Unaudited Interim Condensed Consolidated Financial Statements

Stelco Holdings Inc.

Three and Nine Months Ended September 30, 2020 and 2019

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

As at	Note	September 30, 2020	December 31, 2019
Assets			
Current assets			
Cash		**$ 106**	$ 257
Restricted cash	*3*	**68**	8
Trade and other receivables	*4*	**56**	158
Inventories		**470**	483
Prepaid expenses		**10**	8
Total current assets		**$ 710**	$ 914
Non-current assets			
Derivative asset	*5*	**81**	—
Property, plant and equipment, net	*6*	**802**	670
Intangible assets		**8**	7
Investment in joint ventures	*7*	**2**	3
Total non-current assets		**$ 893**	$ 680
Total assets		**$ 1,603**	$ 1,594
Liabilities			
Current liabilities			
Trade and other payables	*8*	**$ 565**	$ 444
Other liabilities	*9*	**32**	34
Asset-based lending facility	*10*	**12**	8
Obligations to independent employee trusts	*11*	**36**	35
Total current liabilities		**$ 645**	$ 521
Non-current liabilities			
Provisions	*3*	**6**	6
Pension benefits		**9**	7
Other liabilities	*9*	**55**	48
Asset-based lending facility	*10*	**87**	90
Obligations to independent employee trusts	*11*	**472**	472
Total non-current liabilities		**$ 629**	$ 623
Total liabilities		**$ 1,274**	$ 1,144
Equity			
Common shares	*12*	**512**	512
Accumulated deficit		**(183)**	(62)
Total equity		**$ 329**	$ 450
Total liabilities and equity		**$ 1,603**	$ 1,594

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

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

		Three months ended September 30,		Nine months ended September 30,	
	Note	**2020**	2019	**2020**	2019
Revenue from sale of goods	*14*	**$ 237**	$ 464	**$ 1,093**	$ 1,406
Cost of goods sold	*15*	**297**	446	**1,109**	1,315
Gross profit (loss)		**$ (60)**	$ 18	**$ (16)**	$ 91
Selling, general and administrative expenses	*16*	**9**	9	**30**	35
Operating income (loss)		**$ (69)**	$ 9	**$ (46)**	$ 56
Other income (loss) and (expenses)					
Finance and other income (loss)	*17*	**(4)**	1	**2**	6
Finance costs	*18*	**(16)**	(9)	**(61)**	(15)
Share of income (loss) from joint ventures	*7*	**1**	—	**(1)**	(2)
Other costs	*6*	**—**	(1)	**(6)**	(1)
Income (loss) before income taxes		**$ (88)**	$ —	**$ (112)**	$ 44
Income tax expense	*19*	**—**	—	**—**	—
Net income (loss) and comprehensive income (loss)		**$ (88)**	$ —	**$ (112)**	$ 44
Net income (loss) per common share					
Basic	*21*	**$ (0.99)**	$ —	**$ (1.26)**	$ 0.50
Diluted	*21*	**$ (0.99)**	$ —	**$ (1.26)**	$ 0.50

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

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

	Note	Number of common shares (in thousands)	Common shares	Treasury shares	Retained earnings (Accumulated deficit)	Total equity
Balance, December 31, 2018		88,757	$ 512	$ (1)	$ 57	$ 568
Changes during the period:						
Net income		—	—	—	44	44
Common shares purchased and cancelled		(28)	—	—	—	—
Treasury shares canceled		—	—	1	(1)	—
Dividends to common shareholders	*12*	—	—	—	(127)	(127)
Balance, September 30, 2019		88,729	$ 512	$ —	$ (27)	$ 485
Balance, December 31, 2019		88,713	$ 512	$ —	$ (62)	$ 450
Changes during the period:						
Net loss		**—**	**—**	**—**	**(112)**	**(112)**
Dividends to common shareholders	*12*	**—**	**—**	**—**	**(9)**	**(9)**
Balance, September 30, 2020		**88,713**	**$ 512**	**$ —**	**$ (183)**	**$ 329**

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

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

Nine months ended September 30,	Note	**2020**	2019
Operating activities			
Net income (loss)		**$ (112)**	$ 44
Items not affecting cash:			
Depreciation		**52**	38
Write-down of construction in progress	*6*	**5**	—
Loss on:			
Commodity-based swaps	*8*	**4**	—
Foreign exchange contracts	*8*	**3**	—
Share-based compensation	*13*	**2**	1
Share of loss from joint ventures	*7*	**1**	2
Employee benefit commitment:			
Accretion expense	*18*	**28**	32
Remeasurement recovery	*18*	**(1)**	(27)
Change in non-cash working capital and other operating items	*20*	**88**	32
Cash provided by operating activities		**$ 70**	$ 122
Investing activities			
Capital expenditures on property, plant and equipment, net of Strategic Innovation Fund contribution	*20*	**(169)**	(171)
Acquisition of derivative asset	*5*	**(81)**	—
Change in restricted cash	*3*	**(60)**	(7)
Cash used in investing activities		**$ (310)**	$ (178)
Financing activities			
Advances from asset-based lending facility, net of transaction costs	*10*	**197**	51
Repayment of asset-based lending facility	*10*	**(198)**	(51)
Proceeds from the inventory monetization arrangement, net	*8*	**96**	101
Proceeds from Strategic Innovation Fund loan	*6*	**6**	—
Advances under boiler project financing arrangement	*9*	**3**	—
Lease obligation principal payments	*9*	**(5)**	(6)
Repayment of mortgage principal	*11*	**(1)**	(1)
Dividends paid to common shareholders	*12*	**(9)**	(127)
Cash provided by (used in) financing activities		**$ 89**	$ (33)
Net decrease in cash		**(151)**	(89)
Cash, beginning of period		**257**	438
Cash, end of period		**$ 106**	$ 349
Cash flows provided by operating activities include:			
Interest paid		**$ 21**	$ 14
Interest received		**2**	4

