Unaudited Interim Condensed Consolidated Financial Statements

Stelco Holdings Inc.

Three Months Ended March 31, 2020 and 2019

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

As at	Note	**March 31, 2020**	December 31, 2019
Assets			
Current assets			
Cash		**$ 232**	$ 257
Restricted cash		**7**	8
Trade and other receivables	*3*	**139**	158
Inventories		**378**	483
Prepaid expenses		**6**	8
Total current assets		**$ 762**	$ 914
Non-current assets			
Property, plant and equipment, net	*4*	**722**	670
Intangible assets		**7**	7
Investment in joint ventures		**2**	3
Total non-current assets		**$ 731**	$ 680
Total assets		**$ 1,493**	$ 1,594
Liabilities			
Current liabilities			
Trade and other payables	*5*	**$ 346**	$ 444
Other liabilities	*6*	**27**	34
Asset-based lending facility	*7*	**12**	8
Obligations to independent employee trusts	*8*	**34**	35
Total current liabilities		**$ 419**	$ 521
Non-current liabilities			
Provisions		**6**	6
Pension benefits		**8**	7
Other liabilities	*6*	**47**	48
Asset-based lending facility	*7*	**122**	90
Obligations to independent employee trusts	*8*	**474**	472
Total non-current liabilities		**$ 657**	$ 623
Total liabilities		**$ 1,076**	$ 1,144
Equity			
Common shares	*9*	**512**	512
Accumulated deficit		**(95)**	(62)
Total equity		**$ 417**	$ 450
Total liabilities and equity		**$ 1,493**	$ 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 March 31,	Note		2020		2019
Revenue from sale of goods	*11*	**$**	**445**	$	515
Cost of goods sold	*12*		**429**		457
Gross profit		**$**	**16**	$	58
Selling, general and administrative expenses	*13*		**9**		14
Operating income		**$**	**7**	$	44
Other income (loss) and (expenses)					
Finance and other income	*14*		**4**		3
Finance costs	*15*		**(33)**		(3)
Share of loss from joint ventures			**(1)**		(1)
Restructuring and other costs			**(1)**		—
Income (loss) before income taxes		**$**	**(24)**	$	43
Income tax expense	*16*		**—**		—
Net income (loss) and comprehensive income (loss)		**$**	**(24)**	$	43
Net income (loss) per common share					
Basic	*18*	**$**	**(0.27)**	$	0.48
Diluted	*18*	**$**	**(0.27)**	$	0.48

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		—	—	—	43	43
Treasury shares canceled		—	—	1	(1)	—
Dividends to common shareholders	*9*	—	—	—	(109)	(109)
Balance, March 31, 2019		88,757	$ 512	$ —	$ (10)	$ 502
Balance, December 31, 2019		88,713	$ 512	$ —	$ (62)	$ 450
Changes during the period:						
Net loss		**—**	**—**	**—**	**(24)**	**(24)**
Dividends to common shareholders	*9*	**—**	**—**	**—**	**(9)**	**(9)**
Balance, March 31, 2020		**88,713**	**$ 512**	**$ —**	**$ (95)**	**$ 417**

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)

Three months ended March 31,	Note	**2020**	2019
Operating activities			
Net income (loss)		**$ (24)**	$ 43
Items not affecting cash:			
Depreciation		**13**	8
Share of loss from joint ventures		**1**	1
Share-based compensation	*10*	**(1)**	2
Unrealized gain on commodity-based swap	*14*	**(2)**	—
Employee benefit commitment:			
Accretion expense	*15*	**9**	11
Remeasurement recovery	*15*	**(1)**	(7)
Change in non-cash working capital and other operating items	*17*	**113**	60
Cash provided by operating activities		**$ 108**	$ 118
Investing activities			
Capital expenditures on property, plant and equipment	*17*	**(43)**	(44)
Change in restricted cash		**1**	(1)
Cash used in investing activities		**$ (42)**	$ (45)
Financing activities			
Advances from asset-based lending facility, net of transaction costs	*7*	**57**	24
Repayment of asset-based lending facility	*7*	**(24)**	(24)
Repayment of inventory monetization arrangement, net	*5*	**(113)**	(115)
Lease obligation principal payments	*6*	**(2)**	(2)
Dividends paid to common shareholders	*9*	**(9)**	(109)
Cash used in financing activities		**$ (91)**	$ (226)
Net decrease in cash		**(25)**	(153)
Cash, beginning of period		**257**	438
Cash, end of period		**$ 232**	$ 285
Cash flows provided by operating activities include:			
Interest paid		**$ 7**	$ 5
Interest received		**1**	2

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, 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 an accounting policy for a derivative asset discussed in note 3. Certain comparative information has been reclassified to conform to the current period's presentation.

