at Stelpipe, Stelwire and Stelfil.

Manufactured Products net sales of \$130 million in third quarter 2004 compared with \$96 million in third quarter 2003. The increase in net sales was primarily due to stronger market place demand, selling price increases, and surcharges. Limited availability of hot roll, rod, and bar as raw materials for the Manufactured Products segment affected the segment's ability to increase production levels to meet market demand.

Cost per ton increased \$252 in third quarter 2004 when compared to the same quarter 2003 mainly due to the increased cost of hot roll, rod, and bar as raw materials.

Nine months

Operating earnings were \$19 million for this segment during the first nine months compared with an operating loss of \$17 million for the same period of 2003. The change was primarily due to stronger market conditions.

Manufactured Products net sales of \$380 million in the first nine months compared with \$289 million in the same period 2003. The increase in net sales was primarily due to stronger marketplace demand, selling price increases, and surcharges. Limited availability of hot roll, rod, and bar as raw materials for the Manufactured Products segment affected the segment's ability to increase production levels to meet market demand.

Cost per ton increased \$102 in the nine month period 2004 when compared to the same period 2003 mainly due to the increased cost of hot roll, rod, and bar as raw materials.

Labour matters

The collective agreement at Stelpipe Ltd. that was due to expire on September 30, 2004 was extended on August 18, 2004 for a period of three months and is subject to automatic 30 day renewal periods unless either party provides notice to terminate. No termination notice has been provided by either party as at the date of this report and operations are continuing.

Trade

On September 22, 2004 the CBSA initiated an expiry review of its 1999 anti-dumping finding on certain carbon steel welded pipe originating in or exported from South Korea. Stelpipe Ltd. is currently preparing questionnaire responses for this expiry review.

Related party transactions

The Corporation is a vertically integrated producer of steel products. As such, transactions occur between entities that are related; for example, between Stelco Inc., the parent company, and its wholly owned subsidiaries, and its joint ventures.

These transactions are accounted for at market value. Intercompany sales and profits on all transactions are eliminated on consolidation. Note 8 to the Consolidated Financial Statements discloses condensed financial information related to the Applicants and non-Applicants, including intercompany balances.

Off-balance sheet arrangements

Other than operating lease obligations, the Corporation has no off-balance arrangements as at September 30, 2004.

Liquidity and Capital Resources

The Corporation's consolidated liquidity and capital resources position is summarized as follows:

	Sept. 30, <u>2004</u>	June 30, <u>2004</u>	Mar. 31, <u>2004</u>	Dec. 31, <u>2003</u>	Sept. 30, <u>2003</u>
Cash, cash equivalents and restricted cash	\$ 70	38	78	23	15
Available lines of credit *	\$ 468 **	463 **	466 **	355	322
Lines of credit drawn down	\$ 281	259	301	215	178
Net liquidity	\$ 257	242	243	163	159

* After letters of credit usage

** Includes \$75 million DIP facility

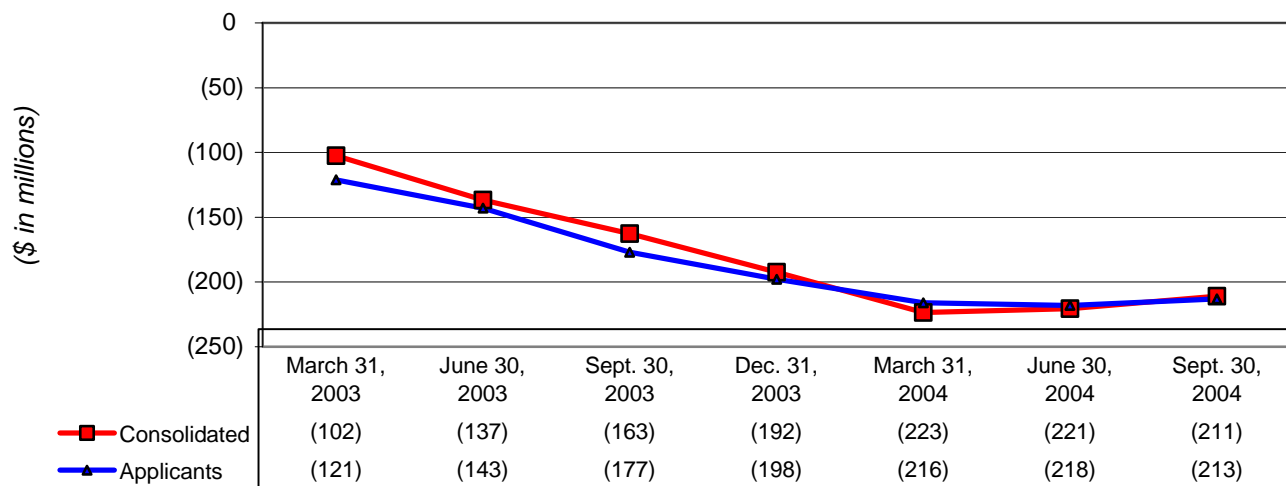
The Applicant's liquidity and capital resources position (included in the above consolidated amounts) is summarized as follows:

	Sept. 30, <u>2004</u>	June 30, <u>2004</u>	Mar. 31, <u>2004</u>	Dec. 31, <u>2003</u>	Sept. 30, <u>2003</u>
Cash, cash equivalents and restricted cash	\$ 36	20	55	3	(12)
Available lines of credit *	\$ 412 **	407 **	412 **	325	288
Lines of credit drawn down	\$ 249	238	271	201	165
Net liquidity	\$ 199	189	196	127	111

* After letters of credit usage

** Includes \$75 million DIP facility

The following graph reflects the quarterly net cash deficiency (Cash, cash equivalents and restricted cash less lines of credit drawn down) of the Corporation and of the Applicants. As a result of the CCAA proceedings, no payments are being made on the Applicants' unsecured debt and other liabilities as disclosed in Note 7:



To date, Stelco is servicing all charges under its credit facilities. It has not had to access the DIP facility, nor is it expected to do so during the remainder of the year.

Net Cash Flow

CASH PROVIDED BY (USED FOR) (\$ in millions)	Three months ended September 30		Nine months ended September 30	
	2004	Restated (Note 3) 2003	2004	Restated (Note 3) 2003
Net earnings (loss) from continuing operations adjusted for items not affecting cash	\$ 134	\$ (18)	\$ 299	\$ (55)
Changes in operating elements of working capital	(107)	19	(242)	53
Directors' and officers' trust (Note 1)	-	-	(10)	-
Expenditures for capital assets	(16)	(12)	(35)	(28)
Reduction of long-term debt (Note 13).....	(7)	(12)	(31)	(45)
Other – net	6	(3)	-	(10)
Change in net cash position	<u>\$ 10</u>	<u>\$ (26)</u>	<u>\$ (19)</u>	<u>\$ (85)</u>
Consists of:				
Increase (decrease) in cash, cash equivalents and restricted cash.....	\$ 32	\$ (11)	\$ 47	\$ (52)
Increase in bank indebtedness	22	15	66	33
	<u>\$ 10</u>	<u>\$ (26)</u>	<u>\$ (19)</u>	<u>\$ (85)</u>

For further details, refer to the Consolidated Statement of Cash Flows.

Restricted cash details are outlined in Note 6 – Restricted Cash.

Cash flows of Applicants are detailed in Note 8 – Condensed Combined Financial Statements.

Quarter

In third quarter 2004, a net cash increase of \$10 million was recorded primarily from cash provided by operating activities including working capital of \$27 million offset in part by capital expenditures of \$16 million. Cash from net operating earnings of \$134 million arose mainly due to the favourable steel-pricing environment. Offsetting much of the improved cash flows from operating earnings were increased working capital requirements of \$107 million, predominantly from higher inventories of \$126 million (particularly due to higher levels of steel, coke and scrap inventories) net of an increase in accounts payable and accrued of \$13 million.

During third quarter 2003, net cash decreased by \$26 million due to capital expenditures and repayments of long-term debt, of \$12 million each respectively. Lower net operating cash requirements of \$18 million were effectively offset with reduced working capital of \$19 million primarily the result of lower inventories of \$32 million net of a reduction of accounts payable and accrued of \$20 million.

Nine months

For the first nine months of 2004, net cash usage was \$19 million. The improved cash flow from operating activities including working capital of \$57 million was more than offset by the repayment of long-term debt of \$31 million and expenditures for capital assets of \$35 million. Repayment of long-term debt includes \$16 million of refinancing at Norambar in first quarter 2004.

During the nine months ended September 30, 2003, reductions in working capital requirements funded cash used by continuing operations. Lower inventories of \$177 million, partly offset by reduced accounts payable and accrued of \$79 million, accounted for a significant portion of the change in working capital. Net cash usage of \$85 million was principally due to repayments of long-term debt of \$45 million and capital expenditures of \$28 million.

Risks and Uncertainties

The Corporation has been granted creditor protection under the CCAA. Uncertainty remains as to whether the existing common shares of the Company will have value upon implementation of a restructuring plan. In the meantime, the capital raising process which has been commenced may provide a meaningful indication as to the value, if any, of such equity.

There is a risk that the capital raising process undertaken by the Corporation, including the sale of non-core assets, will not be successful.

There is a risk that failure to implement a plan of arrangement and obtain sufficient exit financing within the time granted by the Court will result in substantially all debt obligations being due and payable immediately, or subject to immediate acceleration. The Corporation does not currently have the financial resources to fund such a precipitous event.

No assurance can be given that labour difficulties at any of the Corporation's business units will not result in a significant loss of production and revenue and have a material adverse effect on the business, financial condition, or results of operations of the Corporation. Refer to the "Restructuring Developments" section for further discussions of other labour matters.

Other risk factors are discussed under Restructuring Developments and Note 1 contained in this report and in the MD&A of the Corporation's 2003 Annual Report.

Critical Accounting Assumptions and Estimates

The Company's significant accounting policies are described in Note 2 to the of the 2003 Annual Report. The Corporation's Consolidated Financial Statements are prepared in accordance with Canadian GAAP.

The preparation of these financial statements requires the Corporation to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses. Management reviews accounting assumptions and estimates regularly in light of past experience and current conditions or changes in Canadian GAAP, and utilizes outside consultants as necessary to arrive at appropriate assumptions and estimates to be used in the preparation of financial statements. During the first nine months of 2004 there were no significant changes in the Corporation's critical accounting assumptions and estimates.

Changes in Accounting Policy

Asset retirement obligations

On January 1, 2004, a change in accounting policy was adopted by the Corporation to conform with the new CICA Handbook Section 3110, *Asset retirement obligations*. This section applies to legal obligations (i.e. existing or enacted law, statute, ordinance, or contract) associated with the retirement of tangible long-lived assets. This standard applies to the Corporation's mining interests in Wabush, Hibbing, and Tilden iron ore properties. The standard has been adopted retroactively, resulting in a restatement of 2003. On January 1, 2004, an obligation of \$10 million was recorded on the Consolidated Statement of Financial Position representing the Corporation's estimated asset retirement obligation for these properties, principally relating to the Wabush joint venture. A former participant in Wabush funded its share of estimated future mine closure costs at the time of its exit from the joint venture. The Corporation has reflected its share of these funds (\$4 million) in Other non-current assets on the Consolidated Statement of Financial Position. The net charge of \$6 million was recorded directly to retained earnings (deficit). The accounting change will result in a non-cash charge to income of \$1.8 million in 2004, consisting primarily of the accretion of the liability.

Stock-based compensation

On January 1, 2004, the Corporation adopted the accounting changes as required in CICA Handbook Section 3870, *Stock-based compensation and other stock-based payments*. Under the new standard, the fair value of stock options is recorded as compensation cost by a charge to income over the vesting period of the grant. Previously, the fair value of stock options was calculated and disclosed as a note to the financial statements, since the options, when exercised, were settled in shares rather than cash. The calculation of the fair value of the stock options under the new standard is identical to the method previously used and is described in Note 16. The new standard has been applied retroactively without restatement of prior periods, since the effect on prior periods was not material. Note disclosure of the effect on prior periods will continue. The impact on the Consolidated Statement of Financial Position at January 1, 2004 was a decrease to retained earnings of \$1.6 million, and an increase to contributed surplus of \$1.6 million. Based on options outstanding at January 1, 2004, the application of the policy will result in a charge to income of \$0.4 million in 2004. Application of the new standard will have no effect on the method presently used for accounting for grants made under the Deferred Share Unit (DSU) Plan. Since awards made under the DSU plan are settled in cash, their fair value has been recorded as a compensation cost, and is disclosed in Note 16.