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

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

To facilitate a better understanding of Stelco Holdings' unaudited interim condensed 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, and 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

Stelco Holdings' unaudited interim condensed consolidated financial statements (Consolidated Financial Statements) have been prepared by management in accordance with International Accounting Standard (IAS) 34, *Interim Financial Reporting*, as issued by the International Accounting Standards Board (IASB). The Consolidated Financial Statements comprise the financial statements of Stelco Holdings and its subsidiaries (collectively, the Company). Under International Financial Reporting Standards (IFRS), additional disclosures are required in the annual financial statements and therefore, these Consolidated Financial Statements and accompanying notes should be read in conjunction with the notes of the Company's audited consolidated financial statements for the year ended December 31, 2019 (2019 Annual Financial Statements).

These Consolidated Financial Statements have been prepared using consistent accounting policies and methods used in the preparation of the Company's 2019 Annual Financial Statements, with the exception of the significant accounting policies described below. Certain comparative information has been reclassified to conform to the current period's presentation.

These Consolidated Financial Statements were authorized for issue on November 11, 2020 in accordance with a resolution of the board of directors (Board of Directors) of Stelco Holdings.

Update to significant accounting policies

Government Grants

Government grants are recognized when there is reasonable assurance that the grant will be received and all conditions associated with the grant are met. Grants related to assets are recorded as a reduction to the asset's carrying value and are depreciated over the useful life of the asset. Claims under government grant programs related to income are recorded within the Consolidated Statements of Income (Loss) and Comprehensive Income (Loss) as a reduction to the related item that the grant is intended to offset, in the period in which eligible expenses were incurred or when the services have been performed.

Derivative financial instruments

Derivative instruments are recorded at their fair value at the Consolidated Balance Sheet date, with changes in fair value recognized in the Consolidated Statements of Income (Loss) and Comprehensive Income (Loss). Derivative instruments with positive fair values are reported as Derivative assets. Valuation adjustments are included in the fair value of Derivative assets. Premiums paid are shown in Derivative assets. Transaction costs related to the acquisition of derivative financial instruments carried at fair value through profit or loss are expensed and recorded within the Consolidated Statements of Income (Loss) and Comprehensive Income (Loss).

COVID-19 Pandemic

In March 2020, the World Health Organization declared the coronavirus (COVID-19) a global pandemic. This contagious disease outbreak, which has continued to spread, and any related adverse public health developments, have adversely affected workforces, economies, and financial markets globally, leading to an economic downturn. Global equity markets have experienced significant volatility, resulting in governments and central banks reacting with significant monetary and fiscal interventions designed to stabilize economic conditions.

The extent to which these events may impact the Company's business activities will depend on future developments, such as the ultimate geographic spread of the disease, the duration of the outbreak, travel restrictions, business disruptions, and the effectiveness of actions taken in Canada and other countries to contain and treat the disease. The Company may incur expenses or delays relating to such events outside of our control, which could have a material adverse impact on our business, operating results and financial condition.

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

The Company has incorporated the potential impact of COVID-19 into its significant estimates and assumptions that are believed to be reasonable. Actual results could differ from those estimates under different assumptions.

3. RESTRICTED CASH

Restricted cash represents cash not readily available for Stelco operations and includes deposits associated with the following:

As at	**September 30, 2020**	December 31, 2019
Asset-based lending facility [1]	**$ 48**	$ —
Receivables purchase agreement [2]	**13**	—
Ontario Ministry of the Environment, Conservation and Parks [3]	**6**	6
Other	**1**	2
Restricted cash	**$ 68**	$ 8

1 Represents cash collateral in connection with the Company's asset-based lending facility borrowing base availability. Refer to note 10 for further details.
2 Includes cash collected from customers in connection with trade receivables sold to a Schedule II bank under the receivables purchase agreement discussed further in note 4. Under the terms of the receivables purchase agreement, Stelco is required to administer and remit these deposits to the Schedule II bank.
3 Represents deposits associated with the Company's environmental obligations recorded within provisions on the Consolidated Balance Sheets.

Changes in restricted cash are included within investing activities in the Consolidated Statements of Cash Flows.

4. TRADE AND OTHER RECEIVABLES

As at	**September 30, 2020**	December 31, 2019
Trade receivables [1]	**$ 44**	$ 152
Other receivables [2]	**12**	6
Total trade and other receivables	**$ 56**	$ 158

1 Net of allowance for doubtful accounts of nil (December 31, 2019 - nil).
2 As at September 30, 2020, includes receivables in connection with the CEWS. Refer to note 15 for further details.

Receivables Purchase Agreement (RPA)

In June 2019, Stelco entered into a RPA with a Schedule II bank (the Purchaser), enabling Stelco, from time to time, to sell certain customer trade receivables to the Purchaser on an uncommitted revolving basis. Under the terms of the RPA, Stelco administers and processes the collection of receivables and remits those collections to the Purchaser. The Company has derecognized the trade receivables sold under the RPA from the Consolidated Balance Sheets as substantially all of the risks and rewards for such receivables have been transferred to the Purchaser.

During August 2020, Stelco entered into an amended RPA with the Purchaser, for which the terms remained substantially similar to the original agreement. Amendments to the agreement include the following:

i) change of the aggregate maximum purchase limit to $66 million, which includes a US$10 million limit on certain customers' trade receivables (previously $108 million and US$12.5 million, respectively);

ii) scheduled fixed date settlements; and

iii) finance rate of CDOR/LIBOR plus a margin of 2.75% (previously 1.75%).

