Consolidated Financial Statements

Stelco Holdings Inc.

December 31, 2019 and 2018

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

The accompanying consolidated financial statements and Management's Discussion and Analysis (MD&A) have been prepared by management and approved by the Board of Directors of Stelco Holdings Inc. (the Company).

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards, as issued by the International Accounting Standards Board. In preparing this financial information, management must make determinations about the relevancy of information to be included, and estimates and assumptions that affect the reported information. Management is responsible for the accuracy, integrity and objectivity of the consolidated financial statements and MD&A within acceptable limits of materiality and for the consistency of financial data included in the MD&A accompanying the consolidated financial statements.

In meeting management's responsibility to the integrity and fairness of the consolidated financial statements and MD&A, the Company has developed, documented and maintained a system of internal controls in order to provide reasonable assurance that its assets are safeguarded; transactions are properly authorized; and financial records properly maintained to provide reliable information for the preparation of the consolidated financial statements.

In addition, the Company has developed and maintained a system of disclosure controls in order to provide reasonable assurance that the financial information is relevant, reliable and accurate. The Company has evaluated its internal and disclosure controls as at December 31, 2019, and has disclosed the results of this evaluation in its MD&A.

The consolidated financial statements have been audited on behalf of the shareholders by the Company's external auditors, KPMG LLP, in accordance with Canadian generally accepted auditing standards. KPMG LLP has full access to the Audit Committee and meet with the Committee both in the presence of management and separately.

(signed) David Cheney David Cheney Chief Executive Officer	*(signed) Roy Collins* Roy Collins Interim Chief Financial Officer

Hamilton, Canada
February 18, 2020

KPMG

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INDEPENDENT AUDITORS' REPORT

To the Shareholders of Stelco Holdings Inc.

Opinion

We have audited the consolidated financial statements of Stelco Holdings Inc. (the "Entity"), which comprise:

- the consolidated balance sheets as at December 31, 2019 and December 31, 2018
- the consolidated statements of income for the years ended December 31, 2019 and December 31, 2018
- the consolidated statements of comprehensive income for the years ended December 31, 2019 and December 31, 2018
- the consolidated statements of changes in equity for the years ended December 31, 2019 and December 31, 2018
- the consolidated statements of cash flows for the years ended December 31, 2019 and December 31, 2018
- and notes to the consolidated financial statements, including a summary of significant accounting policies

(Hereinafter referred to as the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the consolidated financial position of the Entity as at December 31, 2019 and December 31, 2018, and its consolidated financial performance and its consolidated cash flows for the years ended December 31, 2019 and December 31, 2018 in accordance with International Financial Reporting Standards (IFRS).

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the **"*Auditors' Responsibilities for the Audit of the Financial Statements*"** section of our auditors' report.

We are independent of the Entity in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada and we have fulfilled our ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other Information

Management is responsible for the other information. Other information comprises:

- the information included in Management's Discussion and Analysis filed with the relevant Canadian Securities Commissions.
- the information, other than the financial statements and the auditors' report thereon, included in a document likely to be entitled "Annual Report".

Our opinion on the financial statements does not cover the other information and we do not and will not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit and remain alert for indications that the other information appears to be materially misstated.

We obtained the information included in Management's Discussion and Analysis filed with the relevant Canadian Securities Commissions as at the date of this auditors' report. If, based on the work that we have performed on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact in the auditors' report.

We have nothing to report in this regard.

The information, other than the financial statements and the auditors' report thereon, included in a document likely to be entitled "Annual Report" is expected to be made available to us after the date of this auditors' report. If, based on the work we will perform on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact to those charged with governance.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with International Financial Reporting Standards (IFRS), and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Entity's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Entity or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Entity's financial reporting process.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit.

We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion.

  The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Entity's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Entity's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Entity to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.
- Provide those charged with governance with a statement that we have compiled with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

The engagement partner on the audit resulting in this auditors' report is John J. Pryke

KPMG LLP

Chartered Professional Accountants, Licensed Public Accountants

Hamilton, Canada
February 18, 2020

STELCO HOLDINGS INC.
CONSOLIDATED BALANCE SHEETS
(In millions of Canadian dollars)

As at	Note		**December 31, 2019**		December 31, 2018
Assets					
Current assets					
Cash		**$**	**257**	$	438
Restricted cash	*5*		**8**		8
Trade and other receivables	*6*		**158**		252
Inventories	*7*		**483**		468
Prepaid expenses	*8*		**8**		28
Total current assets		**$**	**914**	$	1,194
Non-current assets					
Property, plant and equipment, net	*9*		**670**		448
Intangible assets	*10*		**7**		7
Investment in joint ventures	*11*		**3**		6
Total non-current assets		**$**	**680**	$	461
Total assets		**$**	**1,594**	$	1,655
Liabilities					
Current liabilities					
Trade and other payables	*12*	**$**	**444**	$	436
Other liabilities	*13*		**34**		40
Asset-based lending facility	*14*		**8**		—
Obligations to independent employee trusts	*15*		**35**		103
Total current liabilities		**$**	**521**	$	579
Non-current liabilities					
Provisions	*16*		**6**		5
Pension benefits	*26*		**7**		2
Other liabilities	*13*		**48**		13
Asset-based lending facility	*14*		**90**		—
Obligations to independent employee trusts	*15*		**472**		488
Total non-current liabilities		**$**	**623**	$	508
Total liabilities		**$**	**1,144**	$	1,087
Equity					
Common shares	*17*		**512**		512
Treasury shares	*17*		**—**		(1)
Retained earnings (deficit)			**(62)**		57
Total equity		**$**	**450**	$	568
Total liabilities and equity		**$**	**1,594**	$	1,655

The accompanying notes are an integral part of the consolidated financial statements.

On behalf of the Board of Directors

(signed) *Alan Kestenbaum*, Director

(signed) *Michael Mueller*, Director

STELCO HOLDINGS INC.
CONSOLIDATED STATEMENTS OF INCOME
(In millions of Canadian dollars, except per share amounts)

Years ended December 31,	Note		2019		2018
Revenue from sale of goods	*19*	**$**	**1,841**	$	2,460
Cost of goods sold	*20*		**1,745**		1,928
Gross profit		**$**	**96**	$	532
Selling, general and administrative expenses	*21*		**46**		56
Operating income		**$**	**50**	$	476
Other income (loss) and (expenses)					
Finance and other income	*23*		**7**		3
Finance costs	*22*		**(28)**		(215)
Share of loss from joint ventures	*11*		**(3)**		(2)
Restructuring and other costs	*24*		**(6)**		(9)
Income before income taxes		**$**	**20**	$	253
Income tax expense	*25*		**—**		—
Net income		**$**	**20**	$	253
Net income per common share					
Basic	*29*	**$**	**0.23**	$	2.85
Diluted	*29*	**$**	**0.23**	$	2.85

The accompanying notes are an integral part of the consolidated financial statements.

STELCO HOLDINGS INC.
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(In millions of Canadian dollars)

Years ended December 31,	Note		2019		2018
Net income		**$**	**20**	$	253
Other comprehensive income:					
Items that are not recycled or reclassified to income:					
Remeasurement gain (loss) on pension benefit obligations, net of income tax	*26*		**(2)**		2
Remeasurement gain on defined benefit pension obligation of equity accounted investment	*11*		**—**		3
Other comprehensive income (loss), net of income taxes		**$**	**(2)**	$	5
Comprehensive income, net of income taxes		**$**	**18**	$	258

The accompanying notes are an integral part of the consolidated financial statements.

STELCO HOLDINGS INC.
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
(In millions of Canadian dollars, except for number of shares)

	Note	Number of common shares (in thousands)	Common shares	Treasury shares	Retained earnings (deficit)	Total equity
Balance, December 31, 2017		88,814	$ 512	$ —	$ (15)	$ 497
Changes during the year:						
Net income		—	—	—	253	253
Other comprehensive income		—	—	—	5	5
Purchase of common shares for cancellation	*17*	(57)	—	(1)	—	(1)
Dividends to common shareholders	*17*	—	—	—	(186)	(186)
Balance, December 31, 2018		88,757	$ 512	$ (1)	$ 57	$ 568
Changes during the year:						
Net income		**—**	**—**	**—**	**20**	**20**
Other comprehensive loss		**—**	**—**	**—**	**(2)**	**(2)**
Common shares purchased and cancelled	*17*	**(44)**	**—**	**—**	**—**	**—**
Treasury shares cancelled	*17*	**—**	**—**	**1**	**(1)**	**—**
Dividends to common shareholders	*17*	**—**	**—**	**—**	**(136)**	**(136)**
Balance, December 31, 2019		**88,713**	**$ 512**	**$ —**	**$ (62)**	**$ 450**

The accompanying notes are an integral part of the consolidated financial statements.

STELCO HOLDINGS INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(In millions of Canadian dollars)

Years ended December 31,	Note	2019	2018
Operating activities			
Net income		**$ 20**	$ 253
Items not affecting cash:			
Depreciation		**51**	35
Share of loss from joint ventures		**3**	2
Share-based compensation	*18*	**2**	—
Provision for doubtful accounts (recovery)		**—**	(2)
Employee benefit commitment:			
Accretion expense	*15*	**41**	43
Remeasurement costs (recovery)	*15*	**(26)**	144
Termination of lease related obligations	*23*	**—**	(9)
Change in non-cash working capital and other operating items	*28*	**(77)**	(76)
Cash provided by operating activities		**$ 14**	$ 390
Investing activities			
Capital expenditures on property, plant and equipment	*28*	**(210)**	(101)
Change in restricted cash		**—**	4
Cash used in investing activities		**$ (210)**	$ (97)
Financing activities			
Advances from asset-based lending facility, net of transaction costs	*14*	**179**	79
Repayment of asset-based lending facility	*14*	**(81)**	(80)
Proceeds from the inventory monetization arrangement, net	*12*	**63**	83
Lease obligation principal payments	*13*	**(9)**	—
Repayment of mortgage principal	*15*	**(1)**	(1)
Dividends paid to common shareholders	*17*	**(136)**	(186)
Cash provided by (used in) financing activities		**$ 15**	$ (105)
Net increase (decrease) in cash		**(181)**	188
Cash, beginning of year		**438**	250
Cash, end of year		**$ 257**	$ 438
Cash flows provided by operating activities include:			
Interest paid		**23**	13
Interest received		**6**	5

The accompanying notes are an integral part of the consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

To facilitate a better understanding of Stelco Holdings' consolidated financial statements, significant accounting policies and related disclosures, a listing of all the notes is provided below:

1. CORPORATE INFORMATION

Stelco Holdings Inc. (Stelco Holdings) was incorporated on September 25, 2017 under the *Canada Business Corporations Act* and was formed for the purposes of completing an initial public offering (IPO) of its common shares. On November 10, 2017, Stelco Holdings completed its IPO, listing its common shares on the Toronto Stock Exchange (TSX) under the symbol 'STLC'.

On November 10, 2017, Stelco Holdings acquired all of the issued and outstanding shares of Stelco Inc. (Stelco). Stelco (formerly known as U. S. Steel Canada Inc.) is principally engaged in the production and sale of steel products. Stelco is an integrated steel producer with facilities in two locations, Hamilton and Nanticoke, Ontario, which produces a variety of steel products for customers in the steel service centre, appliance, automotive, energy, construction, pipe and tube industries in North America.