Impairment of long-lived assets

A new CICA Handbook Section 3063, *Impairment of long-lived assets*, came into effect on January 1, 2004, replacing the write-down provisions in Section 3061, *Property, plant, and equipment*. The new section provides guidance on the recognition, measurement, and disclosure related to the impairment of long-lived assets. This section requires that an impairment loss be recognized when the carrying value of a long-lived asset exceeds the total undiscounted cash flows expected from its use and eventual disposition. The impairment loss is the amount by which the carrying value of the asset exceeds its fair value. The impact of this section to the end of the third quarter has been immaterial. The impact on the balance of 2004 and subsequent years will be dependent upon future events (see Note 1).

Restructuring Developments

The Applicants' are continuing discussions with representatives of a number of stakeholders, including Active Salaried Employees, Retired Salaried Employees, Locals of the USWA and the Canadian Auto Workers (CAW), lenders, bondholders, shareholders and the governments of Hamilton, Ontario, and Canada.

4-Point strategy

On July 29, 2004 the Corporation unveiled its four-point strategy for the new Stelco that could be realized if the Corporation completes its current Court-supervised restructuring:

1. Build on existing strengths that differentiate it from other steel producers
2. Focus on high-quality products for value-added markets, including the automotive and other sectors
3. Simplify the number of product lines, processes and facilities
4. Invest in new facilities that strengthen Stelco's competitive advantage

As part of the strategic plan, Stelco will focus on those areas and markets where it has strengths and can differentiate itself from other steel producers. The core of the operations will be Stelco's integrated steel operations in Hamilton and Lake Erie. Stelco will have a much narrower focus and will concentrate on producing higher-value products for value-added markets, including the automotive, construction and other manufacturing sectors.

In order to implement the strategic plan, Stelco will have to invest in a significant capital expenditure program to upgrade Stelco's capabilities, replace obsolete facilities and lower production costs. Stelco estimates that the capital expenditure program will cost between \$360 and \$465 million and will take 18 to 24 months to implement after the necessary capital has been raised. Stelco believes raising this level of capital will only be possible if Stelco restructures.

Capital raising process

On October 19, 2004, the Applicants received Court approval for a process designed to raise capital and to pursue the sale of non-core assets. The process contemplates, among others, the following possible transactions:

- the raising of a minimum of \$200 million of new equity in the restructured Stelco either through an underwritten rights offering and/or an equity solicitation process
- the sale of non-core subsidiaries including Stelpipe, Stelwire, Stelfil, AltaSteel, Norambar and the Corporation's 40% interest in Camrose Pipe
- joint ventures involving Stelco; or
- a combination of the above, including a sale of Stelco

This process will be conducted in two stages. The first stage is the solicitation of preliminary expressions of interest from potential investors while the second stage will entail the completion of due diligence followed by the submission of binding offers. It is anticipated that the due diligence period will be completed on or about January 31, 2005. In the case of the capital raising process for Stelco Inc., the existing bondholders of Stelco will first be given the opportunity to present a financing proposal by November 8, 2004, which will provide at least \$200 million to Stelco. In granting the October 19, 2004 order, the Court stated that Stelco is not prohibited from receiving other unsolicited offers from any party during this initial period. After November 8, 2004, Stelco is able to solicit other proposals for raising capital.

Deutsche Bank, a significant bondholder, has approached Stelco to conduct the necessary due diligence within the period prior to November 8, 2004, to assess whether it is prepared to present a term sheet to Stelco with respect to a rights offering to creditors supported by Deutsche Bank or another form of financing.

Also on October 19, 2004, the Court approved the engagement by Stelco of UBS Securities Canada Inc and UBS Securities LLC to assist it with the capital raising and sale process.

As approved by the Court on October 19, 2004, the Applicants have commenced the sale processes for the non-core businesses.

Customer issues

On June 14, 2004, the Court granted leave to the Minister of Labour to appoint the Hon. George Adams as a conciliation officer and as a special officer under the provisions of the Labour Relations Act in respect of Stelco Inc. and Stelwire Ltd. Effective upon such appointment, Mr. Adams was also appointed as an officer of the Court under the Company's CCAA restructuring proceedings. The Court also ordered the USWA locals of the Applicants to provide 90 days notice to the Court, counsel to the Applicants, and certain others prior to any proposed strike. Further, the Court adjourned indefinitely a motion by General Motors (GM), Stelco's largest customer, that sought to terminate its 2004 supply agreement with Stelco Lake Erie effective July 31, 2004, the expiry date of the current labour agreement in respect of Stelco Lake Erie, subject to the right of GM to reschedule the motion if a notice of strike is issued.

On June 23, 2004, Stelco and the Locals of the USWA reached an agreement (the Stelco /USWA Agreement) establishing a framework for discussions on restructuring and other matters during the period to September 30, 2004. The parties also reached an agreement on how grievances and arbitrations would be handled during this interim period. In addition, the parties agreed on a process to resolve the grievances regarding laid off injured workers. As well, Stelco and USWA Local 8782 agreed to provide 90 days prior written notice of any potential lockout or work stoppage, respectively. On September 29, 2004, the Stelco/USWA Agreement was extended by the parties to November 26, 2004.

On October 1, 2004, USWA Local 8782 delivered a 90-day notice of a potential work stoppage to Stelco (the "8782 Notice"). Subsequently on October 1, 2004, Stelco delivered a notice of termination of the Stelco/USWA Agreement to the USWA Locals. The termination of the Stelco/USWA Agreement was effective on October 8, 2004. Since the issuance of the 8782 Notice, a number of customers have raised concerns with respect to Stelco's ability to ensure uninterrupted supply of product in 2005. On October 6, 2004 GM, Stelco's largest customer, sent a letter to Stelco setting out its concerns resulting from a potential work stoppage during the term of the proposed new supply contract with GM for 2005, the pricing of which had been negotiated.

On October 15, 2004, GM confirmed by letter to Stelco that it was proceeding with its plan to obtain a source of supply other than Stelco. Also on October 15, 2004, DaimlerChrysler AG, which is another one of Stelco's largest customers, referenced the 90-day notice of a potential work stoppage at Stelco Lake Erie in a communication to Stelco and advised Stelco that it requires assurances by the end of October 2004 in respect of Stelco's ability to continue to supply steel past January 2005. On October 19, 2004, Stelco reached an agreement with GM, whereby GM will proceed to source supply from a supplier other than Stelco to meet its requirements for the first quarter of 2005. GM will defer any further sourcing activities for the balance of 2005 for a thirty-day period from October 19, 2004. If, during that period, GM receives from Stelco adequate assurance of supply for the balance of the year, GM will enter into an agreement with the Corporation regarding the purchase of steel for the remaining three quarters of 2005. The assurances being sought by GM are two-fold. First, Stelco must have in place a collective agreement or other arrangements satisfactory to GM with Stelco's Lake Erie and Hamilton unions to be effective throughout 2005. Second, Stelco must demonstrate to GM's satisfaction that it can obtain the equity contribution and financing necessary to fund the Corporation's emergence from its Court-supervised restructuring as a long-term viable supplier. In a further communication to Stelco on October 28, 2004, DaimlerChrysler AG has indicated that it is sufficiently comfortable with the progress that Stelco has made on all fronts to enable it to extend the deadline related to Stelco assurances of supply to November 18, 2004. GM and DaimlerChrysler represent in aggregate approximately 12% of consolidated net sales in the first nine months of 2004.

Active facilities

On August 3, 2004, the Board of Directors approved a sales process for subsidiaries Stelwire Ltd. and Stelpipe Ltd. On September 1, 2004 the Corporation included Stelfil Ltée. among the companies that it intends to sell. Stelfil is not an Applicant but is a wholly owned subsidiary of Stelco. Collectively these subsidiaries represent the majority of Stelco's Manufactured Products segment (see Note 5).

On October 5, 2004, the Corporation indicated its intent to pursue the sale of AltaSteel Ltd., Norambar Inc., and its 40% interest in Camrose Pipe Company. Included are AltaSteel's ownership interests in GenAlta Recycling Inc. and MOLY-COP Canada as well as Norambar's wholly owned subsidiary, Fers et Métaux Recyclés Ltée. Together these companies represent Stelco's Mini-mill business segment and a component of the Manufactured Products segment (see Note 19).

The Corporation sought and received Court approval on October 19, 2004 for a process to seek purchasers of these businesses as part of a broader capital raising process (described previously in capital raising process). The sale processes for the non-core operations have commenced.

Included in the Consolidated Statement of Financial Position are the following amounts related to these entities approved for sale:

	Mini-mill Segment			Manufactured Products Segment		
	At September 30 2004	At September 30 2003	At December 31 2003	At September 30 2004	At September 30 2003	At December 31 2003
Current assets	\$ 169	\$ 89	\$ 101	\$ 170	\$ 125	\$ 118
Current liabilities	83	38	45	54	34	37
Working capital	86	51	56	116	91	81
Property, plant, and equipment.....	90	92	92	35	35	35
Deferred pension cost.....	9	10	10	57	52	54
Future income taxes	9	8	9	2	8	2
Other assets	108	110	111	94	95	91
Employee future benefits.....	47	43	44	87	82	82
Long-term debt	17	38	37	—	—	—
Future income taxes	8	7	8	1	—	—
Other liabilities	\$ 72	\$ 88	\$ 89	\$ 88	\$ 82	\$ 82

Idled or closed facilities

The land and buildings of CHT Steel are listed for sale. The net book value of these assets (\$2 million) has been classified as Assets held for sale on the Consolidated Statement of Financial Position (see Note 10).

A purchase and sale agreement was executed on August 3, 2004, for the sale of the 16" mill at Stelpipe Ltd. that has been idle since 1998. Completion of the sale, which is contingent on receiving the final purchase price installments, is expected in the fourth quarter 2004. The assets are fully amortized. The Monitor is holding all monies received to date in trust (See Note 6).

The sale of the Welland Pipe Ltd. spiral-weld pipe mill closed in October 2004. The disposal of the assets will be recorded in the fourth quarter of 2004. Proceeds received to date are being held in trust by the Monitor (see Note 6.) The sale of the U and O pipe mill equipment is actively being pursued. Both pipe mill assets are fully amortized.

The Stelco Hamilton rod mill ceased operations on September 23, 2004. Many of the 160 employees at this location were transferred to other production facilities at Stelco Hamilton, particularly the Hamilton hot strip mill in order to increase production at that facility. The rod mill's equipment and the land on which the mill is located have been listed for sale. Based on third-party information, no impairment of the net book value of the assets is necessary. Prior to the closure, the rod mill supplied raw material to Stelfil and Stelwire. The majority of material produced at the rod mill during third quarter 2004 was shipped to Stelwire. Stelwire will transition to third-party supply during the remainder of the year as remaining material from the rod mill is consumed. During the third quarter, Stelfil secured a third-party source for the majority of its material requirements.

The assets of the Stelco Hamilton plate mill, which has been idle since April 2003, are actively being marketed for sale. A non-cash write-down of \$87 million was taken in 2003 to reduce the net book value to nil. Proceeds from the sale will first be used to satisfy the long-term debt obligations (see Note 13) associated with the mill, which is held by a wholly owned subsidiary.

Relocation of Corporate offices

The Corporate offices have been relocated from 100 King Street West to the Corporation's Hamilton plant at 386 Wilcox Street. Moving expenses of \$1 million (see Note 4) were incurred during the quarter and \$3 million of capital expenditures were made for site restoration and alteration. Savings from the move are estimated to be \$5 million per year. The Corporation has repudiated its remaining leases with the landlord effective October 31, 2004.