As at September 30, 2020, Stelco's available purchase limit remaining under the RPA was $25 million (December 31, 2019 - $96 million).

Proceeds received by Stelco under the RPA are recorded within cash flows from operations on the Consolidated Statements of Cash Flows. For the three and nine months ended September 30, 2020, the Company recorded $0.3 million and $0.8 million (three and nine months ended September 30, 2019 - $0.5 million and $0.7 million), respectively, in bank fees in connection with the RPA within finance costs on the Consolidated Statements of Income (Loss) and Comprehensive Income (Loss).

5. DERIVATIVE ASSET

On April 30, 2020, Stelco entered into an eight-year pellet sale and purchase agreement (the Pellet Agreement) with United States Steel Corporation (U.S. Steel) ending January 31, 2028. The Pellet Agreement contains both an annual iron ore volume purchase limit and fixed pricing schedule for the duration of the agreement (subject to adjustments based on certain input cost indices). The Pellet Agreement superseded and replaced the existing agreement with U.S. Steel, which was set to expire on January 31, 2022.

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

Concurrently, Stelco entered into an option agreement (the Option Agreement) with U.S. Steel granting Stelco an option to purchase a 25% ownership interest (the Option) in a to-be-formed joint venture that will own a 100% beneficial interest in U.S. Steel's Minntac iron ore mine located in Mt. Iron, Minnesota and related infrastructure including the pellet plant. The Option is exercisable by Stelco at any time following the payment of the Initial Consideration (defined below) until January 31, 2027.

Stelco is required to pay US$100 million, in cash, to U.S. Steel in consideration for the Option (the Initial Consideration). The Initial Consideration is payable in five US$20 million installments, with the first installment paid upon closing of the Option Agreement, the second paid on June 30, 2020, the third paid on September 1, 2020, and subsequent to the reporting date the fourth paid on October 30, 2020, with the final installment payable on December 31, 2020. If and when the Option is exercised, Stelco would pay a net exercise price of US$500 million.

The Option is a derivative instrument which is presented on the Consolidated Balance Sheets as a financial asset and carried at fair value through income or loss. The Option was initially recorded at its fair value of US$100 million, less the Initial Consideration outstanding. At September 30, 2020, the Option's fair value of $81 million included the impact of US$60 million in payments made; as well as the remaining current consideration of US$40 million payable to U.S. Steel. The derivative asset was presented net (of the remaining consideration payable) as a single financial instrument on the Consolidated Balance Sheets. Refer to note 22 for a further discussion of valuation techniques and inputs used in estimating the Option's fair value at September 30, 2020.

In connection with the acquisition of the Option, the Company also recorded $2 million in legal and professional fees within selling, general and administrative expenses for the nine months ended September 30, 2020 on the Consolidated Statements of Income (Loss) and Comprehensive Income (Loss).

6. PROPERTY, PLANT AND EQUIPMENT

Cost	Land	Buildings	Machinery and equipment	Vehicles	Assets under leases	Construction in progress	Total
As at December 31, 2019	$ 110	$ 41	$ 427	$ 9	$ 54	$ 122	$ 763
Additions	1	1	7	—	7	181	197
Transfers	—	—	24	1	—	(25)	—
Write-down of construction in progress [1]	—	—	—	—	—	(5)	(5)
Disposals and other [2]	—	—	(28)	—	(2)	—	(30)
Strategic Innovation Fund contribution	—	—	(4)	—	—	(4)	(8)
As at September 30, 2020	**$ 111**	**$ 42**	**$ 426**	**$ 10**	**$ 59**	**$ 269**	**$ 917**

[1] Includes certain capital projects that are no longer being pursued by the Company, representing aborted construction in progress costs without future benefit to Stelco. During the nine months ended September 30, 2020, the Company recognized a $5 million write-down charge in connection with these construction in progress assets, recorded within other costs on the Consolidated Statements of Income (Loss) and Comprehensive Income (Loss).

Accumulated depreciation	Land	Buildings	Machinery and equipment	Vehicles	Assets under leases	Construction in progress	Total
As at December 31, 2019	$ —	$ 1	$ 81	$ 2	$ 9	$ —	$ 93
Depreciation [2]	—	1	45	1	5	—	52
Disposals and other [2]	—	—	(28)	—	(2)	—	(30)
As at September 30, 2020	**$ —**	**$ 2**	**$ 98**	**$ 3**	**$ 12**	**$ —**	**$ 115**

[2] During the three months ended September 30, 2020, the Company recorded a $16 million machinery and equipment depreciation charge resulting from the disposal and replacement of certain major components in connection with Stelco's blast furnace upgrade project completed in October 2020.

Net book value	Land	Buildings	Machinery and equipment	Vehicles	Assets under leases	Construction in progress	Total
As at September 30, 2020	**$ 111**	**$ 40**	**$ 328**	**$ 7**	**$ 47**	**$ 269**	**$ 802**
As at December 31, 2019	$ 110	$ 40	$ 346	$ 7	$ 45	$ 122	$ 670

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

Assets under leases

As at September 30, 2020, the net carrying amount of the Company's right-of-use machinery and equipment under lease arrangements was $47 million (December 31, 2019 - $45 million).

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.