Bedrock Industries L.P. (Bedrock), which indirectly owns approximately 46.4% of the common shares of Stelco Holdings through Bedrock Industries B.V., is Stelco Holdings' largest shareholder. The principal limited partners of Bedrock are LG Bedrock Holdings LP (LG Bedrock), a Delaware limited partnership; and AK Bedrock LLC, a Delaware limited liability company wholly owned by Alan Kestenbaum. The General Partner of Bedrock is Bedrock Industries GP LLC, a Delaware limited liability company whose sole member is LG Bedrock. LG Bedrock's general partner is LG Bedrock Holdings GP LLC, a Delaware limited liability company.

Stelco Holdings' registered and head offices are located at 386 Wilcox Street, Hamilton, Ontario, Canada.

2. STATEMENT OF COMPLIANCE AND BASIS OF PREPARATION

a) Statement of compliance

Stelco Holdings' financial statements (Consolidated Financial Statements) have been prepared by management in accordance with International Financial Reporting Standards (IFRS), as issued by the International Accounting Standards Board (IASB).

These Consolidated Financial Statements were authorized for issue on February 18, 2020 in accordance with a resolution of the board of directors (Board of Directors) of Stelco Holdings.

b) Basis of preparation

These Consolidated Financial Statements were prepared on a going concern basis under the historical cost method, except for certain financial assets and liabilities, which are measured at fair value as described in note 30. The accounting policies set out below have been applied consistently in all material respects.

c) Principles of consolidation

These Consolidated Financial Statements include the accounts of Stelco Holdings and its subsidiaries (collectively, the Company). All intercompany balances, transactions, income and expenses, and gains or losses have been eliminated on consolidation.

Subsidiaries

Subsidiaries are consolidated where Stelco Holdings has the ability to exercise control. Control of an investee is defined to exist when Stelco Holdings is exposed to variable returns from Stelco Holdings' involvement with the investee and has the ability to affect those returns through its power over the investee. Specifically, Stelco Holdings controls an investee if, and only if, Stelco Holdings has all of the following: power over the investee (existing rights that gives it the current ability to direct the relevant activities of the investee); exposure, or rights, to variable returns from Stelco Holdings' involvement with the investee; and the ability to use its power over the investee to affect its returns.

The Company's subsidiaries are:

- Stelco Inc.
- The Steel Company of Canada Limited
- The Stelco Plate Company Ltd.
- Stelco Algae Holdings Inc.
- Stelco USA Inc.

Joint ventures

Joint ventures are entities over which the Company has joint control and whereby the parties that share joint control have rights to the net assets of the joint venture. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require unanimous consent of the parties sharing control. Investments in joint ventures are accounted for using the equity method. Under the equity method, the investment is initially recorded at cost and adjusted by Stelco's share of the results of operations and changes in the net assets of the joint venture. The financial statements of Stelco's joint ventures are prepared for the same reporting period as the Company and where necessary, adjustments are made to bring the accounting policies of such entities in line with those of Stelco.

3. SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies (and any changes thereto) used in preparation of these Consolidated Financial Statements are summarized below. These accounting policies conform, in all material respects, to IFRS.

a) Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable, net of returns and allowances, trade discounts, volume rebates and other incentives.

Revenue from the sale of goods is recognized to the extent that it is probable that the economic benefits will flow to the Company, can be reliably measured, and when the performance obligation is satisfied by transferring the promised good to a customer. A good is considered transferred when the customer obtains control, which is defined as the ability to direct the use of and obtain substantially all of the remaining benefits of an asset.

Depending on the shipping terms, freight and other transportation costs billed to customers are recorded gross (within revenue and cost of goods sold), or net of freight costs paid to shipping providers. The Company is the principal in revenue arrangements, where Stelco has pricing latitude, and is also exposed to inventory and credit risks.

b) Foreign currency translation

These Consolidated Financial Statements are presented in Canadian dollars, which is the functional and presentation currency of the Company, its subsidiaries and its joint ventures. Transactions in currencies other than the functional currency of the Company are recorded at the rates of exchange prevailing at the date of the transaction. At the end of each reporting period, the Company translates foreign currency balances as follows:

- Monetary assets and liabilities are translated at the closing rate in effect as at the Consolidated Balance Sheet date; and
- Non-monetary items that are measured in terms of historical cost are translated using the exchange rate at the date of the transaction. Items measured at fair value are translated at the exchange rate in effect at the date the fair value was measured.

Differences arising on settlement or translation of monetary assets and liabilities are recognized in finance costs on the Consolidated Statements of Income. Non-monetary items that are carried at fair value are translated using the exchange rate prevailing when the fair value was determined and the related translation gains and losses are reported in net income or other comprehensive income (OCI).

c) Income taxes

The Company's current and deferred tax expense is recognized in the Consolidated Statements of Income, unless it relates to items recognized in correlation to the underlying transaction in either OCI or equity. Current tax expense is based on substantively enacted statutory tax rates and tax laws as at the Consolidated Balance Sheet date. Deferred tax is provided using the liability method on temporary differences between the tax basis of assets and liabilities and their carrying amounts for financial reporting purposes as at the reporting date.

Deferred tax liabilities are recognized for all taxable temporary differences, except in respect of taxable temporary differences associated with investments in subsidiaries, and interests in joint ventures, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognized for all deductible temporary differences, the carry-forward of unused tax credits and any unused tax losses. Deferred tax assets are recognized to the extent that it is probable that taxable profit will be available against which the deductible temporary differences and the carry-forward of unused tax credits and unused tax losses can be utilized, within their respective expiry periods. For deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred tax assets are recognized only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilized.

The carrying amount of deferred tax assets is reviewed as at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilized. Unrecognized deferred tax assets are re-assessed as at each reporting date and are recognized to the extent that it has become probable that future taxable profits will allow the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realized or the liability is settled, based on tax rates and tax laws that have been substantively enacted as at the reporting date. Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

d) Inventories

Inventories are measured at the lower of cost and net realizable value. Net realizable value represents the estimated selling price at which the inventories can be realized in the normal course of business after allowing for the cost of conversion from their existing state to a finished condition and for the cost of selling and delivery. Net realizable value is estimated using evidence available at the time, taking into account the purpose for which the inventory is held. Previous write-downs are reversed in the event the circumstances that previously caused inventories to be written down below cost no longer exist.

The cost of raw materials are determined using the weighted average cost method. Raw materials and certain spare parts are valued at cost, inclusive of freight, shipping, handling as well as any other costs incurred in bringing the inventories to their present location and condition.

The cost of semi-finished and finished products are determined on a first-in, first-out basis and include the purchase costs of raw materials and conversion costs such as direct labor and an allocation of fixed and variable production overheads. Costs incurred when production levels are abnormally low are capitalized as inventories based on normal capacity with the remaining costs incurred recorded within cost of goods sold in the Consolidated Statements of Income.

e) Property, plant and equipment

Property, plant and equipment is recorded at cost less accumulated depreciation and impairment. Cost includes all related costs directly attributable to the acquisition or construction of the asset. Except for land, property, plant and equipment is depreciated using the straight-line method over the useful lives of the related assets as presented in the table below.

Estimated useful lives of major asset categories	
Buildings	35 years
Machinery and equipment	5 - 40 years
Vehicles	4 - 15 years

Property, plant and equipment that consist of parts that have a cost that is significant in relation to the item of property, plant and equipment to which it relates are treated as separate components of an item of property, plant and equipment and depreciated on a straight-line basis during the estimated period of service, taking into account any residual value at the end of the period. Such cost includes the cost of replacing part of the plant and equipment and borrowing costs for long-term construction projects if the recognition criteria are met. When significant parts of plant and equipment are required to be replaced at intervals, the Company depreciates them separately based on their specific useful lives. In addition, when a major inspection is performed, its cost is recognized in the carrying amount of the plant and equipment as a replacement if the recognition criteria are satisfied. Major repairs and upgrades are recognized separately and depreciated over their useful lives, all other repair and maintenance costs are expensed as incurred.

f) Impairment of non-financial assets

The Company's non-financial assets (including property, plant and equipment) are reviewed for indicators of impairment at each Consolidated Balance Sheet date. If an indicator of impairment exists, the asset's recoverable amount is estimated. An impairment loss is recognized when the carrying amount of an asset or cash generating unit (CGU) exceeds its recoverable amount. The recoverable amount of an asset or CGU is the higher of its fair value less costs of disposal and its value in use. When the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. Impairment losses are recognized in net income for the period.

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the CGU to which the asset belongs. An impairment loss is reversed if there is an indication that there has been a change in estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized.

g) Financial instruments

Stelco's financial assets and liabilities (financial instruments) include cash, restricted cash, trade and other receivables, trade and other payables, certain other liabilities, asset-based lending facility, mortgage payable, as well as employee benefit commitments.

The classification of financial instruments is typically determined at the time of initial recognition, within the following categories:

- Amortized cost
- Fair value through income or loss
- Fair value through other comprehensive income

Financial instruments carried at amortized cost

Financial instruments in this category include cash, trade and other receivables, trade and other payables, certain other liabilities, asset-based lending facility, mortgage payable and the employee benefit commitment. Financial instruments are recorded initially at fair value and, in the case of financial assets and liabilities carried at amortized cost, adjusted for directly attributable transaction costs.

Trade and other receivables include originated and purchased non-derivative financial assets with fixed or determined payments that are not quoted in an active market and are subsequently measured at amortized cost and is computed using the effective interest method less any allowance for impairment.

Trade and other payables, asset-based lending facility, mortgage payable (including the current portion of mortgage payable), the employee benefit commitment, as well as the lease obligations, are subsequently measured at amortized cost using the effective interest rate method. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees. The effective interest rate accretion is included as finance costs in the Consolidated Statements of Income.

Impairment of financial assets carried at amortized cost

Trade and other receivables are subject to lifetime expected credit losses (ECL) which are measured as the difference in the present value of the contractual cash flows that are due under the contract, and the cash flows that are expected to be received. The Company applies the simplified approach at each reporting date on its trade and other receivables and considers current and forward-looking macro-economic factors that may affect historical default rates when estimating ECL.

Financial assets, together with the associated allowance, are written off when there is no realistic prospect of future recovery and all collateral has been realized or has been transferred to the Company. If in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognized, the previously recognized impairment loss is increased or decreased by adjusting the carrying value of the loan or receivable. If a past write-off is later recovered, the recovery is recognized in the Consolidated Statements of Income.

Financial instruments carried at fair value through income or loss

Financial instruments in this category include share-based compensation cash-settled awards which are presented on the Consolidated Balance Sheets as financial liabilities and remeasured at fair value through income or loss at the reporting date.

h) Fair value measurement

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. All assets and liabilities for which fair value is measured or disclosed in the Consolidated Financial Statements are categorized within the fair value hierarchy, which is described as follows, based on the lowest-level input that is significant to the fair value measurement as a whole:

Level 1 - Unadjusted quoted prices in active markets that are accessible at the measurement date for identical, unrestricted assets or liabilities;

Level 2 - Quoted prices in markets that are not active or inputs that are observable, either directly or indirectly, for substantially the full term of the asset or liability; and

Level 3 - Prices or valuation techniques that require inputs that are both significant to the fair value measurement and unobservable, supported by little or no market activity.

The fair value hierarchy gives the highest priority to Level 1 inputs and the lowest priority to Level 3 inputs.

For items that are recognized at fair value on a recurring basis, the Company determines whether transfers have occurred between levels in the hierarchy by reassessing their classification at the end of each reporting period.

i) Provisions

Provisions are recognized when the Company has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. The expense relating to a provision is presented in the Consolidated Statements of Income net of any reimbursement.