Workforce reduction

The restructuring process includes the reduction in the size of Stelco's workforce. Through attrition Stelco's Integrated Steel workforce has been reduced since January 29, 2004 by over 500 people as at September 30, 2004, with estimated annual savings of \$30 million in wages and salaries after all post-retirement leave benefits and vacation entitlements have been paid to the retiring employees.

Liens and other matters

Since the date of the Initial Order, 23 construction lien claimants have registered 49 individual claims for lien aggregating approximately \$13 million against the various properties of the Applicants. The Applicants, with the assistance of the Monitor, are in the process of reviewing the nature and details of the construction lien claims with a view to establishing a procedure to address them within the CCAA proceedings.

On February 13, 2004, certain locals of the USWA brought a motion seeking to rescind the Initial Order and dismiss the application of the Applicants for access to the protection of the CCAA on the basis that the Applicants were not insolvent. The Court dismissed the motion pursuant to written reasons released on March 22, 2004. On March 29, 2004, the USWA served a Notice of Motion seeking leave from the Ontario Court of Appeal to appeal the decision. On May 5, the Court of Appeal denied the motion for leave to appeal. The USWA has sought leave from the Supreme Court of Canada to appeal the decision. Should a USWA appeal be successful and the Initial Order be rescinded, the Applicants would lose the protection of the stay of proceedings and substantially all of the Applicants' debt obligations will then be due and payable immediately or subject to immediate acceleration. The Corporation does not currently have the financial resources to fund such a precipitous event.

On October 29, 2004, Stelco was served with a Motion Record in respect of a motion by Pollitt & Co. Inc. (Pollitt). In the material Pollitt states that it owns or exercises control and direction over 670,000 Series A Common shares of Stelco. This motion, to be heard on November 25, 2004 seeks:

- an interim Order appointing a qualified independent valuator to conduct a valuation of the assets and undertaking of Stelco Inc.
- an interim Order calling the annual general meeting, or in the alternative, a special meeting of the shareholders
- an Order rescinding the Initial Order of the Honourable Mr. Justice Farley dated January 29, 2004

The Corporation is currently assessing this Motion.

Outlook

The general business outlook and that of the Corporation present challenges as well as opportunities for Stelco. The steel industry continues to be marked by consolidation and the emergence of producers with overall cost structures that are lower than that of the Corporation.

All producers have benefited from the unprecedented increase in steel prices. A number of steel industry experts have suggested that current price levels are unsustainable over the long term. The issue is when, how far, and how quickly those prices will decline as market conditions soften. The Corporation expects market demand to remain strong during the fourth quarter, although not at the levels experienced in the third quarter. Overall demand is expected to remain strong in 2005.

Other factors that may affect the state of the industry include the rising Canadian dollar, which makes imports more cost competitive, and the level of steel imports. The overall level of imports stands at approximately 44% of Canadian consumption. This represents an increase of 4% over the second quarter.

Turning to the Corporation's own outlook, the focus will remain on achieving its Court-supervised restructuring. Stelco will not be able to compete effectively in the changing marketplace in the longer term unless it takes steps to reduce its liabilities and lower its overall costs.

One of the keys to the Corporation's future will be the implementation of the 4-point strategy for the new Stelco that could be realized if the Corporation completes its current restructuring process. This strategy was unveiled during the third quarter. Toward that end, the Corporation will pursue the capital raising and asset sale process that was approved by the Court on October 19, 2004.

Stelco will take other steps to provide the best possible environment in which to secure a positive outcome of the restructuring process. It will continue to negotiate the renewal of customer contracts that expire at the end of 2004. It will seek to extend current credit agreements with its lenders in the event that a restructuring plan is not finalized during the remaining term of the existing credit facility. Further, it will apply to the Court to extend the stay period beyond November 26, 2004 in order to provide further time in which to consult with stakeholders and develop a restructuring plan.

A number of factors could jeopardize the Corporation's future. These risks include an inability to develop and present a restructuring plan, or the rejection of a plan by affected creditors or the Court; the rescinding of the Initial Order granting Court protection to the Corporation or any other loss of the protection of the stay of proceedings. Should any of these occur, substantially all of Stelco's debt obligations will then be due and payable immediately, or subject to immediate acceleration. The Corporation does not currently have the financial resources to fund such a precipitous event.

HAMILTON, ONTARIO
November 5, 2004



Courtney Pratt
President and Chief Executive Officer



William E. Vaughan
Senior Vice President – Finance
and Chief Financial Officer

CONSOLIDATED STATEMENT OF EARNINGS (LOSS) (Unaudited)
(Under Creditor Protection as of January 29, 2004 – Note 1)

(in millions – except per share amounts)

	Three months ended September 30		Nine months ended September 30	
	2004	Restated (Note 3) 2003	2004	Restated (Note 3) 2003
Net sales.....	\$ 953	\$ 650	\$ 2,611	\$ 2,043
Costs	820	663	2,341	2,118
	133	(13)	270	(75)
Amortization of property, plant, and equipment.....	30	34	90	101
Amortization of intangible assets.....	1	–	2	–
Operating earnings (loss)	102	(47)	178	(176)
Reorganization items (Note 4).....	(8)	–	(38)	–
	94	(47)	140	(176)
Financial expense				
Interest on long-term debt and debt subject to compromise.....	(11)	(11)	(33)	(31)
Other interest – net.....	(6)	(3)	(17)	(8)
Earnings (loss) before income taxes from continuing operations	77	(61)	90	(215)
Income tax expense (recovery) (Note 11)				
Current	2	(1)	7	(1)
Future	27	(19)	31	(52)
Future income tax asset valuation allowance (release)....	(11)	–	(14)	–
Net earnings (loss) from continuing operations	59	(41)	66	(162)
Net loss from discontinued operations (Note 10).....	(1)	(1)	(2)	(7)
Net earnings (loss)	\$ 58	\$ (42)	\$ 64	\$ (169)
Earnings (loss) per common share (Note 18)				
Basic				
Continuing operations	\$ 0.58	\$ (0.44)	\$ 0.64	\$ (1.66)
Net earnings (loss)	\$ 0.57	\$ (0.44)	\$ 0.62	\$ (1.73)
Fully Diluted				
Continuing operations	\$ 0.49	\$ (0.44)	\$ 0.57	\$ (1.66)
Net earnings (loss)	\$ 0.48	\$ (0.44)	\$ 0.55	\$ (1.73)

Weighted average common shares outstanding – millions..... 102.2 102.2 102.2 102.2

See Notes to Consolidated Financial Statements

OPERATIONS (thousands of net tons) (Unaudited)

Production of semi-finished steel.....	1,385	1,244	4,078	3,806
Shipments	1,190	1,205	3,714	3,629

CONSOLIDATED STATEMENT OF RETAINED EARNINGS (DEFICIT) (Unaudited)
(Under Creditor Protection as of January 29, 2004 – Note 1)

(in millions)

	Nine months ended September 30	
	2004	Restated (Note 3) 2003
Balance at beginning of year as previously reported.....	\$ (444)	\$ 130
Retroactive adjustment on implementation of changes in accounting policy (Note 3).....	(8)	(5)
Balance at beginning of year as restated	(452)	125
Net earnings (loss)	64	(169)
Convertible debentures charges (Note 14).....	(1)	(8)
Balance at end of period.....	\$ (389)	\$ (52)

See Notes to Consolidated Financial Statements

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (Unaudited)
(Under Creditor Protection as of January 29, 2004 – Note 1)
(in millions)

	At September 30		At December 31
	2004	Restated (Note 3) 2003	Restated (Note 3) 2003
Current assets			
Cash and cash equivalents	\$ 65	\$ 15	\$ 23
Restricted cash (Note 6).....	5	–	–
Accounts receivable	521	396	381
Inventories.....	739	588	575
Prepaid expenses.....	59	29	22
Future income taxes.....	–	24	–
	<u>1,389</u>	<u>1,052</u>	<u>1,001</u>
Current liabilities			
Current liabilities not subject to compromise			
Bank indebtedness (Note 12).....	281	178	215
Accounts payable and accrued	263	350	322
Employee future benefits.....	48	46	49
Income and other taxes	17	10	12
Long-term debt due within one year (Note 13)	44	50	50
	<u>653</u>	<u>634</u>	<u>648</u>
Working capital	<u>736</u>	<u>418</u>	<u>353</u>
Other assets			
Property, plant, and equipment	1,027	1,202	1,095
Intangible assets	65	56	61
Deferred pension cost	215	275	274
Future income taxes.....	2	153	2
Assets held for sale (Note 10)	2	–	–
Other	25	12	13
	<u>1,336</u>	<u>1,698</u>	<u>1,445</u>
Total investment	<u>2,072</u>	<u>2,116</u>	<u>1,798</u>
Other liabilities			
Other liabilities not subject to compromise			
Employee future benefits.....	914	867	875
Long-term debt (Note 13).....	50	396	395
Future income taxes.....	94	5	77
Asset retirement obligations (Note 9)	12	10	10
	<u>1,070</u>	<u>1,278</u>	<u>1,357</u>
Liabilities subject to compromise (Note 7)	<u>572</u>	<u>–</u>	<u>–</u>
Shareholders' equity	<u>\$ 430</u>	<u>\$ 838</u>	<u>\$ 441</u>
Derived from:			
Convertible debentures (Note 14)	–	73	74
Convertible debentures conversion option (Note 14)	23	23	23
Capital stock (Note 15).....	781	781	781
Contributed surplus (Note 3)	15	13	13
Retained deficit.....	(389)	(52)	(450)
	<u>\$ 430</u>	<u>\$ 838</u>	<u>\$ 441</u>

See Notes to Consolidated Financial Statements

CONSOLIDATED STATEMENT OF CASH FLOWS (Unaudited)
(Under Creditor Protection as of January 29, 2004 – Note 1)

(in millions)

CASH PROVIDED BY (USED FOR)	Three months ended September 30		Nine months ended September 30	
	2004	Restated (Note 3) 2003	2004	Restated (Note 3) 2003
Operating activities				
Net earnings (loss) from continuing operations	\$ 59	\$ (41)	\$ 66	\$ (162)
Adjustments for items not affecting cash				
Reorganization items (Note 4).....	3	–	20	–
Amortization of property, plant, and equipment.....	30	34	90	101
Amortization of intangible assets.....	1	–	2	–
Future income taxes.....	27	(19)	31	(52)
Future income tax asset valuation allowance (release) (Note 11)	(11)	–	(14)	–
Employee pension and other future benefits (Note 17) ...	24	8	100	51
Other	1	–	4	7
	<u>134</u>	<u>(18)</u>	<u>299</u>	<u>(55)</u>
Changes in operating elements of working capital (see below).....	(107)	19	(242)	53
Other – net.....	2	1	–	3
Discontinued operations (Note 10)	4	–	–	(5)
	<u>33</u>	<u>2</u>	<u>57</u>	<u>(4)</u>
Investing activities				
Directors' and officers' trust (Note 1)	–	–	(10)	–
Expenditures for capital assets.....	(16)	(12)	(35)	(28)
	<u>(16)</u>	<u>(12)</u>	<u>(45)</u>	<u>(28)</u>
Financing activities				
Increase in bank indebtedness.....	22	15	66	33
Interest paid on convertible debentures.....	–	(4)	–	(8)
Reduction of long-term debt (Note 13)	(7)	(12)	(31)	(45)
	<u>15</u>	<u>(1)</u>	<u>35</u>	<u>(20)</u>
Cash, cash equivalents and restricted cash				
Net increase (decrease)	32	(11)	47	(52)
Balance at beginning of period	38	26	23	67
Balance at end of period.....	<u>\$ 70</u>	<u>\$ 15</u>	<u>\$ 70</u>	<u>\$ 15</u>
Consists of:				
Cash and cash equivalents	\$ 65	\$ 15	\$ 65	\$ 15
Restricted cash (Note 6).....	5	–	5	–
	<u>\$ 70</u>	<u>\$ 15</u>	<u>\$ 70</u>	<u>\$ 15</u>
Changes in operating elements of working capital				
Accounts receivable	\$ –	\$ 6	\$ (139)	\$ (18)
Inventories.....	(126)	32	(164)	177
Prepaid expenses.....	7	1	(38)	(18)
Accounts payable and accrued	13	(20)	94	(79)
Income and other taxes.....	(1)	–	5	(9)
	<u>\$ (107)</u>	<u>\$ 19</u>	<u>\$ (242)</u>	<u>\$ 53</u>