During the nine months ended September 30, 2020, the Company received $12 million in cash proceeds in connection with the Contribution, of which $8 million was deducted from the carrying amount of the respective qualified capital expenditures within property, plant and equipment and the remaining $4 million is recorded as a non-interest bearing loan within other liabilities on the Consolidated Balance Sheets. The difference between the fair value of the non-interest bearing loan of $4 million on initial recognition and fifty percent of the Contribution proceeds received of $6 million, represents a $2 million present value benefit from the Company receiving a non-interest bearing loan, which was included within the aforementioned $8 million deduction from property, plant and equipment.

7. INVESTMENT IN JOINT VENTURES

Stelco has 50% equity interests in Baycoat Limited Partnership (metal coating services) and D.C. Chrome Limited (chrome plating services), which are joint ventures 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	**September 30, 2020**	December 31, 2019
Current assets	**$ 28**	$ 30
Non-current assets	**6**	6
Current liabilities	**(12)**	(10)
Non-current liabilities	**(23)**	(21)

Statement of loss of the joint ventures

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

Nine months ended,	**September 30, 2020**
Net revenue	**$ 57**
Depreciation	**(1)**
Loss	**(6)**

Equity investment in the joint ventures

Nine months ended,	**September 30, 2020**
Balance, beginning of period	**$ 3**
Share of loss from joint ventures [1]	**(1)**
Balance, end of period	**$ 2**

[1] For the nine months ended September 30, 2020, share of loss excluded approximately $2 million in losses from a joint venture. The Company's share of loss from joint ventures is recognized on the Consolidated Statements of Income (Loss) and Comprehensive Income (Loss) until the carrying amount of Stelco's equity interest in the respective joint venture is reduced to nil.

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

8. TRADE AND OTHER PAYABLES

As at	September 30, 2020	December 31, 2019
Trade payables	**$ 186**	$ 176
Inventory monetization arrangement	**370**	267
Commodity-based swaps	**4**	—
Foreign exchange forward contracts	**3**	—
Payables to related parties [1]	**2**	1
Total trade and other payables	**$ 565**	$ 444

[1] Refer to note 25 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

The weighted average finance rate for the inventory monetization arrangement for the three and nine months ended September 30, 2020 was 4.80% and 4.70% (three and nine months ended September 30, 2019 - 5.21% and 5.09%), and related finance costs of $4 million and $9 million (three and nine months ended September 30, 2019 - $2 million and $6 million), respectively, are recorded within the Consolidated Statements of Income (Loss) and Comprehensive Income (Loss). This financing arrangement is secured by inventory with a carrying value of $408 million (December 31, 2019 - $351 million) serving as collateral.

Amendments to the inventory monetization arrangement

In October 2020, Stelco entered into an amended inventory monetization arrangement, which included the following significant amendments to the previous terms as disclosed in the Company's 2019 Annual Financial Statements:

i) an extended minimum term with an expiry date of May 28, 2021;

ii) adjusted volume limits of eligible inventory to be financed through this arrangement, consistent with the Company's projected operating levels;

iii) Stelco to maintain a minimum liquidity balance of at least $50 million, which includes maintaining a minimum level of cash and cash equivalents lowered to $20 million (previously cash and cash equivalents of $30 million);

iv) finance rate of LIBOR plus a margin of 4.50% (previously LIBOR plus a margin of 3.00%);

v) an option for Stelco to terminate the arrangement early on either March 31, 2021 or April 30, 2021;

vi) a counterparty option to extend the minimum term with an expiry date of February 28, 2022; and

vii) an option by mutual agreement, to renew the inventory monetization arrangement for an additional minimum 360-day term.

Unless otherwise amended or renewed, amounts advanced under the amended inventory monetization arrangement are required to be repaid when the facility expires on May 28, 2021. The Company was in compliance with the financial covenants pursuant to the inventory monetization agreement as at and for the three and nine months ended September 30, 2020.

Foreign exchange forward contracts

In connection with the Initial Consideration for the Option (further discussed in note 5), Stelco entered into a series of foreign exchange forward contracts with a U.S.-based financial institution, as part of a strategy to mitigate the Company's foreign exchange risk associated with the Initial Consideration payments. Under the terms of the foreign exchange forward contracts, the Company agreed to sell an aggregate of $112 million and purchase US$80 million, in four specified equivalent tranches with settlement dates between June 30, 2020 and December 31, 2020.

For the three months and nine months ended September 30, 2020, the Company recorded a $3 million and $5 million foreign exchange loss, respectively, within finance costs on the Consolidated Statements of Income (Loss) and Comprehensive Income (Loss) in connection with these contracts. Stelco did not enter into these contracts for trading or speculative purposes.

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

Commodity-based swaps

During September 2020, Stelco Inc. entered into commodity-based swaps with U.S.-based financial institutions as part of a strategy to mitigate the Company's exposure to hot-rolled coil steel market price fluctuations in connection with future sales orders from customers. As at September 30, 2020, Stelco had the following commodity-based swaps outstanding:

Trade date	Commodity type	Trade type	Notional quantity	Maturity date
September 9, 2020	Hot-Rolled Coil	Sell	25,000	November 30, 2020
September 9, 2020	Hot-Rolled Coil	Sell	25,000	December 31, 2020
September 10, 2020	Hot-Rolled Coil	Sell	25,000	November 30, 2020
September 11, 2020	Hot-Rolled Coil	Sell	25,000	December 31, 2020
September 24, 2020	Hot-Rolled Coil	Sell	25,000	January 31, 2021

For the three months ended September 30, 2020, the Company recorded a loss of $4 million associated with these swap contracts. Stelco did not enter into these contracts for trading or speculative purposes.