If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects, when appropriate, the risks specific to the liability. When discounting is used, the increase in the provision due to the passage of time is recognized as a finance cost.

j) Pension and other employee benefits

The Company sponsors multiple defined benefit pension plans, which requires contributions to be made to a separately administered fund. The Company also provides certain additional post-employment healthcare benefits. The post-employment benefits plans are unfunded. The obligations and costs of providing benefits under the defined benefit plans are determined using the projected unit credit method.

Service costs including past service, gains and losses from curtailment and non-routine settlements and net interest are recognized through net income. Actuarial gains and losses resulting from remeasurements are recognized immediately through OCI in the period in which they occur. Remeasurements are not reclassified to net income in subsequent periods.

Fair value is based on market price information, and in the case of quoted securities, is the published bid price. The value of any defined benefit asset recognized is restricted to the present value of any economic benefits available in the form of refunds from the plan or reductions in the future contributions to the plan.

k) Net income per share

Basic net income per common share is calculated by dividing net income for the period attributable to common shareholders of the Company by the weighted average number of common shares outstanding during the period.

Diluted net income per common share is calculated giving effect to the potential dilution that would occur if all outstanding dilutive instruments were exercised or converted to common shares. The weighted average number of common shares outstanding during the period is adjusted by the incremental number of shares calculated in accordance with the treasury stock method. The treasury stock method assumes that the proceeds received from the exercise of all potentially dilutive instruments are used to repurchase common shares at the volume weighted average market price during the period.

l) Intangibles

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is the fair value at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortization and accumulated impairment losses. The useful lives of intangible assets are assessed as either finite or indefinite.

Intangible assets with finite lives are amortized over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortization period and the amortization method for an intangible asset with a finite useful life are reviewed each reporting period. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are considered to modify the amortization period or method, as appropriate, and are treated as changes in accounting estimates. The amortization expense on intangible assets with finite lives is recognized in the Consolidated Statements of Income in the expense category that is consistent with the function of the intangible assets.

Intangible assets with indefinite useful lives are not amortized, but are tested for impairment annually, either individually or at the cash-generating unit level, or more frequently if indicators of impairment exist. The assessment of indefinite life is reviewed annually to determine whether the indefinite life continues to be supportable. If not, the change in useful life from indefinite to finite is considered a change in accounting estimate and accounted for on a prospective basis.

Gains or losses arising from derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognized in the Consolidated Statements of Income when the asset is derecognized.

m) Leases

At the inception of an arrangement, the Company assesses whether the arrangement is, or contains, a lease. An arrangement is, or contains, a lease if the arrangement conveys the right to control the use of an identified asset for a period of time in exchange for consideration. For arrangements that contain a lease component and one or more additional lease or non-lease components, the Company will allocate the consideration in the contract to each lease component on the basis of the relative stand-alone price of the lease component and the aggregate stand-alone price of the non-lease components.

The Company, as a lessee, recognizes a right-to-use asset and lease liability at the commencement of the lease at the present value of the future lease payments using the interest rate implicit in the lease (if it is readily determinable) or the Company's incremental borrowing rate. The right-to-use-asset also includes any direct costs and estimated dismantling or restoration costs incurred by the Company. Subsequent to initial recognition, the asset is depreciated using the straight-line method from the commencement date to the earlier of the end of the useful life of the right-to-use asset or the end of the lease term. The lease liability is measured at amortized cost using the effective interest rate method. Lease related finance charges are recorded in finance costs in the Consolidated Statements of Income.

The Company has elected not to recognize right-of-use assets and lease liabilities for certain short-term leases; i) machinery and equipment that have a lease term of 12 months or less that do not contain a purchase option, and ii) of low-value items. These types of leases are not recognized on the Company's Consolidated Balance Sheets and payments to lessors are recorded in the Consolidated Statements of Income on a straight-line basis over the term of the lease.

n) Segment reporting

Segments are reported in a manner consistent with the internal reporting provided to the chief operating decision maker (CODM). The CODM, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the Executive Chairman and Chief Executive Officer (CEO).

o) Changes in accounting policies

Stelco Holdings has adopted each of the standards and policies noted below on January 1, 2019:

IFRS 16, *Leases* (IFRS 16)

IFRS 16 introduced a single, on-balance sheet accounting model for lessees. A lessee recognizes a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. There are optional exemptions for short-term leases and leases of low value items. Lessor accounting remains substantially unchanged, such that lessors continue to classify leases as finance or operating leases. IFRS 16 replaces the following: IAS 17, *Leases*; IFRIC 4, *Determining Whether an Arrangement Contains a Lease* (IFRIC 4); SIC-15, *Operating Leases - Incentives*; and SIC-27, *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*.

The Company adopted IFRS 16 using the modified retrospective application, which does not require comparative information to be restated, by applying the following optional practical expedients:

- a single discount rate for a portfolio of leases with reasonably similar characteristics;
- 'grandfathering' the Company's previous assessment of which existing contracts are, or contain, leases under IAS 17 and IFRIC 4;
- no recognition of right-of-use assets and liabilities for leases for which the lease term ends within 12 months of the date of initial application or for leases of low value assets; and
- use of hindsight when determining the lease terms.

On January 1, 2019, in connection with the adoption of IFRS 16, the Company recorded a $9 million increase to property, plant and equipment and other liabilities on the Consolidated Balance Sheet, respectively, relating to certain equipment leases that were previously classified as operating leases and disclosed as off-balance sheet commitments as at December 31, 2018. The lease liability consisted of operating lease commitments at December 31, 2018 of $7 million and incremental contractual lease commitments of $2 million, discounted at the Company's estimated weighted average incremental borrowing rate at January 1, 2019 of 5.3%. Refer to notes 9 and 13, respectively, for further details on the impact of the transition to IFRS 16 on property, plant and equipment, and other liabilities.

Prior to the adoption of IFRS 16, the Company under IAS 17 and IFRIC 4 was required to determine whether the arrangement was or contained a lease based on assessing if; fulfillment of the arrangement was dependent on the use of a specific asset or assets, and the arrangement had conveyed a right to use the asset.

IFRIC 23 - Uncertainty over Income Tax Treatments (IFRIC 23)

In June 2017, the IASB issued IFRIC 23 to clarify the accounting for uncertainties in income taxes. The interpretation provides guidance and clarifies the application of the recognition and measurement criteria in IAS 12, *Income Taxes*, when there is uncertainty over income tax treatments. The adoption of this standard did not have an impact on the Consolidated Financial Statements.

4. CRITICAL JUDGMENTS, ESTIMATES AND ASSUMPTIONS

The preparation of the Consolidated Financial Statements requires management to make judgments, estimates and/or assumptions that affect the amounts reported. The key assumptions concerning the future and other key sources of estimation uncertainty at the Consolidated Balance Sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below. The Company based its assumptions and estimates on parameters available when the Consolidated Financial Statements were prepared. Existing circumstances and assumptions about future developments, however, may change due to market changes or circumstances arising that are beyond the control of the Company.

a) Employee benefit commitment

This financial liability was initially recorded at its fair value using a discounted cash flow analysis and subsequently accounted for at amortized cost using the effective interest method. The determination of fair value at initial recognition involved making various assumptions, including the determination of the expected cash flows and discount rate. Estimates of expected cash flows are revisited at the end of each Consolidated Balance Sheet date to determine amortized cost. Due to the nature of the underlying assumptions and its long-term nature, the employee benefit commitment is highly sensitive to changes in these assumptions. Further details about the assumptions used are provided in note 15.

(In millions of Canadian dollars, tabular amounts in millions, except where otherwise noted)

b) Pension and other post-employment benefits

The cost of defined benefit pension plans and other post-employment benefits and the present value of the obligation are determined using actuarial valuations. An actuarial valuation involves making various assumptions. These include the determination of the discount rate, future salary increases, mortality rates and projected retirement age. Due to the complexity of the valuation, the underlying assumptions and its long-term nature, a defined benefit obligation is highly sensitive to changes in these assumptions. Further details about the assumptions used are provided in note 26.

c) Allowance for doubtful accounts

Estimates are used in determining the allowance for doubtful accounts related to trade receivables. The estimates are based on management's best assessment of the ECL of the related receivable balance, which involves estimates around the cash flows that are expected to be received. Future collections of receivables that differ from management's current estimates would affect trade receivables and other operating expenses. Refer to note 6 for information about the allowance for doubtful accounts.

d) Impairment of non-financial assets

In the process of applying the Company's accounting policies, impairment has been identified as an area where judgments have been made that may have a significant effect on the amounts recognized in the Consolidated Financial Statements. Also, in assessing for impairment, judgment is required in determining the aggregation of the Company's assets into CGUs, which is based on economic and commercial influences as well as the interdependence of cash inflows of the Company's operating facilities. The Company has determined that its operations comprise of a single CGU.

The Company evaluates each asset or CGU at each Consolidated Balance Sheet date to determine if any indicators of impairment or impairment reversal exist. When completing an impairment test, the Company calculates the estimated recoverable amount of CGUs, which requires management to make estimates and assumptions with respect to items such as future production levels, operating and capital costs, long-term commodity prices, foreign exchange rates and discount rates. These estimates and assumptions are subject to risk and uncertainty. Therefore, there is a possibility that changes in circumstances will have an impact on these projections, which may impact the recoverable amount of assets or CGUs.

e) Income taxes

The Company is subject to income taxes in Canada. Significant estimates are required in determining the provision for income taxes. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the current and deferred income tax assets and liabilities in the period in which such determination is made. Refer to note 25 for the carrying value of current and deferred income tax assets and liabilities.

5. RESTRICTED CASH

Restricted cash represents cash not readily available for Stelco operations and includes deposits connected with the Company's environmental obligations held for the Ontario Ministry of the Environment, Conservation and Parks (MECP). Refer to note 16 for further details. Changes in restricted cash are included within investing activities in the Consolidated Statements of Cash Flows.

6. TRADE AND OTHER RECEIVABLES

As at	**December 31, 2019**	December 31, 2018
Trade receivables [1]	**$ 152**	$ 249
Other receivables	**6**	3
Total trade and other receivables	**$ 158**	$ 252

[1] Net of allowance for doubtful accounts of nil (December 31, 2018 - nil).

Trade and other receivables

Trade receivables are non-interest bearing and are generally on terms of 30 to 45 days. In order to minimize the credit risk associated with trade and other receivables, the Company performs regular credit reviews for all customers with significant credit limits. Trade and other receivables are analyzed on a case by case basis taking into account a customer's past credit history as well as its current ability to pay and uncollectible amounts are recorded as an allowance for doubtful accounts.

(In millions of Canadian dollars, tabular amounts in millions, except where otherwise noted)

As at December 31, 2019 and 2018, the aging of trade receivables and other receivables is as follows:

				Past due but not impaired			
As at		Total	Current	< 31 days	31 - 60 days	61 - 90 days	>91 days
December 31, 2019	**$**	**158**	**155**	**3**	**—**	**—**	**—**
December 31, 2018	$	252	222	24	6	—	—

Refer to note 27 for further details of the Company's credit risk management.

Receivables Purchase Agreement (RPA)

During June 2019, Stelco entered into a RPA with a Schedule II bank (the Purchaser), enabling Stelco Inc. from time to time, to sell certain customers' trade receivables to the Purchaser on an uncommitted revolving basis. Under the terms of the RPA, the aggregate maximum purchase limit under this arrangement is $108 million (which includes a USD$12.5 million limit on certain customers' trade receivables) and requires that Stelco administer and process the collection of receivables and remit those collections to the Purchaser. The Company has derecognized the trade receivables sold under the RPA from the Consolidated Balance Sheet as substantially all of the risks and rewards for such receivables have been transferred to the Purchaser.