These Consolidated Financial Statements were authorized for issue on May 5, 2020 in accordance with a resolution of the board of directors (Board of Directors) of Stelco Holdings.

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, potentially leading to an economic downturn. Global equity markets have experienced significant volatility and weakness. Governments and central banks have reacted with significant monetary and fiscal interventions designed to stabilize economic conditions.

The COVID-19 outbreak has resulted in wide-spread and extended shutdowns of businesses throughout the world, which may in turn result in disruptions or delays to our supply chain and customer base. Such disruptions might include temporary closures of third-party supplier facilities, interruptions to construction activity or restrictions on the export or shipment of our products. Any such interruptions may impact our costs, sales and ability to execute capital projects on schedule and within budget. The outbreak of COVID-19 may also impact customer demand, the availability of key components sourced from effected manufacturers and suppliers, logistics flows and the availability of other resources to support critical operations.

A local, regional, national or international outbreak of a contagious disease such as COVID-19 or any similar illness, or a fear of any of the foregoing, could adversely impact us by causing operating, manufacturing supply chain, and project development delays and disruptions, labour shortages, travel and shipping disruption and shutdowns (including as a result of government regulation and prevention measures). If we are unable to mitigate the impacts of the COVID-19 outbreak on our operations, we may be unable to complete planned construction projects on schedule and within budget, fulfill our product delivery obligations to customers, our costs may increase, and our revenue and margins could decrease. It is unknown whether and how the Company may be affected if such a pandemic persists for an extended period of time. A widespread health crisis could adversely affect the global economy, resulting in an economic downturn that could impact demand for our products.

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. These events are highly uncertain and as such, the Company cannot determine the ultimate financial impacts at this time. 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)

On March 23, 2020, the Government of Ontario announced that steel manufacturers and their suppliers were deemed essential businesses due to their importance to the Ontario economy and their support of critical infrastructure projects. In recognition of this designation and in the interest of protecting our employees and supply chain partners, the Company has implemented several measures aimed at protecting the health and safety of our employees, and limiting exposure and preventing the spread of the COVID-19 virus.

3. TRADE AND OTHER RECEIVABLES

As at		**March 31, 2020**		December 31, 2019
Trade receivables [1]	**$**	**127**	$	152
Other receivables		**10**		6
Derivative asset		**2**		—
Total trade and other receivables	**$**	**139**	$	158

[1] Net of allowance for doubtful accounts of nil (December 31, 2019 - nil).

Receivables Purchase Agreement (RPA)

During 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, 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 Sheets as substantially all of the risks and rewards for such receivables have been transferred to the Purchaser. As at March 31, 2020, Stelco's available purchase limit remaining under the RPA was $42 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 months ended March 31, 2020, the Company recorded $0.2 million in bank fees in connection with the RPA within finance costs on the Consolidated Statements of Income (Loss) and Comprehensive Income (Loss).

Derivative asset

During 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 three months ended March 31, 2020, the Company recorded an unrealized gain of $2 million associated with this swap contract. Stelco did not enter into this contract for trading or speculative purposes. At March 31, 2020, Stelco had one commodity-based swap outstanding with the following terms: trade date - March 9, 2020, commodity trade type - sell hot-rolled coil, notional quantity - 50,000 net tons, termination date April 30, 2020.

Commodity-based swaps are financial instruments which are presented on the Consolidated Balance Sheets as financial assets when the fair value is positive and as financial liabilities when the fair value is negative and are carried at fair value through income or loss.

Foreign exchange forward contracts

During April 2020, Stelco Inc. entered into a series of foreign exchange forward contracts with a Schedule I bank, as part of a strategy to mitigate the Company's foreign exchange risk on slabs purchased from third parties in US dollars and future customer hot-rolled coil sales orders in Canadian dollars. Under the terms of the foreign exchange forward contracts, the Company will sell an aggregate of $29 million and purchase US$20 million, in specified tranches with settlement dates between May 7, 2020 to July 30, 2020. Stelco did not enter into this contract for trading or speculative purposes.

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

4. 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		—		—		3		—		3		59		65
Transfers		—		—		3		—		—		(3)		—
As at March 31, 2020	**$**	**110**	**$**	**41**	**$**	**433**	**$**	**9**	**$**	**57**	**$**	**178**	**$**	**828**

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		—		—		11		—		2		—		13
As at March 31, 2020	**$**	**—**	**$**	**1**	**$**	**92**	**$**	**2**	**$**	**11**	**$**	**—**	**$**	**106**
Net book value														
As at March 31, 2020	**$**	**110**	**$**	**40**	**$**	**341**	**$**	**7**	**$**	**46**	**$**	**178**	**$**	**722**
As at December 31, 2019	$	110	$	40	$	346	$	7	$	45	$	122	$	670

Assets under leases

As at March 31, 2020, the net carrying amount of the Company's right-to-use machinery and equipment under lease arrangements was $46 million (December 31, 2019 - $45 million).