During October 2020, Stelco entered into six additional commodity-based swaps with U.S.-based financial institutions with the following terms: trade dates - October 1, 2020 to October 22, 2020, commodity trade type - sell hot-rolled coils, notional aggregate quantity - 80,000 net tons, maturity date - January 31, 2021 to March 31, 2021.

9. OTHER LIABILITIES

As at	**September 30, 2020**	December 31, 2019
Lease obligations	**$ 48**	$ 47
Salaries and benefits payable	**17**	24
Post-employment benefits	**7**	8
Strategic Innovation Fund payable [1]	**4**	—
Share-based compensation [2]	**4**	2
Boiler project financing arrangement	**3**	—
Interest payable	**1**	1
Other liabilities	**3**	—
Total other liabilities	**$ 87**	$ 82
Total current other liabilities	**32**	34
Total non-current other liabilities	**$ 55**	$ 48

[1] Refer to note 6 for details.
[2] Refer to note 13 for details.

Lease obligations

As at September 30, 2020, the Company has equipment lease obligations with a carrying value of $48 million (December 31, 2019 - $47 million). Refer to note 6 for details of the carrying value of the right-to-use assets related to these leases.

Energy Services Agreement

On June 18, 2020, Stelco entered into an arrangement containing a lease with DTE Energy Services, Inc. (DTE) for the development, construction and operation of a 65MW cogeneration facility (Cogen Plant) at Stelco's Lake Erie facility in Nanticoke, Ontario. DTE is required to fund the capital costs associated with the construction of the Cogen Plant and, upon completion of construction, Stelco is required to pay DTE a fixed annual fee pursuant to an energy services agreement (ESA) for operating the Cogen Plant for an initial term of 20 years. Stelco's total aggregate maximum fixed payments, which include the non-lease components under the ESA, are approximately $267 million (subject to certain contingent variable cost adjustments under the ESA).

The Company will record a 'right-of-use' asset and corresponding lease obligation in connection with the ESA upon the completion of the Cogen Plant, which is expected to be operational during the first half of 2022. Annual fixed payments to DTE will not commence until construction is complete and the Cogen Plant is operational.

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

Boiler project financing arrangement

During August 2020, Stelco entered into a separate arrangement with DTE, for the financing of refurbishment costs in connection with certain Stelco owned boiler assets and related boiler infrastructure required to support the Cogen Plant.

The boiler project financing arrangement contains a maximum advance limit of $37 million plus any interest in arrears, at a rate of 10% per annum payable monthly, until the refurbishment of the boiler assets and related boiler infrastructure is complete. The boiler financing arrangement is repayable to DTE over a 20-year term at an effective interest rate of 11.14% per annum, with monthly payments commencing upon the completion of the Cogen Plant. As at September 30, 2020, advances outstanding under the boiler financing arrangement were $3 million.

10. ASSET-BASED LENDING FACILITY (ABL)

As at	September 30, 2020	December 31, 2019
Revolving	$ —	$ —
Non-revolving term loan	99	98
Asset-based lending facility	**99**	98
Current	12	8
Non-current	$ 87	$ 90

During the three months ended September 30, 2020, Stelco's borrowing and repayment activity on the ABL revolving facility resulted in a nil outstanding balance as at September 30, 2020 (December 31, 2019 - nil). 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, inventory and cash collateral, and excludes certain trade receivables that have been sold under the RPA and inventory that has been monetized under the inventory monetization arrangement, discussed further in notes 4 and 8, respectively. At September 30, 2020, the borrowing base availability under the ABL was $31 million (December 31, 2019 - $148 million).

The weighted average finance rate for amounts drawn under the ABL for the three and nine months ended September 30, 2020 was 4.11% and 4.37% (three and nine months ended September 30, 2019 - 5.13% and 5.84%), respectively. In addition, Stelco's outstanding letters of credit under the ABL were $56 million at September 30, 2020 (December 31, 2019 - $54 million) and the Company was in compliance with the financial covenants pursuant to the ABL agreement as at and during the three and nine months ended September 30, 2020.

Amendments to the ABL agreement

In June 2020, Stelco entered into an amended ABL agreement which included the following significant amendments to the previous terms disclosed in the Company's 2019 Annual Financial Statements:

i) non-revolving term loan scheduled monthly repayments of $1.3 million to commence on January 31, 2021 (previously scheduled monthly repayments of $1.1 million were to commence on June 30, 2020);

ii) Stelco is to maintain a total minimum liquidity of $50 million through December 31, 2020, consisting of excess availability under the ABL of at least $30 million (previously minimum excess availability under the ABL of at least $50 million) and cash and cash equivalents of $20 million;

iii) change of financing rate to Canadian/U.S. prime rate plus 0.50% - 1.00% (previously 0.25% - 0.75%);

iv) change of option to index the revolving interest rate to CDOR/LIBOR plus a margin of 1.50% - 2.00% (previously 1.25% - 1.75%); and

v) an amendment to the definition of CDOR and LIBOR within the ABL to include a floor interest rate of 0.75%.

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

Future principal payments

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

As at		**September 30, 2020**
2020 [1]	**$**	**—**
2021		**15**
2022		**15**
2023		**70**
Total minimum future ABL non-revolving term loan principal payments	**$**	**100**
Less: deferred transaction costs subject to amortization		**(1)**
Carrying amount of ABL non-revolving term loan	**$**	**99**

[1] Represents remaining three months of 2020.

11. OBLIGATIONS TO INDEPENDENT EMPLOYEE TRUSTS

As at		**September 30, 2020**		December 31, 2019
Employee benefit commitment	**$**	**397**	$	395
Mortgage payable		**111**		112
Obligations to independent employee trusts		**508**		507
Current		**36**		35
Non-current	**$**	**472**	$	472

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 Holdings' future operating performance and the utilization of specific tax attributes.