Proceeds received by Stelco under the RPA are recorded within cash flows from operations on the Consolidated Statements of Cash Flows. For the year ended December 31, 2019, the Company recorded $1 million in bank fees in connection with the RPA within finance costs on the Consolidated Statements of Income.

7. INVENTORIES

As at		December 31, 2019		December 31, 2018
Raw materials	**$**	**355**	$	321
Semi-finished products		**98**		101
Finished products [1]		**28**		33
Spare parts		**2**		13
Total inventories	**$**	**483**	$	468

[1] Includes a provision to reflect inventories at the lower of cost or net realizable value of $2 million as December 31, 2019 (December 31, 2018 - nil)

Refer to note 20 for the cost of inventories recognized within cost of goods sold.

8. PREPAID EXPENSES

As at		December 31, 2019		December 31, 2018
Advance payments to vendors	**$**	**4**	$	23
Prepaid insurance		**4**		4
Other		**—**		1
Total prepaid expenses	**$**	**8**	$	28

(In millions of Canadian dollars, tabular amounts in millions, except where otherwise noted)

9. PROPERTY, PLANT AND EQUIPMENT

Cost	Land	Buildings	Machinery and equipment	Vehicles	Assets under leases	Construction in progress	Total
As at December 31, 2017	$ —	$ —	$ 254	$ 4	$ 21	$ 11	$ 290
Additions	93	4	12	—	8	87	204
Transfers	—	1	32	4	—	(37)	—
Acquisition of assets under finance lease	—	21	—	—	(21)	—	—
As at December 31, 2018	$ 93	$ 26	$ 298	$ 8	$ 8	$ 61	$ 494
IFRS 16 adjustment	—	—	—	—	9	—	9
Additions	17	4	12	—	39	183	255
Transfers	—	11	110	1	—	(122)	—
Disposals and other	—	—	(4)	—	(2)	—	(6)
Spare parts reclassified as equipment [1]	—	—	11	—	—	—	11
As at December 31, 2019	**$ 110**	**$ 41**	**$ 427**	**$ 9**	**$ 54**	**$ 122**	**$ 763**

[1] Represents machinery spare parts that contain capital attributes including, but not limited to, future benefit to the Company for a period greater than 12 months. On January 1, 2019, these items were reclassified from spare parts inventory to equipment.

Accumulated depreciation	Land	Buildings	Machinery and equipment	Vehicles	Assets under leases	Construction in progress	Total
As at December 31, 2017	$ —	$ —	$ 11	$ —	$ —	$ —	$ 11
Depreciation	—	—	33	1	1	—	35
As at December 31, 2018	—	—	44	1	1	—	46
Depreciation	—	1	39	1	10	—	51
Disposals and other	—	—	(2)	—	(2)	—	(4)
As at December 31, 2019	**$ —**	**$ 1**	**$ 81**	**$ 2**	**$ 9**	**$ —**	**$ 93**
Net book value							
As at December 31, 2019	**$ 110**	**$ 40**	**$ 346**	**$ 7**	**$ 45**	**$ 122**	**$ 670**
As at December 31, 2018	$ 93	$ 26	$ 254	$ 7	$ 7	$ 61	$ 448

Acquisition of Land and Buildings

During 2019

On May 8, 2019, Stelco completed the acquisition of certain land parcels and buildings (collectively the Remaining Lands) adjacent to Stelco's Hamilton Works operation for total cash consideration of $21 million, which includes $0.5 million in transaction costs. The acquisition of the Remaining Lands completes Stelco's repurchase of all Hamilton Works lands which were previously sold to Legacy Lands Limited Partnership (the Land Vehicle) prior to Stelco's emergence from the Companies' Creditors Arrangement Act (CCAA) reorganization on June 30, 2017.

During 2018

On June 5, 2018, Stelco acquired the land and buildings beneficially owned by the Land Vehicle which Stelco conducts its operations in Hamilton and Nanticoke, Ontario, including lands in Hamilton that contain the Hamilton Works blast furnace and cast houses, as well as developable lands and port facilities (collectively, the Lands). The total purchase price of the Lands was approximately $114 million and was financed with a 25-year, 8% per annum mortgage payable as purchase consideration issued to the Land Vehicle.

In connection with the Lands acquisition, existing lease arrangements between Stelco and the Land Vehicle were terminated and the associated rental payments were canceled resulting in Stelco's buildings', previously held under a finance lease, to be reclassified and recorded as wholly-owned buildings, with a carrying value of $21 million. Lease related obligations of $30 million, consisting of building and land leases of $24 million and $6 million, respectively, were derecognized concurrent with the Lands acquisition, resulting in Stelco recording a $6 million straight-line rent land lease adjustment and $3 million building finance lease recovery within other income on the Consolidated Statement of Income for the year ended December 31, 2018. The total purchase consideration of $114 million consisted of land and building costs of $89 million and $25 million, respectively, and excluded $4 million of transaction costs.

(In millions of Canadian dollars, tabular amounts in millions, except where otherwise noted)

Also, in acquiring the Lands, Stelco Inc. assumed approximately 1.8 million metric tonnes of secondary waste materials, which under an approved secondary materials management plan (SMMP) submitted to the MECP, will either be utilized as infill by Stelco on the site, sold to third parties or removed from the site and transferred to an external land fill. Under the terms of the SMMP, Stelco Inc. is required to manage these waste pile materials over a ten year period which is subject to the potential future use of the Lands. The implementation of the SMMP may be revised periodically in response to changes in the types of waste materials and land utilization. Stelco is assessing the future use requirements in respect of the Lands and will accrue a liability in the event that the future use of the Lands requires the Company to incur costs in connection with these waste materials.

Furthermore, in connection with the acquisition of the Lands and Remaining Lands (collectively the Combined Lands), Stelco retained an environmental contamination release in respect of the Combined Lands that was granted by the Ministry of the Environment, Conservation and Parks on closing of Stelco's CCAA reorganization on June 30, 2017.

Assets under leases

The following table summarizes the changes in the aggregate carrying value of the Company's right-to-use assets included in property, plant and equipment:

		Machinery and equipment
As at January 1, 2019	$	16
Additions		39
Depreciation		(10)
Disposals and other		—
As at December 31, 2019	**$**	**45**

During September 2019, Stelco Inc. entered into an amended lease arrangement (the Lease Arrangement) with a third-party service provider, for the right-to-use specific steel and by-product processing assets. The Lease Arrangement included an extended 126 month lease term and a buy-out option for certain on-site assets. The Company recorded approximately $28 million in connection with these assets as additions, with a corresponding lease obligation increase recorded in other liabilities on the Consolidated Balance Sheet. The total contractual fixed payments over the term in connection with the Lease Arrangement, which includes the non-lease components of this arrangement, was approximately $59 million.

As at December 31, 2019, the net carrying amount of assets under leases was $45 million (December 31, 2018 - $7 million), which also includes an IFRS 16 adjustment of $9 million. Refer to note 3 for details pertaining to the adoption of IFRS 16 and adjustments to the Consolidated Financial Statements.

10. INTANGIBLE ASSETS

Intangible assets includes an indefinite life trademark with a carrying value of $7 million (December 31, 2018 - $7 million), recognized by the Company in connection with Bedrock's acquisition of Stelco Inc. on June 30, 2017.

11. INVESTMENT IN JOINT VENTURES

Stelco has 50% equity interests in joint ventures with Baycoat Limited Partnership (metal coating services) and D.C. Chrome Limited (chrome plating services), which are accounted for using the equity method in the Consolidated Financial Statements. Summarized financial information of the joint ventures are set out below.

Assets and liabilities of the joint ventures

Assets and liabilities of the joint ventures (100% basis) consist of the following:

As at		**December 31, 2019**		December 31, 2018
Current assets	**$**	**30**	$	27
Non-current assets		**6**		6
Current liabilities		**(10)**		(4)
Non-current liabilities		**(21)**		(19)

(In millions of Canadian dollars, tabular amounts in millions, except where otherwise noted)

Statement of loss of the joint ventures

Key information from the statements of loss of the joint ventures is as follows (100% basis):

As at		**December 31, 2019**		December 31, 2018
Net revenue	**$**	**83**	$	76
Depreciation		**(1)**		(2)
Net loss		**(5)**		(4)

Equity investment in the joint ventures

Years ended December 31,		**2019**		2018
Balance, beginning of year	**$**	**6**	$	5
Share of net loss		**(3)**		(2)
Remeasurement gain on defined benefit pension obligations within OCI		**—**		3
Balance, end of year	**$**	**3**	$	6

The Company evaluates impairment of its equity method investments whenever circumstances indicate that there is objective evidence that an investment in a joint venture is impaired. If there is such evidence, the Company calculates the amount of impairment as the difference between the recoverable amount of the joint venture and its carrying value.

12. TRADE AND OTHER PAYABLES

As at		**December 31, 2019**		December 31, 2018
Trade payables	**$**	**176**	$	219
Inventory monetization arrangement		**267**		216
Payables to related parties [1]		**1**		1
Total trade and other payables	**$**	**444**	$	436

[1] Refer to note 33 for details.

Trade payables

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business. Trade payables are classified as current liabilities if payment is due within one year or less.

Inventory monetization arrangement

During December 2017, Stelco Inc. entered into an inventory monetization financing arrangement which is subject to a financing rate of LIBOR plus a margin. Under the terms of the arrangement, Stelco receives cash proceeds (in USD) based upon an agreed pricing formula and the quantity of certain raw materials on-site, less a required cash margin. Currently, iron ore, metallurgical coal and coke, and prime slab inventory are monetized under the arrangement up to specified maximum volumes. Upon consumption of the raw materials and semi-finished products, amounts monetized under the arrangement are repaid to the counterparty.

The weighted average finance rate for the inventory monetization arrangement for the year ended December 31, 2019 was 5.09% (December 31, 2018 - 5.36%), and related finance costs of $10 million (December 31, 2018 - $7 million) are recorded on the Consolidated Statements of Income. This financing arrangement is secured by inventory with a carrying value of $351 million (December 31, 2018 - $225 million) serving as collateral.

The following table summarizes the changes in the aggregate carrying value of the Company's inventory monetization arrangement:

Years ended December 31,		**2019**		2018
Balance, beginning of year	**$**	**216**	$	121
Proceeds, net of repayments		**63**		83
Foreign exchange (gain) loss		**(12)**		12
Balance, end of year	**$**	**267**	$	216

(In millions of Canadian dollars, tabular amounts in millions, except where otherwise noted)

Amendments to the inventory monetization arrangement

In November 2018, Stelco Inc. entered into an amended inventory monetization arrangement for which the terms remained substantially similar to the original agreement. Significant amendments to the arrangement include the following:

i) adjusted volume quantity limits of raw materials eligible to be financed through this arrangement; and

ii) change of the original financing rate of LIBOR plus a margin of 3.5% to LIBOR plus 2.50%.

On August 6, 2019, Stelco Inc. further amended the inventory monetization arrangement to include the following significant items:

i) the inclusion of metallurgical coke and prime slab inventory as eligible products under the monetization arrangement;

ii) market pricing adjustment mechanism for certain items such as changes in product quality, freight costs, tariffs or similar trade regulations;

iii) increased reporting and settlement frequency;

iv) Stelco to maintain a minimum liquidity balance of at least $50 million, which includes maintaining a minimum level of cash and cash equivalents of $30 million;

v) finance rate of LIBOR plus a margin of 3.00% (previously LIBOR plus a margin of 2.50%); and

vi) an option for Stelco to terminate the arrangement early on either April 30, 2020 or May 29, 2020.