See Notes to Consolidated Financial Statements

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *(Unaudited)***1. CREDITOR PROTECTION AND RESTRUCTURING**

On January 29, 2004 (the "Filing Date"), Stelco Inc. obtained an order (the "Initial Order") from the Ontario Superior Court of Justice (the "Court") granting creditor protection under the Companies' Creditors Arrangement Act ("CCAA"). The order may be amended throughout the CCAA proceedings on motions from Stelco Inc., its creditors, and other interested stakeholders. On the same date, Stelco Inc. made a concurrent petition for recognition of the CCAA order and ancillary relief under Section 304 of the U.S. Bankruptcy Code. The Canadian proceedings include Stelco Inc. and its wholly owned subsidiaries, Stelwire Ltd. (Stelwire), Stelpipe Ltd. (Stelpipe), CHT Steel Company Inc. (CHT Steel), and Welland Pipe Ltd. (Welland Pipe), which are collectively referred to as the "Applicants". The U.S. proceedings include Stelco Inc., Stelwire, and Stelpipe. The Corporation's other subsidiaries and joint ventures are not included in the proceedings (see Note 8). During the stay period, the Applicants are authorized to continue operations. Ernst & Young Inc. (the "Monitor") has been appointed by the Court as Monitor in the Canadian proceedings and has been reporting to the Court from time to time on the Applicants' cash flow and other developments during the proceedings.

The Canadian Court order and the U.S. proceedings provided for an initial stay period of 30 days, which has subsequently been extended to November 26, 2004, and potentially to such later date as the Court may order. The purpose of the Initial Order and stay of proceedings is to provide the Applicants with relief designed to stabilize their operations and business relationships with their customers, suppliers, employees, and creditors.

During the proceedings, the Corporation is seeking input from its creditors, labour unions, and other stakeholders, with a view to developing a comprehensive restructuring plan to return the Corporation to viability. The restructuring plan will likely include strategic, operational, financial, and corporate elements. As part of the restructuring plan, a formal CCAA plan of arrangement (the "Plan") will be prepared by the Corporation and submitted to affected creditors, who will vote on the Plan, and to the Court for approval. Under the CCAA plan of arrangement, claims against the Applicants will be divided into classes, and each class will vote on the Plan as it pertains to that class. No determinations or rulings have been made to date as to the classification of affected creditors.

On February 13, 2004, certain locals of the United Steelworkers of America ("USWA") brought a motion seeking to rescind the Initial Order and dismiss the application of the Applicants for access to the protection of the CCAA on the basis that the Applicants were not insolvent. The Court dismissed the motion pursuant to written reasons released on March 22, 2004. On March 29, 2004, the USWA served a Notice of Motion seeking leave from the Ontario Court of Appeal to appeal the decision. On May 5, the Court of Appeal denied the motion for leave to appeal. The USWA has sought leave from the Supreme Court of Canada to appeal the decision.

The CCAA proceedings have triggered defaults under substantially all debt obligations of the Applicants (see Notes 13 and 14). The Initial Order generally stays actions against the Applicants including steps to collect indebtedness incurred by the Applicants prior to the Filing Date and actions to exercise control over the Applicants' property. The Initial Order grants the Applicants the authority to pay outstanding and future wages, salaries, employee pension contributions and benefit payments, and other obligations to employees; the costs of goods and services, both operating and capital, provided or supplied after the date of the Initial Order; rent payments under existing arrangements payable after the date of the filing; and principal, interest, and other payments to holders of security in respect of the property of the Applicants if the amount secured by such security is, in the reasonable opinion of the applicable Applicant with the concurrence of the Monitor, less than or equal to the fair value of such security, having regard to, among other things, the priority of such security.

The Corporation will apply to the Court to extend the stay period beyond November 26, 2004, in order to provide further time to consult with stakeholders and develop the Plan. Should the stay period and any subsequent extensions, if granted, not be sufficient to develop and present its Plan, or should a USWA appeal or a shareholder motion be successful and the Initial Order be rescinded or should the Plan not be accepted by the affected creditors or the Court, or if the Applicants otherwise lose the protection of the stay of proceedings, substantially all debt obligations will then be due and payable immediately, or subject to immediate acceleration. The Corporation does not currently have the financial resources to fund such a precipitous event.

On January 27, 2004, to indemnify the directors and officers of the Stelco Group against claims and liabilities that may arise as a result of their association with the Stelco Group, the Corporation transferred \$10 million to an in-trust account. The amount has been excluded from Cash and cash equivalents and is included in Other assets on the Consolidated Statement of Financial Position.

An administrative charge was created as a first priority lien to the extent of \$5 million on the Applicants' assets pursuant to the Initial CCAA order. This is intended to secure the payment of the fees and disbursements for the Monitor, the Chief Restructuring Officer, counsel to the Monitor, independent counsel to the Board of Directors of Stelco Inc., and the Applicants' legal counsel.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited) (continued)

1. CREDITOR PROTECTION AND RESTRUCTURING (continued)

Contributing factors

The Corporation incurred significant operating and cash losses in 2003. At the time of filing, the Corporation believed that it would have exhausted available sources of liquidity before the end of 2004 if a successful restructuring did not occur.

Costs had risen dramatically for inputs such as natural gas and electricity and raw materials, such as coal, coke, and scrap. The cost of employee future benefits – pensions and health care – are also increasing due to improved pension benefits negotiated in contracts with unionized employees, increasing health care costs, lower returns on pension plan assets, lower average retirement age at Stelco Hamilton, and the effect of lower interest rates on the discount factors used to determine the Corporation's liabilities under the pension and other benefit plans.

In 2003, global steelmaking overcapacity exerted downward pressure on selling prices due to significant and continued import penetration of the Canadian market by steel products offered, in management's opinion, at unfairly low prices over the last several years. The appreciation in the value of the Canadian dollar during 2003 further negatively affected selling prices.

Selling prices have strengthened significantly in the first nine months of 2004, due in part to increased demand, particularly in China. However, the Corporation believes that these price increases are not sustainable in the longer term. Several North American steel producers have emerged from court-supervised bankruptcy protection with a cost structure that is more competitive than that of the Corporation. While selling prices remain high by historical standards and are expected to remain high in the near future, the Corporation believes it cannot compete effectively in the longer term unless it takes steps to reduce its liabilities and lower its overall costs.

In addition, the Corporation requires additional funding to complete strategically critical capital projects at its Hamilton and Lake Erie business units. The Corporation does not believe it can raise additional funds to complete these projects without a restructuring.

As a result of the above, the Corporation concluded it had a serious viability issue and that it would not have the liquidity needed to operate without a Court-supervised restructuring. Failure to implement a plan of arrangement and obtain sufficient exit financing within the time granted by the Court will result in substantially all debt obligations being due and payable immediately or subject to immediate acceleration. The Corporation does not currently have the financial resources to fund such a precipitous event.

Capital raising process

On October 19, 2004, the Applicants received Court approval for a process designed to raise capital and to pursue the sale of non-core assets. The process contemplates, among others, the following possible transactions:

- The raising of a minimum of \$200 million of new equity in the restructured Stelco either through an underwritten rights offering and/or an equity solicitation process
- The sale of non-core subsidiaries including Stelpipe, Stelwire, Stelfil, AltaSteel, Norambar and the Corporation's 40% interest in Camrose Pipe
- Joint ventures involving Stelco; or
- A combination of the above, including a sale of Stelco

This process will be conducted in two stages. The first will solicit preliminary expressions of interest from potential investors while the second will entail the completion of due diligence followed by the submission of binding offers. It is anticipated that the due diligence period will be completed on or about January 31, 2005. In the case of the capital raising process for Stelco Inc., the existing bondholders of Stelco will first be given the opportunity to present a financing proposal by November 8, 2004, which will provide at least \$200 million to Stelco. In granting the October 19, 2004 order, the Court stated that Stelco is not prohibited from receiving other unsolicited offers from any party during this initial period. After November 8, 2004, Stelco is able to solicit other proposals for raising capital.

Deutsche Bank, a significant bondholder, has approached Stelco to conduct the necessary due diligence within the period prior to November 8, 2004, to assess whether it is prepared to present a term sheet to Stelco with respect to a rights offering to creditors supported by Deutsche Bank or another form of financing.

Also on October 19, 2004, the Court approved the engagement by Stelco of UBS Securities Canada Inc. and UBS Securities LLC to assist it with the capital raising and sale process.

As approved by the Court on October 19, 2004, the Applicants have commenced the sale processes for the non-core businesses.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited) (continued)

1. CREDITOR PROTECTION AND RESTRUCTURING (continued)

Customer issues

On October 1, 2004, USWA Local 8782 delivered a 90-day notice of a potential work stoppage to Stelco (the "8782 Notice"). Subsequently on October 1, 2004, Stelco delivered a notice of termination of the Stelco/USWA Agreement to the USWA Locals. The termination of the Stelco/USWA Agreement was effective on October 8, 2004. Since the issuance of the 8782 Notice, a number of customers have raised concerns with respect to Stelco's ability to ensure uninterrupted supply of product in 2005. On October 6, 2004 General Motors (GM), Stelco's largest customer, sent a letter to Stelco setting out its concerns resulting from a potential work stoppage during the term of the proposed new supply contract with GM for 2005, the pricing of which had been negotiated.

On October 15, 2004, GM confirmed by letter to Stelco that it was proceeding with its plan to obtain a source of supply other than Stelco. Also on October 15, 2004, DaimlerChrysler AG, which is another one of Stelco's largest customers, referenced the 90-day notice of a potential work stoppage at Stelco Lake Erie in a communication to Stelco and advised Stelco that it requires assurances by the end of October 2004 in respect of Stelco's ability to continue to supply steel past January 2005. On October 19, 2004, Stelco reached an agreement with GM, whereby GM will proceed to source supply from a supplier other than Stelco to meet its requirements for the first quarter of 2005. GM will defer any further sourcing activities for the balance of 2005 for a thirty-day period from October 19, 2004. If, during that period, GM receives from Stelco adequate assurance of supply for the balance of the year, GM will enter into an agreement with the Corporation regarding the purchase of steel for the remaining three quarters of 2005. The assurances being sought by GM are two-fold. First, Stelco must have in place a collective agreement or other arrangements satisfactory to GM with Stelco's Lake Erie and Hamilton unions to be effective throughout 2005. Second, Stelco must demonstrate to GM's satisfaction that it can obtain the equity contribution and financing necessary to fund the Corporation's emergence from its Court-supervised restructuring as a long-term viable supplier. In a further communication to Stelco on October 28, 2004, DaimlerChrysler AG has indicated that it is sufficiently comfortable with the progress that Stelco has made on all fronts to enable it to extend the deadline related to Stelco assurances of supply to November 18, 2004. GM and DaimlerChrysler represent in aggregate approximately 12% of consolidated net sales in the first nine months of 2004.

There can be no assurance that customer retention issues at the Corporation's business units will not result in a significant loss of production and revenue and have a material adverse effect on the business, financial condition, results of operations of the Corporation or the ability of the Corporation to restructure.

Labour related restructuring matters

The Stelco Lake Erie labour contract with Local 8782 of the United Steelworks of America (USWA) expired on July 31, 2004. The local union and the Corporation had agreed to provide 90 days notice prior to the commencement of a strike or lockout. On October 1, 2004, Local 8782 delivered a 90-day notice of a potential work stoppage to Stelco. Local 8782 and the Corporation have been actively engaged in negotiations with a view to reaching a new labour contract. These negotiations are ongoing.

