Consolidated Financial Statements

Stelco Holdings Inc.

December 31, 2020 and 2019

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

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

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

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

In addition, the Company has developed and maintained a system of disclosure controls in order to provide reasonable assurance that the financial information is relevant, reliable and accurate. The Company has evaluated its internal and disclosure controls as at December 31, 2020, and has disclosed the results of this evaluation in its MD&A.

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

(signed) Alan Kestenbaum
Alan Kestenbaum
Executive Chairman and Chief Executive Officer

(signed) Paul Scherzer
Paul D. Scherzer
Chief Financial Officer

Hamilton, Canada
February 17, 2021

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INDEPENDENT AUDITORS' REPORT

To the Shareholders of Stelco Holdings Inc.

Opinion

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

- the consolidated balance sheets as at December 31, 2020 and December 31, 2019
- the consolidated statements of income (loss) for the years ended December 31, 2020 and December 31, 2019
- the consolidated statements of comprehensive income (loss) for the years ended December 31, 2020 and December 31, 2019
- the consolidated statements of changes in equity for the years ended December 31, 2020 and December 31, 2019
- the consolidated statements of cash flows for the years ended December 31, 2020 and December 31, 2019
- and notes to the consolidated financial statements, including a summary of significant accounting policies

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

In our opinion, the accompanying financial statements present fairly, in all material respects, the consolidated financial position of the Entity as at December 31, 2020 and December 31, 2019, and its consolidated financial performance and its consolidated cash flows for the years ended December 31, 2020 and December 31, 2019 in accordance with International Financial Reporting Standards (IFRS).

Basis for Opinion

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

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

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

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements for the year ended December 31, 2020. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Evaluation of the fair value of the derivative asset

Description of the matter

We draw attention to Notes 4 b), 9, and 32 to the financial statements. The Entity entered into an option agreement with United States Steel Corporation on April 30, 2020 ("U.S. Steel") granting the Entity an option to purchase a 25% ownership interest (the "Option") in a to-be-formed joint venture that would own a 100% interest in U.S. Steel's Minntac iron ore mine. The Option is exercisable by the Entity at any time until January 31, 2027. The Option is a derivative instrument which is presented on the balance sheet as a derivative asset of $133 million and carried at fair value through income or loss. The Entity has valued the Option using a Black-Scholes option pricing model which involves inputs including the estimated fair value of the underlying mine asset and expected mine asset price volatility. The estimated fair value of the underlying mine asset was based on a discounted cash flow model, including inputs such as iron ore prices and a discount rate.

Why the matter is a key audit matter

We identified the evaluation of the fair value of the derivative asset as a key audit matter. This matter represented an area of significant risk of material misstatement due to the high degree of estimation uncertainty in determining the fair value of the derivative asset. Significant auditor judgement and specialized skills and knowledge were required in evaluating the results of our audit procedures due to the sensitivity of the fair value of the derivative asset to minor changes in certain inputs.

How the matter was addressed in the audit

The primary procedures we performed to address this key audit matter included the following:

We determined the consistency of future cash flows used in the discounted cash flow model with the information assessed by management's experts. We obtained an understanding of the work performed by management's experts on the information and evaluated their competence, capability and objectivity as a basis for using the information as audit evidence in our procedure.

We evaluated iron ore prices by comparing to external sources of iron ore price forecasts and evaluated adjustments made by the Entity in arriving at the iron ore prices used in the discounted cash flow model.

We involved valuations professionals with specialized skills and knowledge, who assisted in:

- Evaluating the discount rate used in the discounted cash flow model, by comparing it against a discount rate range that was independently developed using publicly available market data for comparable peers, and
- Evaluating the appropriateness of the Entity's expected mine asset price volatility by comparing it to volatility rates independently developed using publicly available market data for comparable peers.

Other Information

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

- the information included in Management's Discussion and Analysis filed with the relevant Canadian Securities Commissions.

- the information, other than the financial statements and the auditors' report thereon, included in a document likely to be entitled "Annual Report".

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

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

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

We have nothing to report in this regard.