Unless otherwise amended or renewed, amounts advanced under the amended inventory monetization arrangement are required to be repaid when the facility expires on June 30, 2020. The Company was in compliance with the financial covenants pursuant to the inventory monetization agreement as at and for the years ended December 31, 2019 and 2018.

13. OTHER LIABILITIES

As at	**December 31, 2019**	December 31, 2018
Lease obligations	**$ 47**	$ 8
Salaries and benefits payable	**24**	33
Post-employment benefits [1]	**8**	7
Share-based compensation [2]	**2**	—
Interest payable	**1**	2
Other liabilities	**—**	3
Total other liabilities	**$ 82**	$ 53
Total current other liabilities	**$ 34**	$ 40
Total non-current other liabilities	**$ 48**	$ 13

[1] Refer to note 26 for details.
[2] Refer to note 18 for details.

Lease obligations

During September 2019, Stelco entered into a 126 month term extended lease arrangement with a third-party service provider, for the right-to-use specific steel and by-products processing assets, which also included a buy-out option for certain on-site building, machinery and equipment. Refer to note 9 for details.

As at December 31, 2019, the Company has equipment lease obligations with a carrying value of $47 million (December 31, 2018 - $8 million), which includes an IFRS 16 adjustment of $9 million. Refer to note 3 for details pertaining to the adoption of IFRS 16 and adjustments to the Consolidated Financial Statements. Refer to note 9 for details of the carrying value of the right-to-use assets related to these leases.

(In millions of Canadian dollars, tabular amounts in millions, except where otherwise noted)

The following table summarizes the changes in the aggregate carrying value of the Company's lease obligations:

Years ended December 31,		**2019**		2018
Balance, beginning of year	**$**	**8**	$	25
IFRS 16 adjustment		**9**		—
Additions		**39**		8
Lease obligation payments		**(11)**		—
Accretion expense related to lease obligations		**2**		1
Extinguishment of lease obligations		**—**		(24)
Other		**—**		(2)
Balance, end of year	**$**	**47**	$	8

Minimum future payments of the Company's lease obligations by year are as follows:

As at		**December 31, 2019**
2020	**$**	**9**
2021		**8**
2022		**7**
2023		**7**
2024		**5**
Thereafter		**25**
Total future lease obligations payments	**$**	**61**
Less: future interest costs		**(14)**
Present value of lease obligations	**$**	**47**

14. ASSET-BASED LENDING FACILITY (ABL)

On June 30, 2017, Stelco entered into an ABL agreement with a syndicate of lenders for a maximum revolving credit facility of $375 million. The amount available to be drawn under the ABL will vary from time to time, based upon a borrowing base determined with reference to eligible trade receivables and inventory, and excludes certain trade receivables that have been sold under the RPA and inventory that has been monetized under the amended inventory monetization arrangement discussed further in note 12 to the Consolidated Financial Statements. At December 31, 2019, the available borrowing base under the ABL was $148 million (December 31, 2018 - $303 million).

The weighted average finance rate for amounts drawn under the ABL for the year ended December 31, 2019 was 4.78% (December 31, 2018 - 5.38%). In addition, Stelco's outstanding letters of credit under this ABL were $54 million at December 31, 2019 (December 31, 2018 - $41 million) and the Company was in compliance with the financial covenants pursuant to the ABL agreement as at and during the years ended December 31, 2019 and 2018.

Amendments to the ABL agreement

In August 2018, Stelco entered into an amended ABL agreement for which the terms remained substantially similar to the original agreement. Significant amendments to the ABL revolver arrangement include the following:

i) the facility's maturity date was extended to August 16, 2023;

ii) change of financing rate to Canadian/US prime rate plus to 0.25% - 0.75% (previously 1% - 1.5%);

iii) change of option to index the interest rate to CDOR/LIBOR plus a margin of to 1.25% - 1.75% (previously 2% - 2.5%); and

iv) change of letter of credit fee rate range to 1.25% - 1.75% (previously 2% - 2.5%).

During November 2019, Stelco further amended its ABL agreement to include the following significant items:

i) addition of a $100 million non-revolving term loan with a maturity date of August 16, 2023, secured by certain machinery and equipment wholly-owned by the Company;

(In millions of Canadian dollars, tabular amounts in millions, except where otherwise noted)

ii) term loan interest rate of either:

a) Canadian prime rate plus 1.25% - 1.75%; or

b) CDOR/LIBOR plus a margin of 2.25% - 2.75%; and

iii) the requirement that Stelco maintain minimum excess availability under the ABL of at least $50 million through December 31, 2020, and $75 million thereafter while the term loan is outstanding.

The ABL's maximum borrowing capacity remains at $375 million (subject to available eligible accounts receivable, inventory, machinery and equipment), less the outstanding principal of the $100 million non-revolving term loan. Stelco may prepay the principal of the non-revolving term loan in whole or in part, accompanied by the payment of accrued interest to the date of such principal prepayment. The other terms of the ABL agreement have remained substantially similar to the original agreement.

The following table summarizes the changes in the aggregate carrying value of the Company's ABL obligations:

Years ended December 31,	**2019**	2018
Balance, beginning of year	**$ —**	$ —
Advances from asset-based lending facility:		
Revolving	**81**	80
Non-revolving term loan	**100**	—
Repayment of asset-based lending facility - revolving	**(81)**	(80)
Transaction costs [1]	**(2)**	—
Balance, end of year	**$ 98**	$ —

[1] 2018 transaction costs of $1 million were recorded within prepaid expenses on the Consolidated Balance Sheet.

Minimum future principal payments of the Company's non-revolving term loan by year are as follows:

As at	**December 31, 2019**
2020	**$ 8**
2021	**14**
2022	**14**
2023	**64**
Total minimum future ABL non-revolving term loan principal payments	**$ 100**
Less: transaction costs	**(2)**
Carrying amount of ABL non-revolving term loan	**$ 98**

15. OBLIGATIONS TO INDEPENDENT EMPLOYEE TRUSTS

As at	**December 31, 2019**	December 31, 2018
Employee benefit commitment	**$ 395**	$ 478
Mortgage payable	**112**	113
Obligations to independent employee trusts	**507**	591
Current	**35**	103
Non-current	**$ 472**	$ 488

The Company's obligations to independent employee trusts consists of multiple arrangements that contain future funding requirements to certain pension and independent employee health and life trusts. These funding requirements include both fixed scheduled payments and estimated variable contributions based on Stelco's future operating performance and the utilization of specific tax attributes. The obligations to independent employee trusts includes both the employee benefit commitment, entered into as part of Stelco's CCAA reorganization on June 30, 2017, as amended, and a mortgage assumed in connection with the acquisition of the Lands described further below.

Employee benefit commitment

On June 5, 2018, Stelco entered into an amended employee benefit commitment (amended EBC) agreement that replaced Stelco's previous funding obligations under the original June 30, 2017 agreement. The amended EBC reduces the Company's exposure to future variable funding requirements primarily through limiting free cash flow participation and provides the independent employee life and health (OPEB) trusts established as part of Stelco's CCAA reorganization, with an increased fixed funding commitment over a 25 year term. With the exception of the aforementioned amendments to the employee benefit commitment, the nature of the underlying assumptions used to derive the employee benefit commitment have remained the same to those of the original agreement.

(In millions of Canadian dollars, tabular amounts in millions, except where otherwise noted)

The employee benefit commitment was initially recorded at its fair value, which was measured based on unobservable Level 3 inputs, and subsequently has been accounted for at amortized cost using the effective interest method using an effective interest rate of 11.04%. The amended EBC was recorded at its estimated fair value of $491 million, which was measured based on a discounted cash flow analysis of expected cash flows to be paid in future periods to the pension and OPEB trusts. These cash flows consist of contractually fixed payments as well as estimated payments that have been determined using management estimates of Stelco's future operating performance. The contractually fixed payments are discounted using a rate that is reflective of the Company's cost of borrowing and similar senior unsecured debt for companies in the same sector that are of a similar size. The estimated variable payments are discounted using a rate consistent with a market rate of return for the Company. Subsequent to its initial recognition, the amended EBC is carried at amortized cost using the effective interest method at an effective interest rate of 9.72%.

In accordance with IFRS, modification of a financial liability terms that results in accounting for the original arrangement as an extinguishment of a financial liability, requires any difference between the carrying amount of the original financial liability and the amended arrangement obligation to be recognized in the Consolidated Statements of Income in the period of modification. During June 2018, in connection with the initial recognition of the amended EBC, Stelco incurred a remeasurement charge of $157 million recorded within finance costs on the Consolidated Statements of Income.

Due to the nature of the underlying assumptions and long-term estimates, the employee benefit commitment is highly sensitive to changes in these assumptions. Estimates of expected cash flows are revisited at the end of each Consolidated Balance Sheet date to determine amortized cost. Refer to note 22 for remeasurements of the employee benefit commitment recorded in finance costs on the Consolidated Statements of Income, as a result of changes in estimates and assumptions related to this obligation.

The following table summarizes the changes in the aggregate carrying value of the Company's employee benefit commitment:

Years ended December 31,	**2019**	2018
Balance, beginning of year	**$ 478**	$ 344
Accretion expense	**41**	43
Remeasurement cost (recovery)	**(26)**	144
Cash payments	**(98)**	(53)
Balance, end of year	**$ 395**	$ 478

Future employee benefit commitment payments are estimated as follows:

As at	December 31, 2019
2020	$ 33
2021	33
2022	62
2023	54
2024	57
Thereafter	589
Total estimated employee benefit commitment payments	$ 828
Less: amounts representing future finance costs	(433)
Present value of employee benefit commitment	$ 395

Mortgage payable

On June 5, 2018, Stelco completed the acquisition of Lands (previously owned by Stelco prior to emergence from CCCA protection) back from the Land Vehicle. The Lands were acquired for approximately $114 million which was financed by Stelco through a 25-year, 8% per annum mortgage payable as purchase consideration to the Land Vehicle, which is payable through quarterly fixed payments of approximately $2.7 million over the term. In connection with the acquisition of Lands from the Land Vehicle, the properties acquired serve as security for Stelco's mortgage payable and certain obligations in respect of the amended employee benefit commitment.

The following table summarizes the changes in the aggregate carrying value of the Company's mortgage payable:

Years ended December 31,		2019		2018
Balance, beginning of year	$	**113**	$	—
Purchase consideration for the Lands acquisition		**—**		114
Interest costs		**9**		4
Cash payments		**(10)**		(5)
Balance, end of year	$	**112**	$	113

Future payments of the Company's mortgage payable by year are as follows:

As at		December 31, 2019
2020	$	**11**
2021		**11**
2022		**11**
2023		**11**
2024		**11**
Thereafter		**194**
Total future mortgage payments	$	**249**
Less: amounts representing future finance costs		**(137)**
Carrying amount of mortgage payable	$	**112**

The Company's land and buildings serve as security for the mortgage payable and certain obligations in respect of the employee benefit commitment.

16. PROVISIONS

Includes an environmental mediation provision with a carrying value of $6 million (December 31, 2018 - $5 million), in connection with waste generated from steel making operations subsequent to June 30, 2017. Stelco is required to remediate the sites where this waste is held pursuant to requirements of the MECP. The Company recorded $1 million in finance costs in connection with this provision during the year ended December 31, 2019.

The Company assesses its provision for environmental rehabilitation on an annual basis or when new information becomes available. This assessment includes the estimation of the future rehabilitation costs, the timing of these expenditures, and the impact of changes in discount rates. The actual future expenditures may differ from the amounts currently provided if the estimates made are significantly different than actual results or if there are significant changes in environmental and/or regulatory requirements in the future.