5. TRADE AND OTHER PAYABLES

As at		**March 31, 2020**		December 31, 2019
Trade payables	**$**	**174**	$	176
Inventory monetization arrangement		**172**		267
Payables to related parties [1]		**—**		1
Total trade and other payables	**$**	**346**	$	444

[1] Refer to note 22 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 months ended March 31, 2020 was 4.91% (three months ended March 31, 2019 - 4.90%), and related finance costs of $3 million (March 31, 2019 - $2 million) 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 $224 million (December 31, 2019 - $351 million) serving as collateral.

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

6. OTHER LIABILITIES

As at		**March 31, 2020**		December 31, 2019
Lease obligations	**$**	**47**	$	47
Salaries and benefits payable		**18**		24
Post-employment benefits		**7**		8
Interest payable		**1**		1
Share-based compensation [1]		**—**		2
Other liabilities		**1**		—
Total other liabilities	**$**	**74**	$	82
Total current other liabilities	**$**	**27**	$	34
Total non-current other liabilities	**$**	**47**	$	48

[1] Refer to note 10 for details.

Lease obligations

As at March 31, 2020, the Company has equipment lease obligations with a carrying value of $47 million (December 31, 2019 - $47 million). Refer to note 4 for details of the carrying value of the right-to-use assets related to these leases.

7. ASSET-BASED LENDING FACILITY (ABL)

As at		**March 31, 2020**		December 31, 2019
Revolving	**$**	**36**	$	—
Non-revolving term loan		**98**		98
Asset-based lending facility		**134**		98
Current		**12**		8
Non-current	**$**	**122**	$	90

During the three months ended March 31, 2020, Stelco's borrowing and repayment activity on the ABL revolving facility resulted in a $36 million outstanding balance as at March 31, 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 and inventory, 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 note 5. At March 31, 2020, the amount available to be borrowed under the ABL was $74 million (December 31, 2019 - $148 million).

The weighted average finance rate for amounts drawn under the ABL for the three months ended March 31, 2020 was 4.79% (three months ended March 31, 2019 - 6.53%). In addition, Stelco's outstanding letters of credit under the ABL were $59 million at March 31, 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 months ended March 31, 2020.

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

As at		**March 31, 2020**
2020 [1]	**$**	**8**
2021		**14**
2022		**14**
2023		**64**
Total minimum future ABL non-revolving term loan principal payments	**$**	**100**
Less: deferred transaction costs subject to amortization		**(2)**
Carrying amount of ABL non-revolving term loan	**$**	**98**

[1] represents remaining nine months of 2020.

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

8. OBLIGATIONS TO INDEPENDENT EMPLOYEE TRUSTS

As at	**March 31, 2020**	December 31, 2019
Employee benefit commitment	**$ 396**	$ 395
Mortgage payable	**112**	112
Obligations to independent employee trusts	**508**	507
Current	**34**	35
Non-current	**$ 474**	$ 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	March 31, 2020
2020 [1]	$ 24
2021	33
2022	62
2023	54
2024	57
Thereafter	589
Total estimated employee benefit commitment payments	$ 819
Less: amounts representing future finance costs	(423)
Present value of employee benefit commitment	$ 396

[1] represents remaining nine 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 15 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 months ended March 31, 2020, related to this obligation.

Mortgage payable

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

As at	**March 31, 2020**
2020 [1]	**$ 8**
2021	**11**
2022	**11**
2023	**11**
2024	**11**
Thereafter	**194**
Total future mortgage payments	**$ 246**
Less: amounts representing future finance costs	**(134)**
Carrying amount of mortgage payable	**$ 112**

[1] represents remaining nine 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.

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

Dividends to common shareholders

During the three months ended March 31, 2020 and 2019, Stelco Holdings declared and paid an ordinary dividend to common shareholders in the aggregate amount of $9 million 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.

On April 30, 2020, the Company announced the suspension of its quarterly dividend of $0.10 per share, together with Stelco entering into an option agreement with United States Steel Corporation. Refer to note 23 for details.

10. 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 months ended March 31, 2020, the Company recorded a share-based compensation recovery of $1 million (three months ended March 31, 2019 - expense of $2 million) 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.

