

E. JAMES ARNETT, Q.C.
1102-500 AVENUE ROAD
TORONTO, ONTARIO
M4V 2J6

July 7, 2005

Ken Neumann
National Director, Canada
United Steelworkers
234 Eglinton Ave. E.
Toronto, ON
M4P 1K7

Peter Gordon
Managing Partner
Tricap Restructuring Fund
33 Yonge St., Suite 1000
Toronto, ON
M5E 1S9

Gentlemen:

Subject: Stelco

You have advised that the USWA, with the financial sponsorship of Tricap, intends to pursue a CCAA Plan of Arrangement which would include the following elements:

- | | |
|-----------------------------------|---|
| A. Pension funding: | \$500 million cash up-front contribution
\$80 million annual payment |
| B. Leverage: | \$350 million |
| C. Liquidity: | \$871 million |
| D. Capital Expenditure Programme: | subject to normal Board of Directors' approvals, committed |

You have asked for the position of the Province of Ontario in the event that such a Plan is brought forward.

As you know, the Province has consistently indicated that its goals for a successful Stelco restructuring are two-fold:

- (i) to ensure, to the extent possible, that upon emergence from CCAA, the Company is sufficiently capitalized and structured to provide it with the best opportunity to remain viable over the long-term; and

CELL: (416) 457-8444
RESIDENCE: (416) 923-7887

FAX: (416) 923-5899
EMAIL: ejarnett@attcanada.ca

- (ii) to ensure that the current pension plan deficiencies are addressed in a manner that will reasonably secure the benefits of current retirees and plan members.

The Province has also consistently expressed its willingness to be flexible in seeking a pension plan solution. Absent government accommodation, the current statutory regime, once the benefit of section 5.1 is removed, would require 5 years of solvency payments in excess of \$320 million per year.

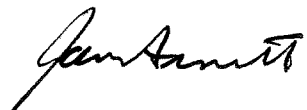
We have indicated to you and the other Stelco stakeholders that the Province would, in the appropriate circumstances,

- (i) extend the amortization period beyond 5 years;
- (ii) renounce the right to the PBGF special premium of approximately \$15 million per year, notwithstanding that PBGF coverage would remain in place; and
- (iii) permit the suspension of solvency funding for certain contingent liabilities, totalling over \$500 million, for a fixed period of time.

The elements of the Plan you have described, taken as a whole, address the Province's concerns. Accordingly, assuming that other aspects of the Plan are otherwise acceptable to the Province, I am instructed to advise you that the Province would be prepared to provide support for the Plan, and the necessary accommodations described above, in order to achieve it.

To be clear, you have not sought, nor is the Province prepared to give, exclusivity of support to this Plan. There may be other alternative plans, the elements of which, taken in their totality, better provide for the long term viability of Stelco and the pension plan deficits. At present, the Plan you have proposed is the only one, of which we are aware, which has the potential to address the Province's concerns, and we will work with you to pursue stakeholder consensus.

Yours truly,



E. James Arnett,
Ontario Special Advisor on the Steel Industry

cc: Alex Morrison
Courtney Pratt
Hap Stephen