17. SHARE CAPITAL

Stelco Holdings' authorized share capital includes an unlimited number of common shares with no par value and an unlimited number of preferred shares, issuable in series. No preferred shares have been issued to date. The common shares are entitled to dividends, as and when declared by the Board of Directors. The following common shares were issued and outstanding at each respective date:

As at		December 31, 2019		December 31, 2018
Common shares				
Outstanding (in thousands)		**88,713**		88,757
Carrying amount	$	**512**	$	512
Treasury shares				
Outstanding (in thousands)		**—**		57
Carrying amount	$	**—**	$	1

(In millions of Canadian dollars, tabular amounts in millions, except where otherwise noted)

Dividends to common shareholders

Common share dividends declared and paid during the year ended December 31, 2019 were as follows:

Record date	Payment date	Cash dividend per common share	Total common share dividends
March 13, 2019	March 20, 2019	$ 1.13	$ 100
March 13, 2019	March 22, 2019	0.10	9
May 27, 2019	May 31, 2019	0.10	9
August 23, 2019	August 30, 2019	0.10	9
November 25, 2019	November 29, 2019	0.10	9

Subsequent to December 31, 2019, the Board of Directors declared a dividend of $0.10 per common share, payable on March 4, 2020 to shareholders of record as of February 28, 2020.

Normal Course Issuer Bid (NCIB)

On November 16, 2018, Stelco Holdings received approval from the Toronto Stock Exchange (TSX) of its notice of intention to launch a normal course issuer bid (NCIB). Under the NCIB, Stelco Holdings may purchase up to a maximum of 4,440,681 common shares or approximately 5% of its 88,813,637 common shares outstanding as of November 13, 2018. The Company's NCIB was not renewed and expired on November 20, 2019.

During February 2019, Stelco Holdings canceled 56,600 common shares (previously classified as treasury shares at December 31, 2018) at a weighted average price of $15.24 per common share for a total cost of $0.9 million. The excess of the purchase price over the carrying amount of the common shares purchased, was recorded as a reduction to retained earnings amounting to $0.5 million.

The Company also repurchased and canceled 43,748 common shares under the NCIB during 2019, at a weighted average price of $8.89 per common share for a total cost of $0.4 million.

18. SHARE-BASED COMPENSATION

Long-term incentive plan

During 2018, Stelco Holdings established an amended and restated long-term incentive plan (LTIP), which was approved by common shareholders at the annual general and special meeting of common shareholders held on June 28, 2018. The LTIP was designed to promote the alignment of senior management, employees and consultants of the Company with shareholder interests and the creation of sustainable shareholder value, and facilitate recruitment, motivation and retention of executives and key talent.

Under the terms of the LTIP, the maximum number of common shares that may be subject to awards under the LTIP or any other share-based compensation arrangements adopted by Stelco Holdings is 2.5 million common shares. No participant may be granted, in any calendar year, share-based awards with respect to more than 5% of the issued and outstanding common shares of Stelco Holdings.

For the year ended December 31, 2019, the Company recorded a share-based compensation expense of $2 million in selling, general and administrative expenses on the Consolidated Statements of Income related to the vesting of the long-term incentive plan.

Restricted Share Units

Under the terms of the LTIP, Restricted Share Units (RSU) may be issued to eligible participants as may be designated by the Board of Directors from time-to-time. Stelco Holdings is obligated to pay in cash, an amount equal to the number of RSUs multiplied by the fair market value of one common share of Stelco Holdings on the distribution date to the participant in respect of vested RSUs within thirty (30) days of the vesting date. Dividends declared on common shares accrue to the RSU holder in the form of additional RSUs.

On December 31, 2018, 34,528 RSUs were granted to certain employees, including to members of the Company's Executive Senior Leadership Team (ESLT), with a grant date fair value of $15.05 per RSU. These RSUs are cash-settled awards with one-third of the RSUs vesting on the first vesting date, February 21, 2019, and the remaining two-thirds vesting on the first and second anniversary, respectively, of the initial vesting date.

On February 22, 2019, 58,167 RSUs were granted to certain members of the Company's ESLT, with a grant date fair value of $18.43 per RSU. These RSUs are cash-settled awards with the RSUs vesting as to one-third of the total grant amount on each of the first three anniversaries of the grant date.

(In millions of Canadian dollars, tabular amounts in millions, except where otherwise noted)

The following table summarizes the changes in the Company's outstanding RSUs:

(RSUs in total)		
Years ended December 31,	**2019**	2018
Balance, beginning of year	**34,528**	—
Granted	**65,440**	34,528
Cash-settled	**(17,625)**	—
Forfeited	**(76,030)**	—
Balance, end of year [1]	**6,313**	34,528

[1] RSU balances are outstanding and unvested at the reporting date.

The cost of these share-based payments is measured at fair value and expensed over the vesting period with the recognition of a corresponding liability recorded in other liabilities on the Consolidated Balance Sheets. The liability is remeasured at fair value at each reporting period date with the changes in fair value recorded in the Consolidated Statements of Income.

Share options

Under the terms of the LTIP, share options (Options) may be issued to eligible participants as may be designated by the Board of Directors from time to time. Options are share-based payments measured at fair value (excluding the effect of non-market-based vesting conditions) at the date of grant and are expensed on a graded vesting basis over the vesting period, based on Stelco Holdings' estimate of the Options that will eventually vest and adjusted for the effect of non-market-based vesting conditions. Vested Options may be exercised to purchase common shares of Stelco Holdings or surrendered for cash at the election of the Option holder. Given the alternative settlement options at the election of the participants, the Company has accounted for these Options as cash-settled awards which are remeasured at fair value at each reporting period date with the changes in fair value recorded in the Consolidated Statements of Income.

In accordance with the terms of the LTIP, the exercise price of each Option may not be less than the fair market value of the common shares of Stelco Holdings on the grant date. Options are granted at the discretion of the Board of Directors. Other terms and conditions of the LTIP in respect of Options include a maximum 7-year life and immediate vesting under certain change of control provisions. The consideration paid by employees for the purchase of common shares upon exercise of Options is added to share capital.

On January 10, 2019, 1,500,000 Options were granted and issued to certain members of the ESLT with an exercise price of $14.59. Two-thirds of the Options were to vest on January 10, 2020, with the remaining one-third to vest on January 10, 2021. The Company accounts for Options by estimating the fair value of each tranche of an award at the grant date and subsequently recognizing the compensation expense over the vesting period.

The Black-Scholes option-pricing model assumptions used to estimate the fair value of the Options at the grant date were as follows:

Options granted (in total)		1,500,000
Option exercise price (per Option)	$	14.59
Expected risk-free interest rate		1.9%
Expected distribution yield		2.7%
Expected unit price volatility		38%
Expected Option life (years)		4.5
Grant date fair value of options granted (per Option)	$	4.36

During December 2019, the Company announced the resignation of Stelco Holdings' Chief Financial Officer, resulting in the forfeiture of 500,000 unvested options. As at December 31, 2019, there were 1,000,000 unvested and outstanding Options with an estimated fair value of $1.75 per Option.

Deferred share unit plan

Stelco Holdings has a deferred share unit (DSU) plan for the independent members of its Board of Directors which provides that each independent director receives, on each date that the director retainer fees are payable, an amount of DSUs which the director has elected relative to their respective fee entitlement. Each independent director can elect annually to receive a specified percentage of their respective direct retainer fee entitlement as DSUs. The number of DSUs granted to an independent director is based on the closing price of the common shares of Stelco Holdings on the TSX on the grant date. Dividends declared on common shares accrue to the DSU holder in the form of additional DSUs. At such time as an independent director ceases to be a director of the Company, Stelco Holdings will make a cash payment to the applicable director in respect of the total amount of the issued and outstanding DSUs held by such director based on the fair market value of the common shares of Stelco Holdings at such time. As at December 31, 2019, there were 39,445 DSUs outstanding (2018 - 21,683), for which the Company recognized a liability of $0.4 million (2018 - $0.3 million) in other liabilities.

(In millions of Canadian dollars, tabular amounts in millions, except where otherwise noted)

19. REVENUE FROM SALE OF GOODS

Revenue from steel and non-steel product sales are as follows:

Years ended December 31,		**2019**		2018
Steel products	**$**	**1,782**	$	2,330
Non-steel products		**59**		130
Total	**$**	**1,841**	$	2,460

Revenue by geographical location is comprised of:

Years ended December 31,		**2019**		2018
Canada	**$**	**1,382**	$	1,862
United States and other		**459**		598
Total	**$**	**1,841**	$	2,460

20. COST OF GOODS SOLD

Cost of goods sold is comprised of:

Years ended December 31,		**2019**		2018
Cost of inventories:				
Steel products	**$**	**1,596**	$	1,732
Non-steel products		**39**		77
Fixed overhead and other costs [1]		**59**		84
Depreciation		**51**		35
Total	**$**	**1,745**	$	1,928

[1] Primarily includes corporate and administrative employee salaries and benefits, certain employees' pension and other benefits, shared service agreement fees and other indirect costs associated with the production of inventory.

21. SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

Selling, general and administrative expenses is comprised of:

Years ended December 31,		**2019**		2018
Employee salary and benefits expense	**$**	**17**	$	17
Professional, consulting and legal fees		**9**		9
Enterprise resource planning system [1]		**6**		18
Management fees [2]		**6**		7
Share-based compensation [3]		**2**		—
Other [4]		**6**		5
Total	**$**	**46**	$	56

[1] Costs relate to the establishment of a new cloud based Enterprise Resource Planning system that do not qualify as a software intangible because the arrangement is a cloud-based hosting license.
[2] Refer to note 33 for details.
[3] Refer to note 18 for details.
[4] Includes corporate, public company and travel related expenses.

(In millions of Canadian dollars, tabular amounts in millions, except where otherwise noted)

22. FINANCE COSTS

Finance costs are comprised of:

Years ended December 31,		2019		2018
Accretion of employee benefit commitment	**$**	**41**	$	43
Interest on loans and borrowings		**24**		14
Remeasurement of employee benefit commitment [1]		**(26)**		144
Foreign exchange loss (gain)		**(13)**		14
Accretion expense related to lease obligations		**2**		1
Other		**—**		(1)
Total	**$**	**28**	$	215

1 Remeasurement of employee benefit commitment for change in the timing and magnitude of estimated cash flows and future funding requirements. Refer to note 15 for further details.

23. FINANCE AND OTHER INCOME

Finance and other income is comprised of:

Years ended December 31,		2019		2018
Finance income	**$**	**6**	$	4
Loss on commodity-based swaps		**—**		(10)
Other income		**1**		9
Total	**$**	**7**	$	3

Commodity-based swaps

During March 2018, Stelco entered into commodity-based swaps as part of a strategy to mitigate Stelco's exposure to hot-rolled coil steel market price fluctuations in anticipation of certain slab purchases from a third party, which did not occur. These swap contracts matured and settled during May 2018, with the Company realizing a loss of $10 million. Stelco did not enter these contracts for trading or speculative purposes.

Other income

Other income for 2018 includes $9 million associated with the termination of lease related obligations in connection with the Lands acquisition discussed further in note 9. The lease termination related income consisted of a $6 million straight-line rent land lease recovery previously recognized and expensed within cost of goods sold, and $3 million in building finance lease depreciation and accretion recovery.