Employee benefit commitment

Future employee benefit commitment payments are estimated as follows:

As at		**September 30, 2020**
2020 [1]	**$**	**8**
2021		**33**
2022		**59**
2023		**58**
2024		**53**
Thereafter		**596**
Total estimated employee benefit commitment payments	**$**	**807**
Less: amounts representing future finance costs		**(410)**
Present value of employee benefit commitment	**$**	**397**

[1] Represents remaining three months of 2020.

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. Refer to note 18 for remeasurement of the employee benefit commitment recorded in finance costs on the Consolidated Statements of Income (Loss) and Comprehensive Income (Loss), as a result of changes in estimates and assumptions during the three and nine months ended September 30, 2020, related to this obligation.

Mortgage payable

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

As at		**September 30, 2020**
2020 [1]	**$**	**3**
2021		**11**
2022		**11**
2023		**11**
2024		**11**
Thereafter		**194**
Total future mortgage payments	**$**	**241**
Less: amounts representing future finance costs		**(130)**
Carrying amount of mortgage payable	**$**	**111**

[1] Represents remaining three months of 2020.

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

12. 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		**September 30, 2020**		December 31, 2019
Common shares				
Outstanding (in thousands)		**88,713**		88,713
Carrying amount	**$**	**512**	$	512

Dividends to common shareholders

During the nine months ended September 30, 2020 and 2019, Stelco Holdings declared and paid ordinary dividends to common shareholders in the aggregate amounts of $9 million and $27 million, respectively, or $0.10 per common share. In addition, during March 2019 the Company paid a special dividend to common shareholders in the amount of $100 million or $1.13 per common share.

In connection with Stelco entering into the Option Agreement with U.S. Steel, the Company announced on April 30, 2020, the suspension of its quarterly dividend of $0.10 per share. Refer to note 5 for details.

13. SHARE-BASED COMPENSATION

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 three and nine months ended September 30, 2020, the Company recorded a share-based compensation expense of $2 million (three and nine months ended September 30, 2019 - a net recovery of $2 million and a net expense of $1 million), respectively, in selling, general and administrative expenses on the Consolidated Statements of Income (Loss) and Comprehensive Income (Loss) in connection with share-based awards granted under the Company's LTIP.

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

Restricted share units (RSUs)

On March 20, 2020, 73,529 RSUs were granted to a certain member of the Company's Executive Senior Leadership Team (ESLT), with a grant date fair value of $4.08 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. As at September 30, 2020, there were 77,183 RSUs outstanding (December 31, 2019 - 6,313) with an estimated fair value of $11.63 per RSU under the Company's LTIP.

Share options (Options)

During February 2020, 333,333 unvested options were forfeited and canceled in connection with the departure of Stelco Holdings' Chief Executive Officer. As at September 30, 2020, 666,667 vested Options remain outstanding with an estimated fair value of $2.91 per Option under the Company's LTIP.

Stock appreciation right awards (SARs)

During the nine months ended September 30, 2020, the Company granted and issued SARs under the LTIP to certain employees, including a member of the Company's ESLT. The Company's SARs are cash-settled awards with graded vesting over three years and 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 (Loss) and Comprehensive Income (Loss).

The Black-Scholes option-pricing model assumptions used to estimate the fair value of the SARs at the respective dates noted in the summary below:

SARs:				
Grant date		March 20, 2020		August 28, 2020
Granted (in total)		100,000		50,000
Base price (per SAR)	$	4.08	$	9.22
Expected risk-free interest rate		0.6%		0.4%
Expected share price volatility		53.0%		52.0%
Expected SAR life (years)		6		6
Grant date fair value of SARs granted (per SAR)	$	0.78	$	4.44
As at September 30, 2020:				
SARs outstanding		100,000		50,000
Estimated fair value of SARs outstanding at September 30, 2020	$	8.15	$	6.08

Deferred share units (DSUs)

As at September 30, 2020, there were 90,247 DSUs outstanding (December 31, 2019 - 39,445) with an estimated fair value of $11.36 per DSU under the Company's LTIP.

14. REVENUE FROM SALE OF GOODS

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

	Three months ended September 30,				Nine months ended September 30,			
		2020		2019		**2020**		2019
Steel products	**$**	**228**	$	450	**$**	**1,069**	$	1,365
Non-steel products		**9**		14		**24**		41
Total	**$**	**237**	$	464	**$**	**1,093**	$	1,406

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

Revenue by geographical location is comprised of:

	Three months ended September 30,		Nine months ended September 30,	
	2020	2019	**2020**	2019
Canada	**$ 194**	$ 301	**$ 832**	$ 1,104
United States and other	**43**	163	**261**	302
Total	**$ 237**	$ 464	**$ 1,093**	$ 1,406

15. COST OF GOODS SOLD

Cost of goods sold is comprised of:

	Three months ended September 30,		Nine months ended September 30,	
	2020	2019	**2020**	2019
Cost of inventories:				
Steel products	**$ 253**	$ 406	**$ 1,004**	$ 1,204
Non-steel products	**6**	10	**19**	26
Fixed overhead and other costs [1]	**11**	15	**34**	47
Depreciation [2]	**27**	15	**52**	38
Total	**$ 297**	$ 446	**$ 1,109**	$ 1,315

[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.
[2] Refer to note 6 for details.

The Government of Canada passed the CEWS as part of its COVID-19 response. The program is currently effective from March 15, 2020 to December 2020 and for the three and nine months ended September 30, 2020, the Company recorded a $17 million and $32 million, respectively, reduction to cost of goods sold in connection with the CEWS.

16. SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

Selling, general and administrative expenses is comprised of:

	Three months ended September 30,		Nine months ended September 30,	
	2020	2019	**2020**	2019
Employee salary and benefits expense [1]	**$ 3**	$ 5	**$ 11**	$ 13
Professional, consulting and legal fees	**1**	1	**7**	5
Management fees [2]	**1**	2	**4**	5
Share-based compensation expense (recovery) [3]	**2**	(2)	**2**	1
Enterprise resource planning system	**—**	1	**—**	5
Other [4]	**2**	2	**6**	6
Total	**$ 9**	$ 9	**$ 30**	$ 35

[1] For the three months ended September 30, 2020, the Company recorded a $1 million reduction to employee salary expense in connection with the CEWS. Refer to note 15 for further details.
[2] Refer to note 25 for details.
[3] Refer to note 13 for details.
[4] Includes corporate, public company and travel related expenses.

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

17. FINANCE AND OTHER INCOME (LOSS)

Finance and other income (loss) comprised of:

	Three months ended September 30,		Nine months ended September 30,	
	2020	2019	**2020**	2019
Loss on commodity-based swaps	**$ (4)**	$ —	**$ (1)**	$ —
Finance income	**1**	1	**2**	4
Other income (loss)	**(1)**	—	**1**	2
Total	**$ (4)**	$ 1	**$ 2**	$ 6

Commodity-based swaps

In March 2020, Stelco Inc. entered into a commodity-based swap with a U.S.-based financial institution as part of a strategy to mitigate the Company's exposure to hot-rolled coil steel market price fluctuations in connection with certain slabs purchased from a third party. This swap contract settled during May 2020. For the nine months ended September 30, 2020, the Company recorded a gain of $3 million associated with this swap contract.

In September 2020, Stelco Inc. entered into commodity-based swaps with U.S.-based financial institutions as part of a strategy to lessen the Company's exposure to hot-rolled coil steel market price volatility in connection with existing and future sales orders from customers. For the three months ended September 30, 2020, the Company recorded a loss of $4 million associated with these swap contracts. Refer to note 8 for further details.

Stelco did not enter into these contracts for trading or speculative purposes.

18. FINANCE COSTS

Finance costs are comprised of:

	Three months ended September 30,		Nine months ended September 30,	
	2020	2019	**2020**	2019
Foreign exchange (gain) loss	**$ (2)**	$ 2	**$ 10**	$ (8)
Accretion of employee benefit commitment	**10**	10	**28**	32
Interest on loans and borrowings	**7**	7	**22**	17
Accretion expense related to lease obligations	**1**	1	**2**	1
Remeasurement of employee benefit commitment [1]	**—**	(11)	**(1)**	(27)
Total	**$ 16**	$ 9	**$ 61**	$ 15

[1] Remeasurement of employee benefit commitment for change in the timing and magnitude of estimated cash flows and future funding requirements. Refer to note 11 for further details.

19. INCOME TAXES

The major components of income tax expense are as follows:

	Three months ended September 30,		Nine months ended September 30,	
	2020	2019	**2020**	2019
Deferred income tax:				
Origination and reversal of temporary differences	**$ (23)**	$ —	**$ (32)**	$ 11
Previously unrecognized deferred tax assets	**23**	—	**32**	(11)
Income tax expense	**$ —**	$ —	**$ —**	$ —

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

Reconciliation of Effective Tax Rate:

	Three months ended September 30,		Nine months ended September 30,	
	2020	2019	**2020**	2019
Income (loss) before income taxes	**$ (88)**	$ —	**$ (112)**	$ 44
Combined Canadian federal and provincial income tax rate	**25 %**	25 %	**25 %**	25 %
Income tax expense (recovery) based on statutory rate	**(22)**	—	**(28)**	11
Increase (decrease) in income taxes resulting from non-taxable items or adjustments of prior period taxes:				
Permanent differences:				
Other	**(1)**	—	**(4)**	—
Unrecognized deferred tax assets	**23**	—	**32**	(11)
Income tax expense	**$ —**	$ —	**$ —**	$ —

Deferred tax

Reconciliation of movements in the deferred tax asset:

As at	**September 30, 2020**	Movement	December 31, 2019
Employee benefit commitment	**$ 103**	$ 1	$ 102
Non-capital and capital loss carry-forwards	**112**	14	98
Deductible SRED expenditures	**9**	—	9
Financing fee	**2**	—	2
Provisions	**2**	—	2
Impairment provision of investment in subsidiaries	**2**	—	2
Plant and equipment	**28**	13	15
Right-of-use assets	**(12)**	—	(12)
Right-of-use liabilities	**12**	—	12
Other	**4**	4	—
Deferred tax assets not recognized	**(262)**	(32)	(230)
Net deferred tax asset	**$ —**	$ —	$ —

Non-capital loss carry forwards:

As at	**September 30, 2020**	December 31, 2019
2034	**$ 136**	$ 136
2035	**238**	238
2037	**2**	2
2038	**4**	4
2039	**13**	13
2040	**55**	—
Total	**$ 448**	$ 393

Other tax attributes

As at September 30, 2020, the Company has other unrecognized tax attributes available for future use as deductions from taxable income, including but not limited to, undepreciated capital cost (UCC) of $766 million (December 31, 2019 - $595 million) and scientific research and experimental development (SRED) deductions of $36 million (December 31, 2019 - $36 million).

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

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.