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

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

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

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

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

Auditors' Responsibilities for the Audit of the Financial Statements

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

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

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

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

We also:

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

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

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

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

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

Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Entity to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.
- Provide those charged with governance with a statement that we have compiled with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.
- Determine, from the matters communicated with those charged with governance, those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our auditors' report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

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

KPMG LLP

Chartered Professional Accountants, Licensed Public Accountants

Hamilton, Canada
February 17, 2021

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

As at	Note	**December 31, 2020**	December 31, 2019
Assets			
Current assets			
Cash		**$ 59**	$ 257
Restricted cash	*5*	**8**	8
Trade and other receivables	*6*	**183**	158
Inventories	*7*	**509**	483
Prepaid expenses and deposits	*8*	**32**	8
Total current assets		**$ 791**	$ 914
Non-current assets			
Derivative asset	*9*	**133**	—
Property, plant and equipment, net	*10*	**845**	670
Intangible assets	*11*	**8**	7
Investment in joint ventures	*12*	**2**	3
Total non-current assets		**$ 988**	$ 680
Total assets		**$ 1,779**	$ 1,594
Liabilities			
Current liabilities			
Trade and other payables	*13*	**$ 668**	$ 444
Derivative liabilities	*14*	**84**	—
Other liabilities	*15*	**44**	34
Asset-based lending facility	*16*	**15**	8
Obligations to independent employee trusts	*17*	**36**	35
Total current liabilities		**$ 847**	$ 521
Non-current liabilities			
Provisions	*18*	**6**	6
Pension benefits	*28*	**11**	7
Other liabilities	*15*	**59**	48
Asset-based lending facility	*16*	**113**	90
Obligations to independent employee trusts	*17*	**462**	472
Total non-current liabilities		**$ 651**	$ 623
Total liabilities		**$ 1,498**	$ 1,144
Equity			
Common shares	*19*	**512**	512
Accumulated deficit		**(231)**	(62)
Total equity		**$ 281**	$ 450
Total liabilities and equity		**$ 1,779**	$ 1,594

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

On behalf of the Board of Directors

(signed) *Alan Kestenbaum*, Director

(signed) *Michael Mueller*, Director

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

Years ended December 31,	Note		**2020**		2019
Revenue from sale of goods	*21*	**$**	**1,517**	$	1,841
Cost of goods sold	*22*		**1,476**		1,745
Gross profit		**$**	**41**	$	96
Selling, general and administrative expenses	*23*		**48**		46
Operating income (loss)		**$**	**(7)**	$	50
Other income (loss) and (expenses)					
Finance and other income (loss)	*24*		**(87)**		7
Finance costs	*25*		**(51)**		(28)
Restructuring and other costs	*26*		**(13)**		(6)
Share of loss from joint ventures	*12*		**(1)**		(3)
Income (loss) before income taxes		**$**	**(159)**	$	20
Income tax expense	*27*		**—**		—
Net income (loss)		**$**	**(159)**	$	20
Net income (loss) per common share					
Basic	*31*	**$**	**(1.79)**	$	0.23
Diluted	*31*	**$**	**(1.79)**	$	0.23

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

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

Years ended December 31,	Note		**2020**		2019
Net income (loss)		**$**	**(159)**	$	20
Other comprehensive loss:					
Items that are not recycled or reclassified to loss:					
Remeasurement loss on pension benefit obligations, net of income tax	*28*		**(1)**		(2)
Other comprehensive loss		**$**	**(1)**	$	(2)
Comprehensive income (loss)		**$**	**(160)**	$	18

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

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

	Note	Number of common shares (in thousands)		Common shares		Treasury shares		Retained earnings (Accumulated deficit)		Total equity
Balance, December 31, 2018		88,757	$	512	$	(1)	$	57	$	568
Changes during the year:										
Net income		—		—		—		20		20
Dividends to common shareholders	*19*	—		—		—		(136)		(136)
Other comprehensive loss	*28*	—		—		—		(2)		(2)
Treasury shares cancelled		—		—		1		(1)		—
Common shares purchased and cancelled		(44)		—		—		—		—
Balance, December 31, 2019		88,713	$	512	$	—	$	(62)	$	450
Changes during the year:										
Net loss		**—**		**—**		**—**		**(159)**		**(159)**
Dividends to common shareholders	*19*	**—**		**—**		**—**		**(9)**		**(9)**
Other comprehensive loss	*28*	**—**		**—**		**—**		**(1)**		**(1)**
Balance, December 31, 2020		**88,713**	**$**	**512**	**$**	**—**	**$**	**(231)**	**$**	**281**

