

**ONTARIO
SUPERIOR COURT OF JUSTICE**

IN THE MATTER OF THE *COMPANIES' CREDITORS
ARRANGEMENT ACT*, R.S.C. 1985, c. C-36, AS AMENDED

AND IN THE MATTER OF A PROPOSED PLAN OF
COMPROMISE OR ARRANGEMENT WITH RESPECT TO
U. S. STEEL CANADA INC.

NOTICE OF MOTION

United States Steel Corporation (“**USS**”) will make a motion to the court, on a date to be determined by the court, at 330 University Avenue, Toronto, Ontario.

PROPOSED METHOD OF HEARING: The motion is to be heard orally.

THE MOTION IS FOR:

1. An Order approving a contract negotiation protocol, attached hereto as **Schedule “A”**, that USS and U. S. Steel Canada Inc. (“**USSC**”) shall follow with respect to the bidding for, the negotiation of and contracting for the production and supply of steel products for original equipment manufacturers in the automotive sector (“**OEMs**”) in the calendar year 2016 and beyond; or
2. In the alternative to paragraph 1 above, a declaration that USS has i) no obligation to sell or attempt to sell products to OEM customers for or in respect of the 2016 calendar year and beyond that would require plant loading capacity and production at USSC plants; and ii) no obligation to load production at USSC’s plants in respect of any OEM contracts for 2016 and beyond that USS might be awarded, except on such terms and in such amounts as USS and USSC, in consultation with the Monitor, may mutually agree;
3. An Order requiring USSC to provide a cash deposit or letter of credit satisfactory to USS in an amount to be determined to cover any credit exposure of USS in relation to the provision of

goods or services by USS to USSC from and after the date of the Order until December 10, 2015, being the date of the current stay period;

4. In the alternative to paragraph 3 above, a declaration that USS is under no obligation to provide money or credit to USSC in accordance with s. 34(4) of the *Companies' Creditors Arrangement Act* (Canada) (the "CCAA") notwithstanding the terms of the Initial Order, as amended;

5. An Order approving the termination of all services currently provided by USS to USSC (excluding contracts relating to the supply of raw materials from USS to USSC), effective December 10, 2015, including, without limitation, the following services:

- (a) those services provided for in the Corporate Services Agreement dated November 1, 2007;
- (b) those services provided for in the Business Services Agreement dated January 1, 2014;
- (c) those services provided for in the ERP Cost Sharing Agreement dated January 1, 2011;
- (d) those services provided for in the Retirement Plan Administrative Services Agreement between United States Steel and Carnegie Pension Fund and USSC dated August 5, 2008;

6. Such further and other relief as counsel may request and this Honourable Court may deem just.

THE GROUNDS FOR THE MOTION ARE:

7. Since its acquisition in 2007, USSC has been an indirect, wholly-owned subsidiary of USS. USS is the largest secured and unsecured creditor of USSC.

8. USSC filed for and obtained protection under the CCAA on September 16, 2014.

9. Pursuant to the Order of Mr. Justice Wilton-Siegel dated October 8, 2014 (the “**DIP Order**”), USS became the DIP Lender to USSC. USS was replaced as the DIP Lender by Order dated July 24, 2015.

10. Pursuant to the Sale and Restructuring/Recapitalization Order dated April 2, 2015, which established a sale and restructuring/recapitalization process (“**SARP**”), USS submitted offers in respect of certain of the assets of USSC.

11. The Stay Period (as defined in the Initial Order) was extended from September 11, 2015 up to and including December 10, 2015 pursuant to a Stay Extension Order dated September 11, 2015.

12. USSC has now advised USS that it will be seeking to discontinue the SARP (except in relation to certain land in Hamilton) without the selection of a successful bidder. The status quo anticipated at the time of the Initial Order has been significantly altered by the rejection of USS’s bid and the discontinuance of the SARP.

Contract Negotiation Protocol for OEMs

13. Discussions are now underway between USS and OEMs in respect of the delivery of steel products for the 2016 calendar year and beyond.

14. In the past, the OEM contracts have typically been one year contracts. In this market environment, however, several of the contracts under discussion are for terms extending beyond one year.

15. Reliability of production and certainty of supply throughout the contract term is a fundamental requirement for all OEM contracts, especially given the supply chain demands of the OEMs, including their “just in time” inventory management systems.

16. In the absence of certainty regarding USSC’s ability to remain in production throughout the contracted time periods under discussion with the OEMs, USS cannot count on, or “bid”, USSC’s capacity in negotiating its contracts with OEMs. Instead, USS must rely upon the footprint of its plants where production capacity is certain.