20. SUPPLEMENTAL CASH FLOW INFORMATION

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

Nine months ended September 30,		**2020**		2019
Changes in non-cash operating working capital:				
Trade and other receivables	**$**	**102**	$	116
Inventories		**13**		(51)
Prepaid expenses		**(2)**		18
Trade and other payables		**(4)**		13
Other liabilities		**(7)**		(7)
	$	**102**	$	89
Changes in other operating items:				
Pension benefits	**$**	**2**	$	3
Employee benefit commitment		**(25)**		(53)
Foreign exchange and other		**9**		(7)
	$	**(14)**	$	(57)
Change in non-cash operating working capital and other operating items	**$**	**88**	$	32

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

Nine months ended September 30,		**2020**		2019
Capital expenditures and additions:				
Machinery, equipment and construction in progress	**$**	**195**	$	188
Land and buildings		**2**		21
Total capital expenditures and additions		**197**		209
Strategic Innovation Fund contribution		**(6)**		—
Capital expenditures and additions not affecting cash:				
Finance leases - machinery and equipment		**(7)**		(37)
Construction in progress and other capital additions included in trade and other payables and other liabilities		**(15)**		(1)
Capital expenditures on property, plant and equipment	**$**	**169**	$	171

21. NET INCOME (LOSS) PER SHARE

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

	Three months ended September 30,		Nine months ended September 30,	
	2020	2019	**2020**	2019
Weighted average common shares outstanding (in thousands):				
Basic	**88,713**	88,757	**88,713**	88,757
Dilutive effect of outstanding common share options[1]	**—**	—	**—**	—
Diluted	**88,713**	88,757	**88,713**	88,757
Net income (loss) per common share:				
Basic	**$ (0.99)**	$ —	**$ (1.26)**	$ 0.50
Diluted	**$ (0.99)**	$ —	**$ (1.26)**	$ 0.50

[1] The dilutive effect of the Company's Option awards were calculated using the treasury stock method. For the three and nine months ended September 30, 2020 and 2019, the calculation of diluted weighted average common shares outstanding excludes all outstanding Options, as the exercise price of the outstanding Options were greater than the average market price of the Company's common shares.

22. FAIR VALUE OF FINANCIAL INSTRUMENTS

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

	September 30, 2020		December 31, 2019	
As at	**Carrying Value**	**Fair Value**	Carrying Value	Fair Value
Financial assets:				
Cash	**$ 106**	**$ 106**	$ 257	$ 257
Restricted cash	**68**	**68**	8	8
Trade and other receivables	**56**	**56**	158	158
Derivative asset	**81**	**81**	—	—
Financial liabilities:				
Trade and other payables	**$ 565**	**$ 565**	$ 444	$ 444
Other liabilities	**87**	**87**	82	82
Asset-based lending facility	**99**	**99**	98	98
Obligations to independent employee trusts:				
Employee benefit commitment	**397**	**419**	395	404
Mortgage payable	**111**	**117**	112	114

The fair values of cash, restricted cash, trade and other receivables, and 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 and Strategic Innovation Fund loan 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 Company's derivative instruments, such as the Option, foreign exchange forward contracts and commodity-based swaps, are determined using a valuation model when quoted market prices or third-party consensus pricing information is not available. The valuation model, such as discounted cash flow method or binomial option model, incorporate observable or unobservable inputs for interest and foreign exchange rates, equity and commodity prices (including indices), credit spreads, corresponding market volatility levels, and other market-based pricing factors. A derivative instrument is classified as Level 2 in the hierarchy if observable market inputs are available or the unobservable inputs are not significant to the fair value. Otherwise, it is classified as Level 3 in the hierarchy.

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

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

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.

The Company had no level 3 financial instruments. There were no transfers between Level 1, Level 2 or Level 3 during the three and nine months ended September 30, 2020.

23. 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.

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	**September 30, 2020**	December 31, 2019
Amounts drawn and outstanding under the:		
Inventory monetization arrangement	**$ 370**	$ 267
ABL	**100**	100
Amounts available under the ABL	**31**	148
Total	**$ 501**	$ 515
Total equity	**329**	450
Total capital	**$ 830**	$ 965

24. 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 (Loss) and Comprehensive Income (Loss), or Statements of Cash Flows.

Purchase commitments

At September 30, 2020, the Company had future commitments of approximately $81 million in capital expenditures, with the majority expected to be paid within 2020.

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

25. 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:

	Three months ended September 30,		Nine months ended September 30,	
	2020	2019	**2020**	2019
Purchases of services				
Joint ventures	**$ 4**	$ 3	**$ 10**	$ 13
Bedrock Industries B.V. and its affiliates	**1**	2	**4**	5

As at	**September 30, 2020**	December 31, 2019
Amounts payable to related parties		
Joint ventures	**$ 2**	$ 1
Bedrock Industries B.V. and its affiliates	**—**	—

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 Chief Executive Officer, Chief Financial Officer, Chief Operating Officer and General Counsel & Corporate Secretary of the Company.

On January 27, 2020, the Company announced the re-appointment of Alan Kestenbaum as Chief Executive Officer of Stelco Holdings effective as of February 21, 2020. Mr. Kestenbaum is also the Executive Chairman of Stelco Holdings.

On March 16, 2020, Paul Scherzer was appointed as the Chief Financial Officer of the Company.

At the meeting held on August 12, 2020, the Company's Board of Directors appointed Mr. Monty Baker as an additional member of the Board of Directors and Audit Committee.

During the three and nine months ended September 30, 2020, the Company recorded $2 million and $4 million (three and nine months ended September 30, 2019 - $1 million recovery and $4 million expense), respectively, as expense related to key management personnel salaries and benefits, share-based compensation, director fees, post-employment pension and medical and termination benefits.