There can be no assurance that labour difficulties at any of the Corporation's business units will not result in a significant loss of production and revenue and have a material adverse effect on the business, financial condition, results of operations of the Corporation, or the ability of the Corporation to restructure.

Financing during CCAA proceedings

Debtor-In-Possession (DIP) Financing

On March 8, 2004, the Corporation secured financing under a DIP Credit Agreement. This financing is with the same Lenders, participating in the same percentages, as in the revolving operating credit facility dated November 20, 2003 (see 2003 Annual Report – Note 7 to the Consolidated Financial Statements).

The Agreement includes Stelco Inc., (the "Borrower"), Stelwire, Stelpipe, Welland Pipe, and CHTSteel (the "Applicant Subsidiary Companies") and is for \$75 million as a revolving line of credit to fund the ordinary course of operations of the above group of businesses during the CCAA proceedings. The DIP is secured by a second charge on the receivables and inventory and a first charge on property, plant, and equipment. Additionally, the DIP is secured by a first pledge of the shares of certain subsidiaries of Stelco Inc.

Each of the Applicant Subsidiary Companies has guaranteed payment of the Borrower's obligations and provided Lenders' liens on all their assets as security.

Interest rates are Canadian prime rate plus 4%, U.S. base rate plus 4%, or unused facility fee margin of 0.5%. A commitment fee of 3% of the revolving line of credit is due as follows: (i) 2% on acceptance of the commitment letter; (ii) 0.5% on the earlier of 60 days from the initial CCAA order or the first revolving loan; (iii) the remaining 0.5% to be paid at the time of the first drawing on this loan.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited) (continued)

1. CREDITOR PROTECTION AND RESTRUCTURING (continued)

The DIP facility (the "DIP facility") has a maximum term that extends to the earliest of (i) one year from March 22, 2004; (ii) the termination of the Corporation's \$350 million revolving operating credit facility; and (iii) the effective date of the Plan under the CCAA proceedings. However, repayments of amounts owed under the DIP facility and termination of the DIP facility may be earlier than the term indicated above if an event of default occurs under the DIP facility, the Accommodation Agreement, and the \$350 million revolving operating credit facility (the "Credit Agreements"). Events of default under the Credit Agreements include: (i) the Court Order for CCAA protection is rescinded; (ii) there is a failure to make required payments or abide by the terms of the Credit Agreements; (iii) the Borrower fails to obtain Court and creditor approval of a plan of arrangement by December 29, 2004; (iv) any plan of arrangement fails to become effective and fully implemented by January 29, 2005.

Accommodation Agreement

The CCAA filing was an event of default of the Corporation's \$350 million revolving operating credit facility (see 2003 Annual Report - Note 7 to the Consolidated Financial Statements).

Under the Accommodation Agreement dated January 29, 2004, CIT Business Credit Canada Inc., General Electric Capital Canada Inc., and Fleet Capital Canada Corporation (the "Lenders") have agreed (i) to continue to make the credit facilities available; (ii) to make certain amendments to the revolving operating credit facility; and (iii) to forbear exercising remedies under the revolving operating credit facility as a result of the CCAA filing event of default.

This Accommodation Agreement (and the term of the \$350 million revolving operating credit facility) will expire at the earliest of (i) 12 months from January 29, 2004; (ii) implementation of a plan of arrangement or reorganization under the CCAA; (iii) termination of the DIP facility; and (iv) the date at which the Lenders shall have terminated the forbearance under the terms of the Accommodation Agreement due to a further event of default.

Interest rates under the Accommodation Agreement are (i) prime rate loans – prime rate plus 2.50%; (ii) U.S. base rate loans – U.S. base rate plus 2.50%; (iii) LIBOR loans – LIBOR plus 4%; (iv) Banker's acceptance drawing fee – 4%; (v) issuance of any letter of credit – 4%. A non-refundable forbearance fee of \$1.5 million was paid upon finalization of the Accommodation Agreement.

In light of the status of the restructuring process to date, the Corporation has initiated discussions with the Lenders with a view to extending the existing Credit Agreements (referred to above) in the event that a plan of arrangement is not finalized within the time period contemplated under the existing credit facility conditions. Failure to extend the existing credit facility and the DIP facility (should this be necessary) would create an immediate liquidity crisis. The Corporation does not currently have the financial resources to fund such a precipitous event.

Basis of presentation and going concern issues

These financial statements have been prepared using the same Canadian generally accepted accounting principles ("GAAP") as applied by the Corporation prior to the filing for CCAA. While the Corporation and certain of its subsidiaries have filed for and been granted creditor protection, these financial statements continue to be prepared using the going concern concept, which assumes that the Corporation will be able to realize its assets and discharge its liabilities in the normal course of business for the foreseeable future. The creditor protection proceedings provide the Corporation with a period of time to stabilize its operations and financial condition and develop a plan of arrangement. Debtor-In-Possession financing, as described above, has been approved by the Court and is available if required, subject to borrowing conditions. Management believes that these actions make the going concern basis appropriate. However, it is not possible to predict the outcome of these proceedings and accordingly substantial doubt exists as to whether the Corporation will be able to continue as a going concern. Further, it is not possible to predict whether the actions taken in any restructuring will result in improvements to the financial condition of the Corporation sufficient to allow it to continue as a going concern. If the going concern basis is not appropriate, adjustments may be necessary to the carrying amounts and/or classification of assets and liabilities, and expenses in these consolidated financial statements.

While the Corporation is under creditor protection, the Corporation will make adjustments to the financial statements to isolate assets, liabilities, revenues, and expenses related to the reorganization and restructuring activities so as to distinguish these events and transactions from those associated with the ongoing operation of the business (see Note 2 – Accounting Policies and Methods). Further, allowed claims arising under the CCAA proceedings may be recorded as liabilities subject to compromise and presented separately on the Consolidated Statement of Financial Position. If a restructuring occurs and there is substantial realignment of the equity and non-equity interests in the Corporation, the Corporation will be required, under Canadian GAAP, to adopt "fresh start" reporting. Under fresh start reporting, the Corporation will undertake a comprehensive revaluation of its assets and liabilities based on the reorganization value as established and confirmed in the Plan. The consolidated financial statements do not present any adjustments that may be required under fresh start reporting.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *(Unaudited) (continued)*1. CREDITOR PROTECTION AND RESTRUCTURING *(continued)*

In accordance with Canadian GAAP appropriate for a going concern, property, plant, and equipment is carried at the lower of cost less accumulated amortization and net recoverable amount. This carrying amount is reviewed for impairment whenever events or circumstances indicate that the carrying amount may not be recoverable. Net recoverable amount is the sum of undiscounted cash flows from operations and cash flow from disposal of the property, plant, and equipment. The Corporation's filing for creditor protection under CCAA triggered an impairment review. In estimating future cash flows from operations of the Corporation's property, plant, and equipment, the Corporation made certain assumptions about the reductions in operating costs and its liabilities that could be achieved in the restructuring of its operations. The Corporation believes that these assumptions are consistent with use of the going concern assumption in the preparation of these consolidated financial statements. In connection with the CCAA proceedings, any compromise of liabilities will require the approval of affected creditors and any changes to collective agreements agreed to with labour unions, will require the approval of the applicable employees. There can be no assurance that such agreement or cost reductions will be reached and that future cash flows will be sufficient to recover the carrying amount of property, plant, and equipment. Under the Corporation's existing cost structure, management estimates that, as selling prices return to more normal levels, future cash flow from operations is likely to be negative. This situation would result in the write-down of the Corporation's property, plant, and equipment to liquidation value. The Corporation believes that this situation is equivalent to the liquidation basis of accounting which is not consistent with the going concern basis of accounting.

2. ACCOUNTING POLICIES AND METHODS

These financial statements have been prepared using the same generally accepted accounting principles as applied to the Corporation prior to certain entities of the Corporation filing for creditor protection, except as described below under the heading Accounting policies applicable to an entity under Creditor Protection. Interim Consolidated Financial Statements have been prepared in accordance with the accounting policies and methods used in the most recent annual financial statements as described on pages 36 to 38 of the Corporation's 2003 Annual Report, except for the policies described in Note 3 below, which were changed effective January 1, 2004. The Consolidated Financial Statements and notes presented in this interim report should be read in conjunction with the most recent annual Consolidated Financial Statements and previously released 2004 quarterly reports. Uncertainties arose upon the filing under CCAA on January 29, 2004, which are described in Note 1 – Creditor Protection and Restructuring – Basis of presentation and going concern issues. As stated in Note 1, these Consolidated Financial Statements are prepared using the going concern concept.

Revenue recognition

Net sales revenue is recognized when the risks of ownership have been transferred to the customer and reasonable assurance exists regarding the measurement of the sales consideration, provided that ultimate collection is reasonably assured. Generally, the risks of ownership are transferred when title passes at the time of shipment and sales consideration is recognized to the extent it is fixed or determinable.

Accounting policies applicable to an entity under Creditor Protection

As a result of the filings as described in Note 1, the Corporation will follow accounting policies, including disclosure items, applicable to entities that are under creditor protection. In addition to Canadian GAAP, the Corporation is applying the guidance in the American Institute of Certified Public Accountants Statement of Position 90-7, "Financial Reporting by Entities in Reorganization under the Bankruptcy Code" (SOP 90-7). While SOP 90-7 refers specifically to Chapter 11 in the U.S., its guidance, in management's view, is also applicable to an entity restructuring under CCAA, where it does not conflict with Canadian GAAP.

Consistent with Canadian GAAP, SOP 90-7 does not change the manner in which financial statements are prepared. However, SOP 90-7 does require that the financial statements for periods subsequent to the filing distinguish transactions and events that are directly associated with the reorganization from the ongoing operations of the business. Revenues, expenses, gains and losses, and provisions for losses that can be directly associated with the reorganization and restructuring of the business are reported separately as Reorganization items (see Note 4). The timing of the recognition of Reorganization items is consistent with GAAP. Cash flows related to Reorganization items have been disclosed separately in Note 4.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited) (continued)

2. ACCOUNTING POLICIES AND METHODS (continued)

While payments may not be made on liabilities subject to compromise, including long-term debt, interest on debt obligations will continue to be recognized under Canadian GAAP, consistent with Canadian legal requirements. Interest is not a Reorganization item. The Consolidated Statement of Financial Position distinguishes pre-filing liabilities subject to compromise from both those pre-filing liabilities that are not subject to compromise and from post-filing liabilities (see Note 7). Liabilities that may be affected by the Plan have been reported at the amounts estimated to be allowed, even if they may be settled for lesser amounts. At this point in time, a claims procedure has not been established and a plan of arrangement has not been proposed. Resulting adjustments to the estimated allowed claims may be material and may be recorded as a reorganization adjustment. Consolidated Financial Statements that include one or more entities in reorganization proceedings and one or more entities not in reorganization proceedings are required to include disclosure of Condensed Combined Financial Statements of the entities in reorganization proceedings, including disclosure of the amount of intercompany receivables and payables therein between Applicants and non-Applicants (see Note 8).

SOP 90-7 has been applied effective January 29, 2004, and for subsequent reporting periods while the Corporation continues to operate under creditor protection.

The resulting changes in reporting are described in Note 4 (Reorganization items), and Note 7 (Liabilities subject to compromise), and Note 8 (Condensed Combined Financial Statements).

3. CHANGES IN ACCOUNTING POLICY

Asset retirement obligations

On January 1, 2004, a change in accounting policy was adopted by the Corporation to conform with the new CICA Handbook Section 3110, *Asset retirement obligations*. This section applies to legal obligations (i.e. existing or enacted law, statute, ordinance, or contract) associated with the retirement of tangible long-lived assets. This standard applies to the Corporation's mining interests in Wabush, Hibbing, and Tilden iron ore properties. The standard has been adopted retroactively, resulting in a restatement of 2003. On January 1, 2004, an obligation of \$10 million was recorded on the Consolidated Statement of Financial Position representing the present value of the Corporation's estimated asset retirement obligation for these properties, principally relating to the Wabush joint venture. A former participant in Wabush funded its share of estimated future mine closure costs at the time of its exit from the joint venture. The Corporation has reflected its share of these funds (\$4 million) in Other non-current assets on the Consolidated Statement of Financial Position. The net charge of \$6 million was recorded directly to retained earnings (deficit). The accounting change will result in a non-cash charge to income of \$1.8 million in 2004, consisting primarily of the accretion of the liability.