24. RESTRUCTURING AND OTHER COSTS

During November 2019, the Company announced a voluntary early retirement plan for those employees who are currently eligible to exercise their retirement options, as part of a comprehensive review of Stelco Inc.'s operations. In connection with the Company's obligations under voluntary early retirement plan, the Company recorded $6 million for the year ended December 31, 2019, consisting of employee termination benefits and consulting costs.

For 2018, in connection with Stelco Inc.'s emergence from CCAA , the Company incurred certain CCAA related costs consisting of consulting and legal expenses, and other costs as noted in the table below.

Years ended December 31,		2019		2018
Employee termination benefits	**$**	**5**	$	—
Consulting costs		**1**		2
Legal expenses		**—**		1
Other [1]		**—**		6
	$	**6**	$	9

1 Other includes building related costs incurred by Stelco related to the Land Vehicle and utility costs incurred by Stelco for non-operating and idled assets prior to their acquisition from the Land Vehicle on June 5, 2018.

(In millions of Canadian dollars, tabular amounts in millions, except where otherwise noted)

25. INCOME TAXES

The major components of income tax expense are as follows:

Years ended December 31,		**2019**		2018
Deferred income tax:				
Origination and reversal of temporary differences	**$**	**6**	$	63
Previously unrecognized deferred tax assets		**(6)**		(63)
Income tax expense	**$**	**—**	$	—

Reconciliation of Effective Tax Rate:

Years ended December 31,		**2019**		2018
Income before income taxes	**$**	**20**	$	253
Combined Canadian federal and provincial income tax rate		**25%**		25%
Income tax expense based on statutory rate		**5**		63
Increase (decrease) in income taxes resulting from non-taxable items or adjustments of prior period taxes:				
Other		**1**		**—**
Unrecognized deferred tax assets		**(6)**		(63)
Income tax expense	**$**	**—**	$	—

Deferred tax

Reconciliation of movements in the deferred tax asset as at:

As at		**December 31, 2019**		Movement		December 31, 2018		Movement		December 31, 2017
Employee benefit commitment	**$**	**102**	$	(20)	$	122	$	34	$	88
Non-capital and capital loss carry-forwards		**98**		3		95		(114)		209
Deductible SRED expenditures		**9**		—		9		—		9
Financing fee		**2**		(1)		3		(1)		4
Provisions		**2**		2		—		(2)		2
Impairment provision of investment in subsidiaries		**2**		—		2		1		1
Land lease		**—**		—		—		(1)		1
Building finance lease		**—**		—		—		(1)		1
Plant and equipment		**15**		9		6		5		1
Deferred tax assets not recognized		**(230)**		7		(237)		77		(314)
Deferred tax asset	**$**	**—**	$	—	$	—	$	(2)	$	2
Intangibles		**—**		—		—		2		(2)
Deferred tax liability	**$**	**—**	$	—	$	—	$	2	$	(2)
Net deferred tax asset	**$**	**—**	$	—	$	—	$	—	$	—

(In millions of Canadian dollars, tabular amounts in millions, except where otherwise noted)

Non-capital loss carry forwards:

As at	**December 31, 2019**	December 31, 2018
2034	**$ 136**	$ 136
2035	**238**	238
2037	**2**	2
2038	**4**	4
2039	**13**	—
Total	**$ 393**	$ 380

Other tax attributes

As at December 31, 2019, the Company has other tax attributes available for future use as deductions from taxable income, including but not limited to, undepreciated capital cost (UCC) of $595 million (2018 - $401 million) and scientific research and experimental development (SRED) deductions of $36 million (2018 - $36 million).

The use of any remaining tax attributes is subject to the tax savings agreement entered into on completion of Stelco's CCAA reorganization on June 30, 2017, and dependent on realizing sufficient future taxable income within the carry forward period and satisfying applicable legislative provisions of the *Income Tax Act* (Canada) and associated regulations.

26. PENSION AND OTHER POST-EMPLOYMENT BENEFITS

Net employee defined benefit liabilities, pension and other benefits as at December 31:

As at	**December 31, 2019**	December 31, 2018
Defined benefit pension plans	**$ (7)**	$ (2)
Other post-employment benefit plans [1]	**(8)**	(7)
Total	**$ (15)**	$ (9)

[1] The other post-employment benefits is recorded within other liabilities, refer to note 13.

Defined benefit pension plans

On January 1, 2018, defined benefit pension plans were established for certain active hourly employees of Stelco Inc. on substantially the same terms as those contained in the main pension plans for the Hamilton Bargaining Unit Plan, the Lake Erie Bargaining Unit Plan and the Pickle Line Plan that were settled as part of the CCAA reorganization. Under the special regulation under the *Pension Benefits Act* (Ontario), Stelco Inc. is required to make annual contributions to the new pension plans for the years 2018 to 2027 inclusive. Required contributions for years 2018 through 2023 are $4 million annually and decline to $3 million annually for years 2024 through 2027. After 2027, these plans are subject to the *Pension Benefits Act* (Ontario) including, applicable solvency funding requirements. Actuarial valuation reports were prepared for each plan as at December 31, 2019.

Other post-employment benefit plans

Stelco sponsors an unfunded compensated absence plan that provides non-pension benefits and is the administrator of the plan. Funded Status and other post-employment benefit reports for the compensated absences plan (Hamilton and Lake Erie) are prepared based on projections of employees' compensation levels to the time of retirement and future health care costs based on management's best estimate. Expected contributions to the compensated absences plan during 2020 are approximately $1 million.

Net benefit expense

The components of the Company's benefit expense recognized in net income include:

Years ended December 31,	**2019**	2018
Defined benefit pension plans - service costs	**$ 7**	$ 7
Other post employment benefit plans - service costs	**1**	1
Net benefit expense	**$ 8**	$ 8

(In millions of Canadian dollars, tabular amounts in millions, except where otherwise noted)

The components of the Company's benefit expense recognized in other comprehensive income include:

Years ended December 31,	**2019**	2018
Defined benefit pension plans	**$ 2**	$ (1)
Other post employment benefit plans	**—**	(1)
Remeasurement effects recognized in OCI	**$ 2**	$ (2)

Reconciliation of defined benefit obligations

	Defined benefit pension plans		Other post-employment benefit plans	
Years ended December 31,	**2019**	2018	**2019**	2018
Balance, beginning of year	**$ (6)**	$ —	**$ (7)**	$ (8)
Current service costs	**(7)**	(7)	**(1)**	(1)
Benefits paid	**—**	—	**1**	1
Actuarial gain (loss)	**(2)**	1	**(1)**	1
Balance, end of year	**$ (15)**	$ (6)	**$ (8)**	$ (7)

Reconciliation of fair value of plan assets

	Defined benefit pension plans		Other post-employment benefit plans	
Years ended December 31,	**2019**	2018	**2019**	2018
Balance, beginning of year	**$ 4**	$ —	**$ —**	$ —
Employer contributions	**4**	4	**1**	1
Benefits paid	**—**	—	**(1)**	(1)
Balance, end of year	**$ 8**	$ 4	**$ —**	$ —
Defined benefit obligation, net	**$ (7)**	$ (2)	**$ (8)**	$ (7)

Categories of plan assets:

The following table summarizes the composition of plan assets in percentages:

	Defined benefit pension plans	
As at December 31,	**2019**	2018
Securities:		
Equity	**55%**	48%
Debt	**44%**	42%
Cash	**1%**	10%
	100%	100%

The plan assets are not invested in derivative or real estate assets.

(In millions of Canadian dollars, tabular amounts in millions, except where otherwise noted)

Actuarial assumptions

The following key assumptions were used to determine the benefit obligations at December 31, 2019 and 2018:

	Defined benefit pension plans		Other post-employment benefit plans	
As at December 31,	**2019**	2018	**2019**	2018
Discount rate	**3.2%**	3.9%	**3.1%**	3.7%
Future salary growth	**3.0%**	3.0%	**3.0%**	3.0%
Mortality	**CPM2014 Private table, Scale CPM-B with size adjustments**	CPM2014 Private table, Scale CPM-B with size adjustments	**CPM2014 Private table, Scale CPM-B with size adjustments**	CPM2014 Private table, Scale CPM-B with size adjustments
Average duration of the obligation	**20 years**	20 years	**8 years**	8 years

Sensitivity analysis

The following table summarizes the sensitivity impact to the defined benefit pension plan and other post-employment benefit obligation from a change in certain actuarial assumptions:

	2019		2018	
As at December 31,	**Increase**	**Decrease**	Increase	Decrease
Discount rate (0.25% movement)	**$ (0.9)**	**$ 0.9**	$ (0.5)	$ 0.5
Future salary growth (0.5% movement)	**0.3**	**(0.3)**	0.3	(0.3)

27. RISK MANAGEMENT

The Company's activities expose it to a variety of financial risks including price risk, foreign currency risk, interest rate risk, credit risk, liquidity risk and risks related to pensions. For a discussion of other risks the Company is exposed to, refer to the heading *"Risk Factors"* in the Annual Information Form of Stelco Holdings dated February 18, 2019, and filed under the Company's SEDAR profile at www.sedar.com. The Company's senior management oversees the management of these risks, as summarized below.

Price risk

The Company is exposed to price risk related to purchases of certain commodities used as raw materials, including iron ore and metallurgical coal. The Company may use fixed price contracts with suppliers to mitigate commodity price risk. Specifically, Stelco has entered into an agreement with USS to purchase all of its iron ore requirements up to a specified amount through January 31, 2022. This agreement contains a fixed price which is adjusted quarterly based on changes in specified indices. In addition during January 2020, Stelco entered into a fixed price coal contract with a third party supplier for fiscal 2020 purchases, reducing Stelco's commodity price risk in connection with this raw material.

Foreign currency risk

Foreign currency risk arises from the possibility that the fair value or future cash flows of an exposure will fluctuate because of changes in foreign exchange rates. The Company's exposure to the risk of changes in foreign exchange rates relates primarily to the Company's operating activities when revenue or expenses are denominated in a foreign currency.

The Company monitors its cash inflows and outflows denominated in foreign currency and plans the conversion of funds into foreign currency to support business needs. The Company may use derivative financial instruments to manage exposure to changes in foreign currency exchange rates.

As at December 31, 2019, a 1% strengthening in the Canadian dollar would have resulted in a $2 million increase in pre-tax income (December 31, 2018 - $3 million increase) from translating foreign currency denominated monetary assets and liabilities balances, assuming all other variables remain unchanged, and a 1% weakening in the Canadian dollar would have resulted in a $2 million decrease in pre-tax income (December 31, 2018 - $3 million decrease).

Interest rate risk

Interest rate risk arises from the possibility that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Company's exposure to the risk of changes in market interest rates arises from long-term debt obligations issued at fixed rates that create fair value interest rate risk and variable rate borrowings that create cash flow interest rate risk.

The Company's financial instruments subject to interest rate risk primarily included the ABL and inventory monetization arrangement, as both arrangements contain finance costs based on variable interest rates. As at December 31, 2019, the aggregate carrying value of the Company's ABL and inventory monetization arrangement was $365 million (December 31, 2018 - $216 million), and a 1% in increase in market interest rates would result in approximately $4 million decrease in the Company's net income (December 31. 2018 - $2 million).

Credit risk

Credit risk arises from the uncertainty that a counterparty will not meet its obligations under a financial instrument or customer contract, leading to a financial loss. The Company is exposed to credit risk from its operating activities (primarily trade receivables) and from its financing activities, including deposits with banks and financial institutions, foreign exchange transactions and other financial instruments. The Company has a policy of only dealing with creditworthy counterparties. To help mitigate this risk, the Company conducts regular credit evaluations and may purchase credit insurance for international customers.