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

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

Years ended December 31,	Note	**2020**	2019
Operating activities			
Net income (loss)		**$ (159)**	$ 20
Items not affecting cash:			
Depreciation		**66**	51
Change in unrealized loss on commodity-based swaps	*14*	**84**	—
Employee benefit commitment:			
Accretion expense	*25*	**37**	41
Remeasurement recovery	*25*	**(12)**	(26)
Write-down of construction in progress	*10*	**5**	—
Share-based compensation	*20*	**2**	2
Share of loss from joint ventures	*12*	**1**	3
Change in non-cash working capital and other operating items	*30*	**(20)**	(77)
Cash provided by operating activities		**$ 4**	$ 14
Investing activities			
Capital expenditures on property, plant and equipment, net of Strategic Innovation Fund contribution	*30*	**(226)**	(210)
Acquisition of derivative asset	*9*	**(133)**	—
Cash used in investing activities		**$ (359)**	$ (210)
Financing activities			
Advances from asset-based lending facility, net of transaction costs	*16*	**238**	179
Repayment of asset-based lending facility	*16*	**(210)**	(81)
Proceeds from the inventory monetization arrangement, net	*13*	**135**	63
Dividends paid to common shareholders	*19*	**(9)**	(136)
Lease obligation principal payments	*15*	**(8)**	(9)
Advances under boiler project financing arrangement	*15*	**7**	—
Proceeds from Strategic Innovation Fund loan	*10*	**6**	—
Repayment of mortgage principal	*17*	**(2)**	(1)
Cash provided by financing activities		**$ 157**	$ 15
Net decrease in cash		**(198)**	(181)
Cash, beginning of year		**257**	438
Cash, end of year		**$ 59**	$ 257
Cash flows provided by operating activities include:			
Interest paid		**$ 30**	$ 23
Interest received		**2**	6

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

1. CORPORATE INFORMATION

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

On November 10, 2017, Stelco Holdings acquired all of the issued and outstanding shares of Stelco Inc. (Stelco). Stelco (formerly known as U. S. Steel Canada Inc.) is principally engaged in the production and sale of steel products. Stelco is an integrated steel producer with facilities in two locations, Hamilton and Nanticoke, Ontario, which produces a variety of steel products for customers in the steel service centre, appliance, automotive, energy, construction, 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 Cooperatief U.A., is Stelco Holdings' largest shareholder. The principal limited partners of Bedrock are LG Bedrock Holdings LP (LG Bedrock), a Delaware limited partnership; and AK Bedrock LLC, a Delaware limited liability company wholly owned by Alan Kestenbaum. The General Partner of Bedrock is Bedrock Industries GP LLC, a Delaware limited liability company whose sole member is LG Bedrock. LG Bedrock's general partner is LG Bedrock Holdings GP LLC, a Delaware limited liability company.

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

2. STATEMENT OF COMPLIANCE AND BASIS OF PREPARATION

a) Statement of compliance

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

These Consolidated Financial Statements were authorized for issue on February 17, 2021 in accordance with a resolution of the board of directors (Board of Directors) of Stelco Holdings.

b) Basis of preparation

These Consolidated Financial Statements were prepared on a going concern basis under the historical cost method, except for certain financial assets and liabilities, which are measured at fair value as described in note 32. The accounting policies set out below have been applied consistently in all material respects.

c) Principles of consolidation

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

Subsidiaries

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

The Company's subsidiaries (both direct and indirect) are:

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

*Joint ventur*es

Joint ventures are entities over which the Company has joint control and whereby the parties that share joint control have rights to the net assets of the joint venture. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require unanimous consent of the parties sharing control. Investments in joint ventures are accounted for using the equity method. Under the equity method, the investment is initially recorded at cost and adjusted by Stelco's share of the results of operations and changes in the net assets of the joint venture. If the Company's share of losses of a joint venture equals or exceeds its interest in the joint venture, the Company will discontinue recognizing its share of further losses. After Stelco's interest is reduced to zero, additional losses are provided for, and a liability is recognized, only to the extent that the Company has incurred legal or constructive obligations or made payments on behalf of the joint venture. If the joint venture subsequently reports income, then Stelco will resume recognizing its share of those profits only after its share of the profits equals the share of losses not recognized The financial statements of Stelco's joint ventures are prepared for the same reporting period as the Company and where necessary, adjustments are made to bring the accounting policies of such entities in line with those of Stelco.

d) 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, prevent 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.