17. Given that USSC can provide no assurance or guarantee to USS in terms of its production capacity for the 2016 calendar year, USS should not be required to guarantee any amount of plant loading for USSC's operations from or in respect of the OEM contracts for 2016 and beyond.

18. USS is willing to provide assistance to USSC, including facilitating the introduction of USSC's personnel to the OEM counterparties, to allow USSC to bid for its own supply contracts in respect of 2016 and beyond for and on its own behalf.

19. The protocol balances the needs of USS and the OEMs for certainty of production with the desire of USSC to independently access automotive customers and production.

Security for Advance of Credit

20. Pursuant to section 34(4)(b) of the CCAA, no person is required to further advance money or credit to the Applicant after the commencement of the CCAA proceedings.

21. Upon issuance of the DIP Order, USS agreed to give USSC net five (5) day payment terms for transactions with purchase orders. As USS is no longer the DIP Lender and since the bid of USS under the SARP has not been accepted, USS is not prepared to continue to extend credit to the Applicant without receiving adequate security. Given the integrated nature of operations between USS and USSC, moving payment to cash-on-delivery terms is not an administratively practical means for USS or USSC to mitigate this trade credit exposure.

Termination of Services Provided To USSC

22. USS provides certain administrative, treasury, raw material procurement, sales, tax planning, pension administration and other services to USSC pursuant to various business services arrangements.

23. Given the non-acceptance of the USS bid and the discontinuance of the SARP, there is uncertainty regarding the future ownership of USSC. It is not consistent with maintaining the status quo under the CCAA to force USS to continue to provide services to a potential competitor in USSC. The USS-based support systems should be transitioned to different service

providers by no later than December 10, 2015. USS is willing to work with USSC to transition these services.

24. Such further and other grounds as counsel may advise.

THE FOLLOWING DOCUMENTARY EVIDENCE will be used at the hearing of the motion:

1. The Affidavit of Mark W. Furry sworn September 18, 2015;
2. Materials previously filed and orders issued in this proceeding; and
3. Such further and other material as counsel may advise and this Honourable Court may permit.

September 17, 2015

BLAKE, CASSELS & GRAYDON LLP
199 Bay Street
Suite 4000, Commerce Court West
Toronto, Ontario M5L 1A9

Michael E. Barrack LSUC #21941W
Email: michael.barrack@blakes.com
Tel: 416-863-5280

Jeff Galway LSUC #28423P
Email: jeff.galway@blakes.com
Tel: 416- 863-3859

Kiran Patel LSUC #58398H
Email: kiran.patel@blakes.com
Tel: 416-863-2205

Max Shapiro LSUC #60602U
Email: max.shapiro@blakes.com
Tel: 416-863-3305
Fax: 416-863-2653

THORNTON GROUT FINNIGAN LLP
Barristers and Solicitors
100 Wellington Street West
TD West Tower
Suite 3200, P.O. Box 329
Toronto, ON M5K 1K7

Robert I. Thornton (LSUC# 24266B)

Tel: 416-304-0560
Fax: 416-304-1313
Email: rthornton@tgf.ca

Lawyers for United States Steel Corporation

TO: THIS HONOURABLE COURT

AND TO: THE SERVICE LIST

SCHEDULE "A"

2016 Automotive Contract Negotiating Protocol

The following is an outline of the business principles that the United States Steel Corporation (“USS”) and U. S. Steel Canada Inc. (“USSC”) agree to follow with respect to bidding for, the negotiation of and contracting for the production and supply of steel products for original equipment manufacturers (“OEMs”) in the automotive sector for supply in the calendar year 2016 and beyond. Notwithstanding anything contained in this Protocol, it is understood that USS and USSC will each independently determine and set pricing for the supply of steel products to OEMs.

Facts

- A. USSC filed for creditor protection under *Companies’ Creditor Arrangement Act* (Canada) (“CCAA”) on September 16, 2014.
- B. USSC is an indirect wholly-owned subsidiary of USS, an integrated North American steel producer and supplier to a number of industries, including the automotive manufacturing sector.
- C. USS is currently engaged in time sensitive contract negotiations with critical OEM customers for supply through 2016 and beyond.
- D. Given recent developments in the CCAA proceeding, USSC is not in a position today to guarantee production at its facilities through 2016.
- E. USS is unable to incorporate production from USSC’s plants into its concurrent quotations to the OEM customers because of the essential need for certainty of supply in contracts with OEMs.
- F. USS is willing to direct its contacts in respect of negotiations with the OEMs to USSC to allow USSC to have an opportunity to obtain OEM supply contracts in respect of 2016 and beyond for and on its own behalf.