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 March 31, 2020, there were 77,183 RSUs outstanding (December 31, 2019 - 6,313) with an estimated fair value of $4.15 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 March 31, 2020, 666,667 vested Options remain outstanding with an estimated fair value of $0.13 per Option under the Company's LTIP.

Stock appreciation right awards (SARs)

On March 20, 2020, 100,000 SARs were granted and issued to a certain member of the ESLT with a base price of $4.08 per share. The SARs were issued under the Company's LTIP, and are cash-settled awards with graded vesting over three years. The estimated grant date fair value using the Black-Scholes option-pricing model was $0.78 per SAR. 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).

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

Deferred share unit plan (DSUs)

As at March 31, 2020, there were 39,992 DSUs outstanding (December 31, 2019 - 39,445) with an estimated fair value of $4.15 per DSU under the Company's LTIP.

11. REVENUE FROM SALE OF GOODS

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

Three months ended March 31,		**2020**		2019
Steel products	**$**	**438**	$	504
Non-steel products		**7**		11
Total	**$**	**445**	$	515

Revenue by geographical location is comprised of:

Three months ended March 31,		**2020**		2019
Canada	**$**	**317**	$	463
United States and other		**128**		52
Total	**$**	**445**	$	515

12. COST OF GOODS SOLD

Cost of goods sold is comprised of:

Three months ended March 31,		**2020**		2019
Cost of inventories:				
Steel products	**$**	**398**	$	422
Non-steel products		**6**		7
Fixed overhead and other costs [1]		**12**		20
Depreciation		**13**		8
Total	**$**	**429**	$	457

[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.

13. SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

Selling, general and administrative expenses is comprised of:

Three months ended March 31,		**2020**		2019
Employee salary and benefits expense	**$**	**4**	$	5
Professional, consulting and legal fees		**3**		2
Management fees [1]		**2**		1
Share-based compensation expense (recovery) [2]		**(1)**		2
Enterprise resource planning system		**—**		2
Other [3]		**1**		2
Total	**$**	**9**	$	14

[1] Refer to note 22 for details.
[2] Refer to note 10 for details.
[3] Includes corporate, public company and travel related expenses.

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

14. FINANCE AND OTHER INCOME

Finance and other income is comprised of:

Three months ended March 31,		**2020**		2019
Unrealized gain on commodity-based swap	**$**	**2**	$	—
Finance income		**1**		2
Other income		**1**		1
Total	**$**	**4**	$	3

Commodity-based swap

During 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. Refer to note 3 for further details.

15. FINANCE COSTS

Finance costs are comprised of:

Three months ended March 31,		**2020**		2019
Foreign exchange loss (gain)	**$**	**16**	$	(6)
Accretion of employee benefit commitment		**9**		11
Interest on loans and borrowings		**8**		5
Accretion expense related to lease obligations		**1**		—
Remeasurement of employee benefit commitment [1]		**(1)**		(7)
Total	**$**	**33**	$	3

[1] Remeasurement of employee benefit commitment for change in the timing and magnitude of estimated cash flows and future funding requirements. Refer to note 8 for further details.

16. INCOME TAXES

The major components of income tax expense are as follows:

Three months ended March 31,		**2020**		2019
Deferred income tax:				
Origination and reversal of temporary differences	**$**	**(10)**	$	11
Previously unrecognized deferred tax assets		**10**		(11)
Income tax expense	**$**	**—**	$	—

Reconciliation of Effective Tax Rate:

Three months ended March 31,		**2020**		2019
Income (loss) before income taxes	**$**	**(24)**	$	43
Combined Canadian federal and provincial income tax rate		**25%**		25%
Income tax expense (recovery) based on statutory rate		**(6)**		11
Increase (decrease) in income taxes resulting from non-taxable items or adjustments of prior period taxes:				
Other		**(4)**		1
Unrecognized deferred tax assets		**10**		(12)
Income tax expense	**$**	**—**	$	—

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

Deferred tax

Reconciliation of movements in the deferred tax asset:

As at		**March 31, 2020**		Movement		December 31, 2019
Employee benefit commitment	**$**	**102**	$	—	$	102
Non-capital and capital loss carry-forwards		**103**		5		98
Deductible SRED expenditures		**9**		—		9
Financing fee		**2**		—		2
Provisions		**2**		—		2
Impairment provision of investment in subsidiaries		**2**		—		2
Plant and equipment		**20**		5		15
Right-of-use asset		**(12)**		—		(12)
Right-of-use liability		**12**		—		12
Deferred tax assets not recognized		**(240)**		(10)		(230)
Net deferred tax asset	**$**	**—**	$	—	$	—

Non-capital loss carry forwards:

As at		**March 31, 2020**		December 31, 2019
2034	**$**	**136**	$	136
2035		**238**		238
2037		**2**		2
2038		**4**		4
2039		**13**		13
2040		**19**		—
Total	**$**	**412**	$	393

Other tax attributes

As at March 31, 2020, 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 $657 million (December 31, 2019 - $595 million) and scientific research and experimental development (SRED) deductions of $36 million (December 31, 2019 - $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.