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.

3. SIGNIFICANT ACCOUNTING POLICIES

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

a) Revenue recognition

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

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

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

b) Foreign currency translation

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

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

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

c) Income taxes

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

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

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

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

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

d) Inventories

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

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

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

e) Property, plant and equipment

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

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

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

f) Impairment of non-financial assets

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

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

g) Financial instruments

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

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

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

Financial instruments carried at amortized cost

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

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

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

Impairment of financial assets carried at amortized cost

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

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

Financial instruments carried at fair value through income or loss

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

In particular, derivative financial 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). Derivative instruments with either positive or negative fair values are reported as derivative assets or liabilities, respectively. Valuation adjustments are included in the fair value of derivative assets and liabilities. 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).

h) Fair value measurement

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

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

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

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

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

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

When measuring the fair value of an asset or liability, the Company uses observable market data as available. If the inputs used to measure the fair value of an asset or a liability are classified within different levels of the fair value hierarchy, than the fair value measurement is categorized in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement.

i) Provisions

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

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

j) Pension and other employee benefits

The Company sponsors multiple defined benefit pension plans, which requires contributions to be made to separately administered funds. The obligations and costs of providing benefits under the defined benefit plans is based on valuations performed by independent actuaries using the projected unit credit method.

Other employee benefits includes an unfunded compensated absence plan that provides non-pension benefits to certain active and non-active members.

The liability for pensions and other employee benefits is equal to the present value of the Company's future benefit obligation less, where appropriate, the fair value of plan assets in funds allocated to finance such benefits. Service costs including past service, gains and losses from curtailment and non-routine settlements and net interest are recognized through net income. Actuarial gains and losses resulting from remeasurements are recognized immediately through OCI in the period in which they occur. Remeasurements are not reclassified to net income in subsequent periods.

k) Net income per share

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

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

l) Intangibles

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

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

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

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

m) Leases

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

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

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

n) Share-based compensation

The Company issues share-based awards to certain employees. The cost of these share-based payments equals the fair value of each tranche of share-based awards at their grant date and are recognized on a proportionate basis consistent with the vesting features of each tranche of the grant.

The Company also has share-based cash-settled compensation plans for certain members of the Board of Directors. The cost of these share-based payments is measured at fair value and are expensed on the grant date with the recognition of a corresponding liability.

The share-based compensation liability is remeasured at fair value at each reporting period date with the vested changes in fair value recorded within selling, general and administrative expenses in the Consolidated Statements of Income (Loss).

o) 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) 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.

p) Segment reporting

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

In measuring performance for the purpose of allocating resources, the CODM does not distinguish the operations by product, geography or any other basis and therefore the Company is considered to be a single reportable segment.

4. CRITICAL JUDGMENTS, ESTIMATES AND ASSUMPTIONS

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

a) Employee benefit commitment

This financial liability was initially recorded at its fair value using a discounted cash flow analysis and subsequently accounted for at amortized cost using the effective interest method. The determination of fair value at initial recognition involved making various assumptions, including the determination of the expected cash flows and discount rate. Estimates of expected cash flows are revisited at the end of each Consolidated Balance Sheet date to determine amortized cost. Due to the nature of the underlying assumptions and its long-term nature, the employee benefit commitment is highly sensitive to changes in these assumptions. Further details about the assumptions used are provided in note 17.