Therefore, in an effort to afford USSC the ability to bid on, negotiate for and contract for production volumes on its own behalf with the OEMs during the current negotiating season, USS and USSC agree to the following protocol:

- 1. The OEMs are being and will be informed that the quotations concurrently being submitted by USS are for and in respect of production on the plants owned and controlled by USS in the United States, not including the plants of USSC.
- 2. USS will inform all of the OEMs that, if any of them would prefer to source any of its production for terms involving 2016 and beyond from USSC, the OEM should contact Mike McQuade (“**McQuade**”), President and General Manager of USSC, or such other person as McQuade may so direct. USS will provide contact details for McQuade to the OEMs.

3. If requested by an OEM, USS will provide McQuade or other representatives of USSC with: (a) an introduction, in a form to be agreed acting reasonably and in accordance with the *Competition Act* (Canada), to the contacts of appropriate individuals within the organizational structure of the OEMs; and (b) subject to the below terms, such data and other information as are reasonably necessary to allow USSC to present bids or quotes to each OEM (whether jointly with USS or independently, as may be agreed between USS and USSC, each acting reasonably and in accordance with the *Competition Act* (Canada)), for and respect of quotations for the supply of products for the 2016 calendar year or beyond.
4. For greater certainty, USS and USSC shall not be obligated to provide each other with any pricing or other sensitive information in respect of its current or pending quotations to the OEMs but USS will provide to USSC, on a confidential basis, historical information in respect of products that have been produced by USSC plants in 2015 and such other information as USSC may reasonably request.
5. It is the purpose and intent of this protocol that USSC and its representatives shall be granted an opportunity to bid, negotiate and contract for a share of the production and supply of steel products for the OEMs in respect of the 2016 production year and beyond commencing immediately. USS agrees to take such commercially reasonable steps as will afford USSC the opportunity described herein.
6. USSC agrees that it is solely and independently responsible for the production and supply of any contracts awarded to it by any OEMs without guarantee, assurance or other involvement by USS in the performance of USSC's contracts.
7. In consideration of the opportunity to independently bid on, negotiate and contract for its own supply of steel products from the automotive OEMs, USSC and USS agree that:
 - (a) any contract awarded by any OEM to USS in respect of 2016 or beyond is solely for the benefit of USS and not USSC;
 - (b) any contract awarded by any OEM to USSC in respect of 2016 or beyond is solely for the benefit of USSC and not USS;
 - (c) USSC has no right, beneficially or otherwise, to any contract entered into between USS and any automotive OEM in respect of production for the 2016 calendar year or beyond; and
 - (d) USSC has no right to and shall not request any loading of plants or production of any products in respect of any contracts that USS enters into with any automotive OEM in respect of supply of product to be delivered in 2016 or beyond.
8. USS and USSC both acknowledge and agree that this protocol is being entered into while time sensitive negotiations are commencing and/or are ongoing and

that both parties will need to engage with each other immediately and cooperatively to maximize the effectiveness of this protocol for the benefit of both parties. They also acknowledge and agree that perfection is unlikely to be achieved and that both parties agree to act in good faith to achieve the goals described herein.

9. If either party has a complaint with respect to the conduct of the other under this protocol, they agree to engage the Monitor immediately with a view to resolving such complaint.
10. Both USS and USSC agree to provide access to such necessary and competent personnel as may be required to implement this protocol upon short notice over the coming weeks.

The above protocol is accepted and agreed by the following entities:

United States Steel Corporation

Per: _____
Authorized Signing Officer

U. S. Steel Canada Inc.

Per: _____
Authorized Signing Officer

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AND IN THE MATTER OF A PLAN OF COMPROMISE AND ARRANGEMENT OF U. S. STEEL CANADA INC.**

Court File No.: 14-10695-00CL

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Proceedings commenced at **Toronto**

NOTICE OF MOTION OF UNITED STATES STEEL CORPORATION

BLAKE, CASSELS & GRAYDON LLP

199 Bay Street
Suite 4000, Commerce Court West
Toronto, Ontario M5L 1A9

Michael E. Barrack LSUC #21941W

Email: michael.barrack@blakes.com

Tel: 416-863-5280

Jeff Galway LSUC #28423P

Email: jeff.galway@blakes.com

Tel: 416- 863-3859

Kiran Patel LSUC #58398H

Email: kiran.patel@blakes.com

Tel: 416-863-2205

Max Shapiro LSUC #60602U

Email: max.shapiro@blakes.com

Tel: 416-863-3305

Fax: 416-863-2653

THORNTON GROUT FINNIGAN LLP

100 Wellington Street West
Suite 3200, P.O. Box 329
Toronto-Dominion Centre
Toronto, ON M5K 1K7

Robert I. Thornton (LSUC# 24266B)

Email: rthornton@tgf.ca

Tel: 416-304-0560

Fax: 416-304-1313

Lawyers for United States Steel Corporation