Stock-based compensation

On January 1, 2004, the Corporation adopted the accounting changes as required in CICA Handbook Section 3870, *Stock-based compensation and other stock-based payments*. Under the new standard, the fair value of stock options is recorded as compensation cost by a charge to income over the vesting period of the grant. Previously, the fair value of stock options was calculated and disclosed as a note to the financial statements, since the options, when exercised, were settled in shares rather than cash. The calculation of the fair value of the stock options under the new standard is identical to the method previously used and is described in Note 16. The new standard has been applied retroactively without restatement of prior periods, since the effect on prior periods was not material. Note disclosure of the effect on prior periods will continue. The impact on the Consolidated Statement of Financial Position at January 1, 2004 was a decrease to retained earnings of \$1.6 million, and an increase to contributed surplus of \$1.6 million. Based on options outstanding at January 1, 2004, the application of the policy will result in a charge to income of \$0.4 million in 2004. Application of the new standard will have no effect on the method presently used for accounting for grants made under the Deferred Share Unit (DSU) Plan. Since awards made under the DSU plan are settled in cash, their fair value has been recorded as a compensation cost, and is disclosed in Note 16.

Impairment of long-lived assets

A new CICA Handbook Section 3063, *Impairment of long-lived assets*, came into effect on January 1, 2004, replacing the write-down provisions in Section 3061, *Property, plant, and equipment*. The new section provides guidance on the recognition, measurement, and disclosure related to the impairment of long-lived assets. This section requires that an impairment loss be recognized when the carrying value of a long-lived asset exceeds the total undiscounted cash flows expected from its use and eventual disposition. The impairment loss is the amount by which the carrying value of the asset exceeds its fair value. The impact of this section to the end of the third quarter has been immaterial. The impact on the balance of 2004 and subsequent years will be dependent upon future events (see Note 1).

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited) (continued)

4. REORGANIZATION ITEMS

Reorganization items represent post-filing revenues, expenses, gains and losses, and provisions for losses that can be directly associated with the reorganization and restructuring of the Applicants. The cash flow usage related to reorganization and restructuring items since the date of filing amounts to \$18 million.

(in millions)

	Three months ended September 30, 2004	Nine months ended September 30, 2004
Professional fees	\$ 6	\$ 18
Relocation expenses (i)	1	1
Amortization of Accommodation and DIP financing fees.....	1	3
Write-off of deferred financing costs on compromised debt (ii).....	-	1
Adjustment of convertible debenture balance to anticipated claim amount (iii)	-	15
Total reorganization items	<u>\$ 8</u>	<u>\$ 38</u>

(i) Consists primarily of moving expenses from 100 King Street West to 386 Wilcox Street.

(ii) As a result of certain long-term debt being classified as subject to compromise, all related deferred financing costs have been written off.

(iii) To adjust principal element of convertible debentures from \$75 million to \$90 million (see Note 14).

5. DIVESTITURES

As part of the Corporation's strategic review, a number of its operating wholly owned subsidiaries, joint ventures and partnerships are no longer deemed core assets. As a result, Stelco intends to divest its interest in these assets forming one component of a broader capital raising process (see Note 1). All sales with a transaction price of more than \$5 million are subject to Court approval.

On August 3, 2004 the Corporation determined that Stelwire and Stelpipe would be divested. Stelfil Ltée (Stelfil) was also included in the Corporation's divestiture plan on September 1, 2004. Together these entities form the majority of Stelco's wire and pipe processing facilities that the Corporation has concluded will likely not be part of Stelco's post-restructuring business. On October 19, 2004, Stelco obtained Court approval to proceed with the sale process for these subsidiaries.

Included in the Consolidated Statement of Financial Position are the following amounts related to these divestitures:

(in millions)

	At September 30		At December 31
	2004	2003	2003
Current assets	\$ 147	\$ 108	\$ 100
Current liabilities	47	30	32
Working capital	<u>100</u>	<u>78</u>	<u>68</u>
Property, plant, and equipment.....	27	28	28
Deferred pension cost.....	56	51	53
Future income taxes	2	8	2
Other assets	<u>85</u>	<u>87</u>	<u>83</u>
Employee future benefits	85	80	80
Other liabilities	<u>\$ 85</u>	<u>\$ 80</u>	<u>\$ 80</u>

In addition to the above, the Corporation also obtained Court approval on October 19, 2004 to proceed with the sale process announced on October 5, 2004 related to wholly owned subsidiaries AltaSteel Ltd. (AltaSteel), Norambar Inc. (Norambar) and the Corporation's 40% interest in the Camrose Pipe Company (see Note 19).

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited) (continued)

6. RESTRICTED CASH

The Corporation has recorded \$5 million in restricted cash representing funds being held in trust with the Monitor pending direction from the Court for its use. The balance represents deposits or proceeds from various assets sales (see Note 19) that the Applicants have completed or are in the process of completing.

7. LIABILITIES SUBJECT TO COMPROMISE

Liabilities subject to compromise refers to liabilities incurred prior to the filing date that may be dealt with as affected claims under a CCAA plan of arrangement in the CCAA proceedings, as well as claims arising out of any repudiated leases, contracts, and other arrangements. At this point in time, a claims procedure has not been established and a plan of arrangement has not been proposed. It is possible that financial statement items not currently included below as liabilities subject to compromise will be added to this category of liabilities at a later date. The amounts below are the Corporation's estimate of known and expected claims in this category and are subject to future adjustment as a result of negotiations, Court orders, proofs of claim, and other events. Any additions to this category of liabilities and any adjustments may be material and, depending on their nature, may be recorded as a reorganization adjustment. The plan of arrangement will determine how a particular class of affected claims will be settled, including payment terms, if applicable.

(in millions)

	September 30, 2004
Accounts payable and accrued liabilities	\$ 122
Accrued interest payable	38
Long-term debt (Note 13)	322
Convertible debentures (Note 14)	90
	<hr/>
	\$ 572

The Corporation continues to accrue for interest on unsecured debt that is subject to compromise. No interest has been paid on unsecured debt of the Applicants subsequent to January 29, 2004, the date of the CCAA filing.

8. CONDENSED COMBINED FINANCIAL STATEMENTS

As stated in Note 2, Consolidated Financial Statements should provide disclosure of Condensed Combined Financial Statements of the entities in reorganization proceedings (Applicants), including disclosure of the amount of intercompany receivables and payables between Applicants and non-Applicants. Following are the Condensed Combined Financial Statements of the Applicants and non-Applicants for the third quarter and the first nine months of 2004.

Intercompany receivables and payables are disclosed on a net basis and will be subject to the claims procedure order when established by the Court. Resulting adjustments may be material.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited) (continued)

8. CONDENSED COMBINED FINANCIAL STATEMENTS (continued)

Entities not in reorganization proceedings include AltaSteel, Norambar, Stelfil, Stelco Holding Company, and their wholly owned subsidiaries and joint ventures.

Condensed Combined Statement of Earnings

(in millions)

	Three months ended September 30, 2004			Consolidated Totals
	Entities in Reorganization Proceedings	Entities not in Reorganization Proceedings	Eliminations	
Net sales	\$ 787	215	(49) ¹	\$ 953
Costs	687	182	(49) ¹	820
	100	33	—	133
Amortization	22	9	—	31
Operating earnings	78	24	—	102
Intercompany income (expense) ²	18	(18)	—	—
Reorganization items (Note 4)	(8)	—	—	(8)
	88	6	—	94
Financial expense	(15)	(2)	—	(17)
Net earnings from continuing operations before income taxes	73	4	—	77
Income tax expense (Note 11)	16	2	—	18
Net earnings from continuing operations	57	2	—	59
Net loss from discontinued operations (Note 10)	(1)	—	—	(1)
Net earnings	\$ 56	2	—	\$ 58

¹ Intercompany sales elimination² Intercompany interest, foreign exchange, and management fees**Condensed Combined Statement of Cash Flows**

(in millions)

	Three months ended September 30, 2004		
	Entities in Reorganization Proceedings	Entities not in Reorganization Proceedings	Consolidated Totals
Net cash provided by operating activities *	\$ 10	23	\$ 33
Investing activities			
Directors' and officers' trust (Note 1)	—	—	—
Expenditures for capital assets	(9)	(7)	(16)
	(9)	(7)	(16)
Financing activities			
Dividends	4	(4)	—
Increase in bank indebtedness	10	12	22
Reduction of long-term debt (Note 13)	—	(7)	(7)
	14	1	15
Cash, cash equivalents and restricted cash			
Net increase	15	17	32
Balance at beginning of period	21	17	38
Balance at end of period	\$ 36	34	\$ 70
Consists of:			
Cash and cash equivalents	\$ 31	34	\$ 65
Restricted cash (Note 6)	5	—	5
	\$ 36	34	\$ 70

* Includes intercompany receivables and payables

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited) (continued)

8. CONDENSED COMBINED FINANCIAL STATEMENTS (continued)

Condensed Combined Statement of Earnings
(in millions)

Nine months ended September 30, 2004

	Entities in Reorganization Proceedings	Entities not in Reorganization Proceedings	Eliminations	Consolidated Totals
Net sales	\$ 2,176	595	(160) ¹	\$ 2,611
Costs	2,006	495	(160) ¹	2,341
	170	100	—	270
Amortization	65	27	—	92
Operating earnings	105	73	—	178
Intercompany income (expense) ²	15	(15)	—	—
Reorganization items (Note 4)	(38)	—	—	(38)
	82	58	—	140
Financial expense	(43)	(7)	—	(50)
Net earnings from continuing operations before income taxes	39	51	—	90
Income tax expense (Note 11)	19	5	—	24
Net earnings (loss) from continuing operations	20	46	—	66
Net loss from discontinued operations (Note 10)	(2)	—	—	(2)
Net earnings (loss)	\$ 18	46	—	\$ 64

¹ Intercompany sales elimination

² Intercompany interest, foreign exchange, and management fees

Condensed Combined Statement of Cash Flows
(in millions)

Nine months ended September 30, 2004

	Entities in Reorganization Proceedings	Entities not in Reorganization Proceedings	Consolidated Totals
Net cash provided by operating activities *	\$ 3	54	\$ 57
Investing activities			
Directors' and officers' trust (Note 1)	(10)	—	(10)
Expenditures for capital assets	(16)	(19)	(35)
	(26)	(19)	(45)
Financing activities			
Dividends	8	(8)	—
Increase in bank indebtedness	48	18	66
Reduction of long-term debt (Note 13)	—	(31)	(31)
	56	(21)	35
Cash, cash equivalents and restricted cash			
Net increase	33	14	47
Balance at beginning of period	3	20	23
Balance at end of period	\$ 36	34	\$ 70
Consists of:			
Cash and cash equivalents	31	34	65
Restricted cash (Note 6)	5	—	5
	\$ 36	34	\$ 70

* Includes intercompany receivables and payables

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited) (continued)

8. CONDENSED COMBINED FINANCIAL STATEMENTS (continued)

Condensed Combined Statement of Financial Position
(in millions)