17. SUPPLEMENTAL CASH FLOW INFORMATION

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

Three months ended March 31,		**2020**		2019
Changes in non-cash operating working capital:				
Trade and other receivables	**$**	**19**	$	(13)
Inventories		**105**		65
Prepaid expenses		**2**		12
Trade and other payables		**(16)**		9
Other liabilities		**(9)**		(4)
	$	**101**	$	69
Changes in other operating items:				
Pension benefits	**$**	**1**	$	1
Employee benefit commitment		**(7)**		(9)
Foreign exchange and other		**18**		(1)
	$	**12**	$	(9)
Change in non-cash operating working capital and other operating items	**$**	**113**	$	60

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

Three months ended March 31,		**2020**		2019
Capital expenditures and additions:				
Plant, machinery and equipment	**$**	**65**	$	46
Capital expenditures and additions not affecting cash:				
Finance leases - machinery and equipment		**(3)**		—
Construction in progress and other capital additions included in trade and other payables and other liabilities		**(19)**		(2)
Capital expenditures on property, plant and equipment	**$**	**43**	$	44

18. 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 March 31,		**2020**		2019
Weighted average common shares outstanding (in thousands):				
Basic		**88,713**		88,757
Dilutive effect of outstanding common share options[1]		**—**		—
Diluted		**88,713**		88,757
Net income (loss) per common share:				
Basic	**$**	**(0.27)**	$	0.48
Diluted	**$**	**(0.27)**	$	0.48

[1] The dilutive effect of the Company's Option awards were calculated using the treasury stock method. The potentially dilutive Options were excluded from the calculation of diluted weighted average common shares outstanding for the three months ended March 31, 2020, as they were anti-dilutive.

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

19. FAIR VALUE OF FINANCIAL INSTRUMENTS

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

	March 31, 2020		December 31, 2019	
As at	**Carrying Value**	**Fair Value**	Carrying Value	Fair Value
Financial assets:				
Cash	**$ 232**	**$ 232**	$ 257	$ 257
Restricted cash	**7**	**7**	8	8
Trade and other receivables	**139**	**139**	158	158
Financial liabilities:				
Trade and other payables	**$ 346**	**$ 346**	$ 444	$ 444
Other liabilities	**74**	**74**	82	82
Asset-based lending facility	**134**	**134**	98	98
Obligations to independent employee trusts:				
Employee benefit commitment	**396**	**413**	395	404
Mortgage payable	**112**	**118**	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 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.

The Company had no level 3 financial instruments. There were no transfers between Level 1, Level 2 or Level 3 during the three months ended March 31, 2020.

20. 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		**March 31, 2020**		December 31, 2019
Amounts drawn and outstanding under the:				
Inventory monetization arrangement	**$**	**172**	$	267
ABL		**136**		100
Amounts available under the ABL		**74**		148
Total	**$**	**382**	$	515
Total equity		**417**		450
Total capital	**$**	**799**	$	965

21. 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 March 31, 2020, the Company had future commitments of approximately $59 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.

During May 2020, the Company received $10 million in cash proceeds in connection with the Contribution.

22. 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 March 31,		**2020**		2019
Purchases of services				
Joint ventures	**$**	**2**	$	4
Bedrock Industries B.V. and its affiliates		**2**		1

As at		**March 31, 2020**		December 31, 2019
Amounts payable to related parties				
Joint ventures	**$**	**—**	$	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.

During the three months ended March 31, 2020, the Company recorded a $1 million recovery in share-based compensation and $1 million in other compensation costs (three months ended March 31, 2019 - $3 million) related to key management personnel salaries and benefits, director fees, post-employment pension and medical and termination benefits.

23. EVENTS AFTER THE REPORTING PERIOD

On April 30, 2020, the Company announced that Stelco has 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 supersedes and replaces the current agreement with U.S. Steel, which was set to expire on January 31, 2022.

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 will 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 and the remaining four installments payable every two months thereafter. Upon the exercise of the Option, Stelco would pay a net exercise price of US$500 million.

In connection with the Initial Contribution, Stelco Inc. 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 will sell an aggregate of $112 million and purchase US$80 million, in specified tranches with settlement dates between June 30, 2020 and December 31, 2020.