Trade receivables

Customer credit risk is managed by the Company based on an established policy, procedures and controls relating to customer credit risk management. Credit quality of a customer is assessed based on an extensive credit rating process and individual credit limits are defined in accordance with this assessment.

As at December 31, 2019, five of the Company’s customers made up 59% of the total trade accounts receivable. The Company’s credit exposure to these customers was $100 million (December 31, 2018 - six customers at $154 million or 62% of total trade accounts receivable).

Trade and other receivables are subject to lifetime expected credit losses (ECL) which are measured as the difference in the present value of the contractual cash flows that are due under the contract, and the cash flows that are expected to be received. The Company applies the simplified approach at each reporting date on its trade and other receivables and considers current and forward-looking macro-economic factors that may affect historical default rates when estimating ECL. Trade receivables together with the associated allowance, are written off when there is no realistic prospect of future recovery.

Concentration of credit

The Company is exposed to credit risk in the event of non-payment by customers, principally within the container, construction, automotive, and steel service centre industries. Changes in these industries may significantly affect the Company’s financial performance and management’s estimates of allowance for doubtful accounts. The Company mitigates its exposure to credit risk by performing ongoing credit evaluations and, when deemed necessary, requiring letters of credit, credit insurance, prepayments, guarantees or other collateral.

Liquidity risk

Liquidity risk arises from the possibility that the Company will not be able to meet its financial obligations as they become due. The Company’s process for managing liquidity risk includes ensuring that, to the extent possible, it will have sufficient liquidity to meet its liabilities when they become due.

The Company monitors its risk of a shortage of funds by following internal policies on the completion of various liquidity planning processes. The Company prepares a weekly cash flow analysis to identify any potential shortfall of funds and the mitigation strategy in such circumstances. Potential sources for liquidity could include, but are not limited to: the Company’s current cash position, the ABL and inventory monetization arrangement, the RPA, future operating cash flows, and potential private and public financing through the Company.

As at December 31, 2019, all of the financial liabilities of the Company, with the exception of the obligations to independent employee trusts, ABL non-revolver term loan and lease obligations, were due within 12 months.

Pensions - defined benefit plans

All defined benefit plans expose the Company to actuarial risks, such as longevity risk, interest rate risk and market risk. Longevity risk is the risk that changes in life expectancy of pensioners will affect the expected payout by the applicable plan. Market risk is the risk that changes in market prices will affect the fair value of future cash flows of a financial instrument. Interest rate risk, as discussed above, is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Interest rate risk specific to the defined benefit plans exists because the value of the applicable plan’s assets is affected by short-term changes in nominal and real interest rates. The value of the applicable plan’s commuted values payable is affected by changes in interest rates for long-term government bonds. Market risk is composed of currency risk, interest rate risk and other market price risk.

28. SUPPLEMENTAL CASH FLOW INFORMATION

Changes in non-cash working capital and other operating activities comprise the following:

Years ended December 31,		**2019**		2018
Changes in non-cash operating working capital:				
Trade and other receivables	**$**	**94**	$	(47)
Inventories		**(26)**		(17)
Prepaid expenses		**20**		(8)
Trade and other payables		**(48)**		27
Other liabilities		**(11)**		6
	$	**29**	$	(39)
Changes in other operating items:				
Provisions	**$**	**1**	$	—
Pension benefits		**5**		2
Employee benefit commitment		**(98)**		(53)
Foreign exchange and other		**(14)**		14
	$	**(106)**	$	(37)
Change in non-cash operating working capital and other operating items	**$**	**(77)**	$	(76)

Capital expenditures on property, plant and equipment comprise the following:

Years ended December 31,		**2019**		2018
Capital expenditures and additions:				
Plant and equipment	**$**	**234**	$	204
Property		**21**		—
Total capital expenditures and additions		**255**		204
Capital expenditures and additions not affecting cash:				
Land		**—**		(89)
Buildings (incremental cost from previous carrying value as a finance lease)		**—**		(4)
Finance leases - infrastructure and equipment		**(39)**		(8)
Construction in progress and other capital additions included in trade and other payables and other liabilities		**(6)**		(2)
Capital expenditures and additions of property, plant and equipment	**$**	**210**	$	101

29. NET INCOME PER SHARE

The following table sets forth the computation of basic and diluted net income per common share:

Years ended December 31,		**2019**		2018
Weighted average common shares outstanding (in thousands):				
Basic		**88,746**		88,814
Dilutive effect of outstanding common share options[1]		**—**		—
Diluted		**88,746**		88,814
Net income per common share:				
Basic	**$**	**0.23**	$	2.85
Diluted	**$**	**0.23**	$	2.85

[1] The dilutive effect of the Company's Option awards were calculated using the treasury stock method. The calculation of diluted weighted average common shares outstanding excludes 1.5 million Options for the year ended December 31, 2019, as the exercise price of these Options was greater than the average market price of the Company's common shares.

(In millions of Canadian dollars, tabular amounts in millions, except where otherwise noted)

30. FAIR VALUE OF FINANCIAL INSTRUMENTS

The following table provides the carrying values and fair values of financial instruments:

	December 31, 2019		December 31, 2018	
As at	**Carrying Value**	**Fair Value**	Carrying Value	Fair Value
Financial assets:				
Cash	**$ 257**	**$ 257**	$ 438	$ 438
Restricted cash	**8**	**8**	8	8
Trade and other receivables	**158**	**158**	252	252
Financial liabilities:				
Trade and other payables	**$ 444**	**$ 444**	$ 436	$ 436
Other liabilities	**82**	**82**	53	53
Asset-based lending facility	**98**	**98**	—	—
Obligations to independent employee trusts:				
Employee benefit commitment	**395**	**404**	478	469
Mortgage payable	**112**	**114**	113	107

The fair values of cash, restricted cash, trade and other receivables, trade and other payables approximate their carrying amount largely due to the short-term maturities of these instruments. The fair value of the lease liability is estimated by discounting the future contractual cash flows at the cost of borrowing to the Company, which approximates its carrying value.

The fair value of the mortgage payable and ABL is an estimate made at a specific point in time, based on relevant market information. This estimate is based on quoted market prices for the same or similar issues or on the current rates offered to the Company for similar financial instruments subject to similar risk and maturities. Fair value measurements of these instruments were estimated using Level 2 inputs. The carrying value of variable rate debt generally approximates its fair value.

The fair value of the employee benefit commitment is estimated based on a discounted cash flow analysis of expected cash flows, including fixed and variable payments, to be paid in future periods to the pension and OPEB trusts. The contractually fixed payments are discounted using a rate that is reflective of the Company's cost of borrowing and similar senior unsecured debt for companies in the same sector that are of a similar size. The estimated variable payments are discounted using a rate consistent with a market rate of return of the Company. Fair value measurements of these instruments were estimated using Level 2 inputs.

During the years ended December 31, 2019 and 2018, there were no transfers between Level 1, Level 2 or Level 3 fair value measurements. The Company had no level 3 financial instruments at December 31, 2019 and 2018.

31. CAPITAL MANAGEMENT

The Company’s objectives when managing capital are: (i) to maintain a flexible capital structure, which optimizes the cost of capital at acceptable risk; and (ii) to maintain investor, creditor and market confidence to sustain the future development of the business.

The Company manages its capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of its underlying assets. To maintain or adjust the capital structure, the Company may from time to time adjust its capital spending to manage its current and projected debt levels.

The Company monitors capital by preparing annual budgets, which are updated depending on varying factors such as general market conditions and successful capital deployment. The Company’s share capital is not subject to externally imposed restrictions.

(In millions of Canadian dollars, tabular amounts in millions, except where otherwise noted)

The Company defines its capital to include amounts drawn and available under existing financing arrangements including the ABL, inventory monetization arrangement, as well as all components of equity and is comprised as follows:

As at		**December 31, 2019**		December 31, 2018
Amounts drawn under the:				
Inventory monetization arrangement	**$**	**267**	$	216
ABL		**100**		—
Amounts available under the ABL		**148**		303
Total	**$**	**515**	$	519
Total equity		**450**		568
Total capital	**$**	**965**	$	1,087

32. COMMITMENTS AND CONTINGENCIES

Claims and litigation

The Company is involved in claims and litigation arising in the normal course of business. While the final outcome of such legal proceedings and actions cannot be predicted with certainty, it is the opinion of management that the resolution of such proceedings and actions will not have a material impact on the Company's Consolidated Balance Sheets, Statements of Income or Statements of Cash Flows.

Purchase commitments

At December 31, 2019, the Company had future commitments of approximately $62 million in capital expenditures, with the majority expected to be paid within 2020.

Innovation, Science and Economic Development Canada funding commitment

On August 13, 2019, the Government of Canada announced that Stelco received a funding commitment from Innovation, Science and Economic Development Canada (ISED Canada) of up to $49.9 million (the Contribution). The Contribution is being made available to the Company under the Strategic Innovation Fund, which was designed by the Government of Canada to, among other things, encourage research and development in Canada, facilitate growth and expansion of firms, and advance industrial research and technology. The ultimate amount of Contribution funding the Company will receive is dependent upon qualified expenditures made by the Company in certain capital projects, as agreed with ISED Canada. Subject to the terms of the funding agreement, fifty percent (50%) of the Contribution is non-refundable and the remainder is a non-interest-bearing loan, which is repayable over an eight-year period beginning January 1, 2024.

The Company has not received any cash proceeds in connection with the Contribution during the year ended December 31, 2019.

Secondary waste materials

In connection with the acquisition of the Lands, Stelco Inc. assumed approximately 1.8 million metric tonnes of secondary waste materials as disclosed in note 9 to these Consolidated Financial Statements. Stelco is assessing the future use requirements in respect of the Lands and will accrue a liability in the event that the future use of the Lands requires the Company to incur costs in connection with these waste materials.

(In millions of Canadian dollars, tabular amounts in millions, except where otherwise noted)

33. RELATED PARTY TRANSACTIONS

Parties are considered to be related if one party has the ability to control, jointly control or exercise significant influence over the other party in making financial or operating decisions. The definition includes subsidiaries, joint ventures, investments in associates, directors, key management personnel, among other entities and persons.

The following table provides the total amount of transactions that have been entered into with related parties and outstanding balances with related parties for the relevant financial periods:

Years ended December 31,		**2019**		2018
Purchases of services				
Joint ventures	**$**	**17**	$	15
Bedrock Industries B.V. and its affiliates		**6**		7

As at December 31,		**2019**		2018
Amounts payable to related parties				
Joint ventures	**$**	**1**	$	—
Bedrock Industries B.V. and its affiliates		**—**		1

Subsidiaries

Transactions between Stelco Holdings and its subsidiaries meet the definition of related party transactions. These transactions are eliminated on consolidation and are not disclosed in these Consolidated Financial Statements.

Key management personnel

The Company's key management personnel, and persons connected with them, are also considered to be related parties for disclosure purposes. Key management personnel are defined as those individuals having authority and responsibility for planning, directing and controlling the activities of the Company and include the ESLT and the Board of Directors. The ESLT is comprised of the Executive Chairman, Chief Executive Officer, Chief Financial Officer, Chief Operating Officer and General Counsel & Corporate Secretary of the Company.

On December 17, 2019, the Company announced the resignation of Don Newman as Chief Financial Officer of Stelco Holdings effective as of January 5, 2020, and the appointment of Roy Collins as Interim Chief Financial Officer of the Company, effective January 6, 2020.

During the year ended December 31, 2019, the Company recorded $7 million (December 31, 2018 - $4 million) related to key management personnel salaries and benefits, share-based compensation, director fees, post-employment pension and medical and termination benefits.