At September 30, 2004

	Entities in Reorganization Proceedings	Entities not in Reorganization Proceedings	Eliminations	Consolidated Totals
Current assets	\$ 1,095	294	–	\$ 1,389
Intercompany receivables	52	377	(429) ¹	–
Current assets	1,147	671	(429)	1,389
Current liabilities	440	213	–	653
Intercompany payables	46	52	(98) ¹	–
Current liabilities	486	265	(98)	653
Working capital	661	406	(331)	736
Other assets				
Property, plant, and equipment	716	311	–	1,027
Intangible assets	65	–	–	65
Deferred pension cost	192	23	–	215
Future income taxes	–	2	–	2
Assets held for sale (Note 10)	2	–	–	2
Intercompany investments and loans	287	(91)	(196) ²	–
Other	12	13	–	25
	1,274	258	(196)	1,336
Total investment	1,935	664	(527)	2,072
Other liabilities				
Employee future benefits	768	146	–	914
Other liabilities not subject to compromise	43	113	–	156
	811	259	–	1,070
Liabilities subject to compromise (Note 7)	903	–	(331) ¹	572
Shareholders' equity	\$ 221	405	(196)	\$ 430
Derived from:				
Convertible debentures conversion option (Note 14)	23	–	–	23
Capital stock (Note 15)	781	196	(196) ²	781
Contributed surplus (Note 3)	15	–	–	15
Retained earnings (deficit)	(598)	209	–	(389)
	\$ 221	405	(196)	\$ 430

¹ Intercompany receivables and payables² Intercompany investment at cost

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited) (continued)

9. ASSET RETIREMENT OBLIGATIONS

Asset retirement obligations (see Note 3) pertain to the Corporation's mining interests in Wabush, Tilden, and Hibbing iron ore properties. On January 1, 2004, an obligation of \$10 million was recorded on the Consolidated Statement of Financial Position representing the present value of the Corporation's estimated retirement obligation for these properties, principally relating to the Wabush joint venture. A former participant in Wabush funded its share of estimated future mine closure costs at the time of its exit from the joint venture. The Corporation has reflected its share of these funds (\$4 million) in Other non-current assets on the Consolidated Statement of Financial Position. The total undiscounted amounts of the estimated cash flow required to settle the obligation is \$84 million which is expected to be spent between 2013 and 2050. In determining the obligation, a credit-adjusted, risk-free interest rate of 16.65% was used. No additional liabilities were incurred in the first nine months of 2004, no liabilities were settled, and no revision to the estimated cash flows was made. An accretion expense of \$0.4 million was recorded in Costs for third quarter 2004 (\$0.3 million for third quarter 2003 as restated); \$1.3 million for the nine months ended September 30, 2004 (\$1.1 million for the nine months ended September 30, 2003 as restated).

10. DISCONTINUED OPERATIONS AND ASSETS HELD FOR SALE

Welland Pipe

On March 7, 2003, the Corporation permanently closed its wholly owned subsidiary, Welland Pipe, a manufacturer of large-diameter pipe located in Welland, Ontario. The decision to permanently close the facility was based on a lack of order prospects. A pre-tax charge of \$7 million (\$5 million net of tax) was recorded in 2003, principally related to employee future benefits. In first quarter 2004, Welland Pipe made wind-up payments of \$3 million to the pension plan covering its hourly employees, increasing deferred pension cost on the Consolidated Statement of Financial Position. Welland Pipe is an Applicant under the CCAA proceedings described in Note 1.

Welland Pipe has been excluded from the Manufactured Products reportable segment.

Losses from discontinued operations in both third quarter 2004 and 2003 were \$1 million. In the first nine months of 2004, a loss of \$2 million was recorded compared with a loss of \$7 million in the first nine months of 2003, which included the aforementioned \$5 million after-tax charge related principally to employee future benefits.

Included in the Consolidated Statement of Financial Position are the following amounts related to discontinued operations:

(in millions)

	At September 30		At December 31
	2004	2003	2003
Working capital	\$ (1)	\$ (2)	\$ (2)
Deferred pension cost	8	5	6
Future income taxes	-	6	-
Other assets of discontinued operations	\$ 8	\$ 11	\$ 6
Employee future benefits – non-current	\$ 17	\$ 15	\$ 17

CHT Steel

The Corporation announced the closure of CHT Steel, a wholly owned subsidiary located in Richmond Hill, Ontario, on February 18, 2004. CHT Steel is an Applicant under the CCAA proceedings described in Note 1. CHT Steel processed plate sourced from the Stelco Hamilton plate mill.

The sale of the manufacturing and office equipment was completed during the quarter, resulting in a nominal gain. The only remaining assets of CHT Steel are the land and buildings, the sale of which is actively being pursued. Accordingly, the net book value of these assets (\$2 million) has been classified as Assets held for sale on the Consolidated Statement of Financial Position. No impairment of the value of the assets has been recorded, based on a third-party appraisal of the value of the assets.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited) (continued)

11. COMPONENTS OF CONSOLIDATED INCOME TAXES

The income tax expense differs from the amount calculated by applying Canadian income tax rates (Federal and Provincial) to the loss before income taxes, as follows:

Three Months ended September 30, 2004			
<i>(in millions)</i>	Entities in Reorganization Proceedings	Entities not in Reorganization Proceedings	Consolidated Totals
Earnings from continuing operations			
before income taxes	\$ 73	4	\$ 77
Income tax expense computed using			
statutory income tax rates (2004 – 43%)	31	2	33
Add (deduct):			
Manufacturing and processing credit	(7)	–	(7)
Valuation allowance (release)	(11)	–	(11)
Impact of intercompany dividends	6	(6)	–
Impact of reclassification of convertible debentures (Note 14)	–	–	–
Impact of intercompany foreign exchange	(4)	6	2
Other	1	–	1
	(15)	–	(15)
Income tax expense	\$ 16	2	\$ 18

Nine months ended September 30, 2004			
<i>(in millions)</i>	Entities in Reorganization Proceedings	Entities not in Reorganization Proceedings	Consolidated Totals
Earnings from continuing operations			
before income taxes	\$ 39	51	\$ 90
Income tax expense computed using			
statutory income tax rates (2004 – 43%)	16	22	38
Add (deduct):			
Manufacturing and processing credit	(4)	(4)	(8)
Valuation allowance (release)	(14)	–	(14)
Impact of intercompany dividends	14	(14)	–
Impact of reclassification of convertible debentures (Note 14)	5	–	5
Impact of intercompany foreign exchange	(4)	6	2
Other	6	(5)	1
	3	(17)	(14)
Income tax expense	\$ 19	5	\$ 24

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited) (continued)

12. BANK INDEBTEDNESS

(in millions)

	At September 30		At December 31
	2004	2003	2003
Applicants.....	\$ 249	\$ 165	\$ 201
Non-Applicants	32	13	14
Total Bank indebtedness	\$ 281	\$ 178	\$ 215

Applicants

Accommodation Agreement and Debtor-In-Possession financing

An Accommodation Agreement and a Debtor-In-Possession financing were finalized in first quarter 2004. No amounts have been drawn on the DIP. Further information regarding the terms of these agreements is contained in Note 1.

Non-Applicants

AltaSteel

On January 6, 2004, AltaSteel arranged an extension to the end of May 2005 for its \$15 million revolving line of credit. A further extension to the end of November 2005 was negotiated on August 3, 2004.

Norambar

On January 28, 2004, a previous financing was replaced with a three-year \$30 million operating credit facility, available until January 28, 2007. The facility is collateralized by the accounts receivable, inventory, and other assets of Norambar Inc. and its wholly owned subsidiary, Fers et Métaux Recyclés Ltée. Norambar is required to maintain a minimum of \$3 million of excess eligible collateral over its drawings and letters of credit. In addition, there are certain other covenants that Norambar must meet. Drawings can generally be made by way of Canadian or U.S. borrowings at a rate of 1.25% over the Canadian prime rate or the U.S. base rate. Borrowings under the new facility are disclosed as Bank indebtedness on the Consolidated Statement of Financial Position.

Stelfil

On August 16, 2004, a three-year \$10 million operating credit facility was negotiated replacing a previous \$6 million financing arrangement. The facility is available until August 16, 2007 and is collateralized by the accounts receivable, inventory, and general security agreement over machinery and equipment. Stelfil is required to maintain a minimum of \$1 million of excess eligible collateral over its drawings and letters of credit. In addition, there are certain other covenants that Stelfil must meet. Drawings can generally be made by way of Canadian or U.S. borrowings at a rate of 1.25% over the Canadian prime rate or the U.S. base rate.

13. LONG-TERM DEBT

(in millions)

	At September 30		At December 31
	2004	2003	2003
10.4% retractable unsecured debentures due November 30, 2009.....	\$ 125	\$ 125	\$ 125
8% retractable unsecured debentures due February 15, 2006.....	150	150	150
Computer system financing.....	47	40	46
	\$ 322	\$ 315	\$ 321
Long-term debt of Applicants subject to compromise (Note 7).....	\$ 322		
Long-term debt of non-Applicants	\$ 94	\$ 131	\$ 124
		446	445
Less amount due within one year	44	50	50
Total Long-term debt	\$ 50	\$ 396	\$ 395

On March 10, 2004, the Corporation did not make the quarterly installment on the term loan associated with the Stelco Hamilton plate mill which resulted in a default of the debt. This debt is a liability of a wholly owned subsidiary of Stelco Inc. which is not an Applicant under the CCAA filing described in Note 1. On October 13, 2004, the agent for the lenders of the term loan notified Stelco Inc. that, as a result of the default in payment, Stelco Inc. will be obligated to pay under a tolling agreement between Stelco Inc. and the subsidiary an amount equal to the amount owing under the term loan. The total debt is \$27 million at September 30, 2004. The long-term portion of the debt (\$9 million) has been reclassified to long-term debt due within one year on the Consolidated Statement of Financial Position. Interest is being calculated in accordance with the terms of the credit agreement.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited) (continued)

14. CONVERTIBLE DEBENTURES

On January 21, 2002, the Corporation issued \$90 million of 9.5% Convertible Unsecured Subordinated Debentures ("Debentures") due February 1, 2007, for net proceeds of \$87 million. The effective interest rate on the Debentures is 16.65%. The Debentures are convertible at the option of the holder into Series A Convertible Common Shares ("Shares") of the Corporation at any time prior to the maturity date at a conversion price of \$4.50 per share. The Debentures are redeemable by the Corporation, under certain circumstances, on and after February 1, 2005. The Corporation has the option to pay interest in cash, or by the issuance to a Trustee of Shares, the proceeds of the sale of which would be used to discharge the interest payment to the holder. The Corporation has the option to repay the principal amount of the Debentures, at redemption or maturity, in cash or by the issuance of Shares directly to the holder. The Debentures had been classified as a component of shareholders' equity with an initial allocation of \$67 million to the principal element and \$23 million allocated to the value of the debenture holders' conversion option at the date of issue.

The CCAA filing is an event of default under the terms of the convertible debenture agreement and these debentures are immediately due and payable on demand subject to the provisions of the Initial Order (see Note 1). As a result, the Corporation is restricted in its ability to settle the convertible debentures through the issuance of shares and accordingly, the \$75 million principal element of the debentures has been reclassified as debt. The conversion option continues to be classified as share capital.

As a further result of the filings described in Note 1, the Corporation recorded in first quarter 2004 a reorganization charge of \$15 million (see Note 4) in order to reflect the convertible debenture balance at the principal amount of \$90 million and the convertible debentures have been classified as liabilities subject to compromise (see Note 7). Subsequent to the reclassification of the convertible debentures, interest expense of \$2 million was recorded in third quarter 2004 (\$6 million in first nine months 2004).

15. CAPITAL STOCK

Convertible Common Shares

	<u>September 30, 2004</u>	<u>September 30, 2003</u>	<u>December 31, 2003</u>
Series A.....	101,555,442	102,017,302	101,908,302
Series B.....	693,758	231,901	340,901
Total.....	<u>102,249,200</u>	<u>102,249,203</u>	<u>102,249,203</u>

The Corporation has been granted creditor protection under the CCAA. Uncertainty remains as to whether the existing common shares of the Company will have value upon implementation of a restructuring plan. In the meantime, the capital raising process which has been commenced may provide a meaningful indication as to the value, if any, of such equity.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited) (continued)

16. STOCK-BASED COMPENSATION

Key Employee Stock Option Plan (KESOP)

On January 5, 2004, 1,000,000 options were granted at \$2.469. These options vest 1/3 each year in the first three years after the date of the grant and mature on January 5, 2014.

Under the Corporation's KESOP the following options were outstanding:

	<u>Sept. 30, 2004</u>	<u>Sept. 30, 2003</u>	<u>Dec. 31, 2003</u>
Exercisable	3,605,046	3,102,381	3,050,380
Unexercisable	<u>1,570,975</u>	<u>2,048,967</u>	<u>2,020,635</u>
Total	<u>5,176,021</u>	<u>5,151,348</u>	<u>5,071,015</u>

Effective January 1, 2004, the Corporation adopted the new standard concerning Stock-based compensation and other stock-based payments as described in Note 3. Accordingly, a compensation cost of \$0.2 million has been included in Costs for third quarter 2004 and \$0.7 million for the first nine months of 2004. In third quarter 2003 and the first nine months of 2003, prior to the adoption of the new standard, the corresponding compensation costs of \$0.2 million and \$0.7 million, respectively, were not included in Costs under the settlement method and are disclosed for comparative purposes. Financial results for 2003 were not restated for the new standard as the effect was not material.

The compensation cost for the grants made under the KESOP was determined at the grant dates using the fair value method by applying the Black-Scholes option-pricing model using the following assumptions:

Grant date

	<u>Jan. 5, 2004</u>	<u>Nov. 25, 2003</u>	<u>Feb. 5, 2003</u>
Expected volatility	30%	30%	23%
Risk-free interest rate	3.60%	3.75%	4.0%
Expected life	4-6 years	4-6 years	4-6 years
Expected dividends	Nil	Nil	Nil

Deferred Share Unit Plan (DSUP)

	Three months ended September 30			
	2004		2003	
	DSUs	Weighted average price	DSUs	Weighted average price
Outstanding at beginning of period	362,030	\$ 0.592	384,130	\$ 1.291
Granted	-	-	42,950	1.372
Exercised	-	-	-	-
Balance at end of period	<u>362,030</u>	<u>\$ 1.171</u>	<u>427,080</u>	<u>\$ 1.372</u>
Compensation cost (gain) loss (\$ in millions)		<u>\$ 0.2</u>		<u>\$ 0.1</u>

	Nine months ended September 30			
	2004		2003	
	DSUs	Weighted average price	DSUs	Weighted average price
Outstanding at beginning of period	429,740	\$ 2.182	269,977	\$ 3.810
Granted	3,153	0.773	166,259	2.402
Exercised	<u>(70,863)</u>	<u>(2.279)</u>	<u>(9,156)</u>	<u>(4.250)</u>
Balance at end of period	<u>362,030</u>	<u>\$ 1.171</u>	<u>427,080</u>	<u>\$ 1.372</u>
Compensation cost (gain) loss (\$ in millions)		<u>\$ (0.4)</u>		<u>\$ (0.4)</u>

The Corporation has been granted creditor protection under the CCAA. Uncertainty remains as to whether the existing common shares of the Company will have value upon implementation of a restructuring plan. In the meantime, the capital raising process which has been commenced may provide a meaningful indication as to the value, if any, of such equity.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited) (continued)

17. EMPLOYEE FUTURE BENEFITS

An expense was recorded pertaining to defined benefit pension and other future benefit plans of the Corporation as follows:

(\$ in millions)	Three months ended Sept. 30		Nine months ended Sept. 30	
	2004	2003	2004	2003
Employee future benefits	\$ 72	\$ 50	\$ 205	\$ 147

18. EARNINGS (LOSS) PER COMMON SHARE

Prior to the CCAA filing, basic earnings (loss) from continuing operations and basic earnings (loss) per common share was calculated including charges to retained earnings related to the convertible debentures. These charges were excluded from the calculation of fully diluted earnings (loss) from continuing operations and earnings (loss) per common share. Subsequent to the CCAA filing and reclassification of the convertible debentures to debt subject to compromise (see Note 14), interest on the convertible debentures is recorded on the Consolidated Statement of Earnings (Loss) as interest on long-term debt and debt subject to compromise. This amount, net of tax, is added back to net earnings (loss) from continuing operations and net earnings (loss) in order to calculate fully diluted earnings (loss) from continuing operations and fully diluted earnings (loss) per common share. Fully diluted earnings (loss) per common share is calculated by applying the treasury stock method for the potential exercise of stock options, and assuming the dilutive effect of the conversion of all outstanding convertible debentures at the stated conversion price (see Note 14).

(\$ in millions)	Three months ended Sept. 30		Nine months ended Sept. 30	
	2004	Restated (Note 3) 2003	2004	Restated (Note 3) 2003
Net earnings (loss) from continuing operations	\$ 59	\$ (41)	\$ 66	\$ (162)
Convertible debentures – net charge to retained earnings (deficit) ¹	–	(2)	(1)	(8)
Basic net earnings (loss) from continuing operations	59	43	65	(170)
Convertible debentures – net charge to retained earnings (deficit) ¹	–	2	1	8
Convertible debentures – interest expense net of tax ²	2	–	4	–
Fully diluted net earnings (loss) from continuing operations	\$ 61	\$ (41)	\$ 70	\$ (162)
Net earnings (loss)	\$ 58	\$ (42)	\$ 64	\$ (169)
Convertible debentures – net charge to retained earnings (deficit) ¹	–	(2)	(1)	(8)
Basic net earnings (loss)	58	(44)	63	(177)
Convertible debentures – net charge to retained earnings (deficit) ¹	–	2	1	8
Convertible debentures – interest expense net of tax ²	2	–	4	–
Fully diluted net earnings (loss)	\$ 60	\$ (42)	\$ 68	\$ (169)

¹ Pre-CCAA filing

² After CCAA filing

Weighted average number of common shares outstanding – basic	102,249,200	102,249,203	102,249,200	102,249,203
Incremental number of common shares assumed to be issued on the exercise of stock options	–	–	–	–
Common shares issued on the assumed conversion of convertible debentures	20,000,000	20,000,000	20,000,000	20,000,000
Weighted average number of common shares outstanding – fully diluted	122,249,200	122,249,203	122,249,200	122,249,203
Options to purchase common shares not included in the above calculation *	5,176,021	5,151,348	5,176,021	5,151,348

* exercise prices were greater than the average market price of the common shares during the periods

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited) (continued)

19. SUBSEQUENT EVENTS

Active facilities

On October 5, 2004 the Corporation indicated its intention to pursue the sale of AltaSteel, Norambar, and the Corporation's 40% interest in the Camrose Pipe Company. Included in the sale are AltaSteel's ownership interests in GenAlta Recycling Inc. and MOLY-COP Canada as well as Norambar's wholly owned subsidiary Fers et Métaux Recyclés Ltée. Together these companies represent Stelco's Mini-mill business segment and a component of the Manufactured Products segment (see Note 20).

The Corporation sought and received Court approval on October 19, 2004 for a process to seek purchasers of these businesses, as well as for subsidiaries Stelwire, Stelpipe and Stelfil, as part of a broader capital raising process (see Notes 1 and 5).

Included in the Consolidated Statement of Financial Position are the following amounts related to AltaSteel, Norambar and the Corporation's 40% interest in Camrose Pipe Company:

	Mini-mill Segment ⁽¹⁾			Manufactured Products Segment ⁽²⁾		
	At September 30		At December 31	At September 30		At December 31
	2004	2003	2003	2004	2003	2003
Current assets	\$ 169	\$ 89	\$ 101	\$ 23	\$ 17	\$ 18
Current liabilities	83	38	45	7	4	5
Working capital	86	51	56	16	13	13
Property, plant, and equipment.....	90	92	92	8	7	7
Deferred pension cost.....	9	10	10	1	1	1
Future income taxes	9	8	9	-	-	-
Other assets	108	110	111	9	8	8
Employee future benefits.....	47	43	44	2	2	2
Long-term debt	17	38	37	-	-	-
Future income taxes	8	7	8	1	-	-
Other liabilities	\$ 72	\$ 88	\$ 89	\$ 3	\$ 2	\$ 2

(1) Includes AltaSteel, Norambar, GenAlta Recycling Inc., and Fers et Métaux Recyclés Ltée

(2) Includes the Corporation's interest in Camrose Pipe Company and MOLY-COP Canada

The collective bargaining agreement between the USWA Local 5220 and AltaSteel expired on July 31, 2004. On October 8, 2004, the unionized employees at AltaSteel voted 82 % in favour of authorizing their negotiating committee to call a strike. Under Alberta legislation, 72-hour notice is required before a strike or lockout can be called. To date, no such notice has been given.

With these proposed sales and those previously announced (see Note 5) the Corporation intends to exit the Mini-mill and Manufactured Products business segments allowing Stelco to focus on its core assets in the Integrated Steel business.

Idled or closed facilities

At Welland Pipe, the sale of the spiral weld pipe mill closed in October 2004. The disposal of the assets will be recorded in fourth quarter 2004. Proceeds received to date are being held in trust by the Monitor (see Note 6). The sale of the U and O pipe mill equipment is actively being pursued. Both pipe mill assets are fully amortized.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited) (continued)

20. SEGMENTED INFORMATION

Financial information for Welland Pipe has been excluded from the Manufactured Products reportable segment for 2004 and 2003 (see Note 10).

(\$ in millions)

	Three months ended September 30		Nine months ended September 30	
	2004	Restated (Note 3) 2003	2004	Restated (Note 3) 2003
Net sales – trade				
Integrated Steel	\$ 760	\$ 522	\$ 2,061	\$ 1,668
Mini-mill	144	83	385	242
Manufactured Products	130	97	381	290
Intersegment sales				
Integrated Steel	(67)	(38)	(180)	(110)
Mini-mill	(14)	(13)	(35)	(46)
Manufactured Products	–	(1)	(1)	(1)
	<u>\$ 953</u>	<u>\$ 650</u>	<u>\$ 2,611</u>	<u>\$ 2,043</u>
Shipments – trade (thousands of net tons)				
Integrated Steel	962	1,017	3,032	3,081
Mini-mill	227	194	661	575
Manufactured Products	115	115	366	346
Intersegment shipments				
Integrated Steel	(89)	(85)	(279)	(242)
Mini-mill	(25)	(36)	(66)	(131)
Manufactured Products	–	–	–	–
	<u>1,190</u>	<u>1,205</u>	<u>3,714</u>	<u>3,629</u>
Operating earnings (loss)				
Integrated Steel	80	(49)	109	(164)
Mini-mill	19	3	50	5
Manufactured Products	3	(1)	19	(17)
	<u>\$ 102</u>	<u>\$ (47)</u>	<u>\$ 178</u>	<u>\$ (176)</u>
Assets				
Integrated Steel	2,172	2,316	2,172	2,316
Mini-mill	277	199	277	199
Manufactured Products	264	222	264	222
	<u>\$ 2,713</u>	<u>\$ 2,737</u>	<u>\$ 2,713</u>	<u>\$ 2,737</u>
Amortization of capital assets				
Integrated Steel	27	31	82	92
Mini-mill	3	2	7	6
Manufactured Products	1	1	3	3
	<u>\$ 31</u>	<u>\$ 34</u>	<u>\$ 92</u>	<u>\$ 101</u>
Expenditures for capital assets				
Integrated Steel	13	10	29	25
Mini-mill	2	2	4	3
Manufactured Products	1	–	2	–
	<u>\$ 16</u>	<u>\$ 12</u>	<u>\$ 35</u>	<u>\$ 28</u>
Geographic segments				
Net sales				
Canada	789	551	2,131	1,696
United States	133	85	392	289
Other	31	14	88	58
	<u>\$ 953</u>	<u>\$ 650</u>	<u>\$ 2,611</u>	<u>\$ 2,043</u>
Capital assets – net				
Canada	1,035	1,200	1,035	1,200
United States	57	58	57	58
	<u>\$ 1,092</u>	<u>\$ 1,258</u>	<u>\$ 1,092</u>	<u>\$ 1,258</u>

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