b) Derivative asset

On initial recognition, a derivative financial instrument is recognized at fair value on the Consolidated Balance Sheet and remeasured at fair value through income or loss at each reporting date. The Company's derivative asset fair value was estimated using a Black-Scholes option pricing model which includes Level 3 significant unobservable inputs such as the fair value of mine asset (which is based on a discounted cash flow model including inputs of future iron ore prices and discount rate) and expected mine asset price volatility. Due to the nature of the underlying estimates and its long-term nature, the derivative asset's estimated fair value is highly sensitive to changes in these inputs. Further details about the inputs and valuation technique used are provided in note 9.

c) Pension and other post-employment benefits

The cost of defined benefit pension plans and other post-employment benefits and the present value of the obligation are determined using actuarial valuations. An actuarial valuation involves making various assumptions which include the determination of the discount rate, future salary increases, mortality rates and projected retirement age. Due to the complexity of the valuation, the underlying assumptions and its long-term nature, a defined benefit obligation is highly sensitive to changes in these assumptions. Further details about the assumptions used are provided in note 28.

d) Allowance for doubtful accounts

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

e) Impairment of non-financial assets

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

The Company evaluates each asset or CGU at each Consolidated Balance Sheet date to determine if any indicators of impairment or impairment reversal exist. When completing an impairment test, the Company calculates the estimated recoverable amount of CGUs, which requires management to make estimates and assumptions with respect to items such as future production levels, operating and capital costs, long-term commodity prices, foreign exchange rates and discount rates.

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

These estimates and assumptions are subject to risk and uncertainty. Therefore, there is a possibility that changes in circumstances will have an impact on these projections, which may impact the recoverable amount of assets or CGUs.

f) Income taxes

The Company is subject to income taxes in Canada. Significant estimates are required in determining the provision for income taxes. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the current and deferred income tax assets and liabilities in the period in which such determination is made. Refer to note 27 for the carrying value of current and deferred income tax assets and liabilities.

5. RESTRICTED CASH

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

As at		**December 31, 2020**		December 31, 2019
Ontario Ministry of the Environment, Conservation and Parks [1]		**6**		6
Receivables purchase agreement [2]		**2**		—
Other		**—**		2
Restricted cash	**$**	**8**	$	8

[1] Represents deposits associated with the Company's environmental obligations recorded within provisions on the Consolidated Balance Sheets.
[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 6. Under the terms of the receivables purchase agreement, Stelco is required to administer and remit these deposits to the Schedule II bank.

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

6. TRADE AND OTHER RECEIVABLES

As at		**December 31, 2020**		December 31, 2019
Trade receivables [1]	**$**	**171**	$	152
Other receivables		**12**		6
Total trade and other receivables	**$**	**183**	$	158

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

Trade and other receivables

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

As at December 31, 2020 and 2019, the aging of trade receivables and other receivables is as follows:

				Past due but not impaired			
As at		**Total**	**Current**	**< 31 days**	**31 - 60 days**	**61 - 90 days**	**>91 days**
December 31, 2020	**$**	**183**	**182**	**1**	**—**	**—**	**—**
December 31, 2019	$	158	155	3	—	—	—

Refer to note 29 for further details of the Company's credit risk management.

Receivables Purchase Agreement (RPA)

In June 2019, Stelco entered into an 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);

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

ii) scheduled fixed date settlements; and

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

As at December 31, 2020, Stelco's available purchase limit remaining under the RPA was $19 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 year ended December 31, 2020, the Company recorded $0.9 million (December 31, 2019 - $1 million) in bank fees in connection with the RPA within finance costs on the Consolidated Statements of Income (Loss).

7. INVENTORIES

As at		**December 31, 2020**		December 31, 2019
Raw materials	**$**	**409**	$	355
Semi-finished products		**80**		98
Finished products [1]		**18**		28
Spare parts		**2**		2
Total inventories	**$**	**509**	$	483

[1] Includes a provision to reflect inventories at the lower of cost or net realizable value of nil as at December 31, 2020 (December 31, 2019 - $2 million).

Refer to note 22 for the cost of inventories recognized within cost of goods sold.

8. PREPAID EXPENSES AND DEPOSITS

As at		**December 31, 2020**		December 31, 2019
Commodity-based swap margin deposits [1]	**$**	**20**	$	—
Advance payments to vendors		**8**		4
Prepaid insurance		**4**		4
Total prepaid expenses and deposits	**$**	**32**	$	8

[1] Represents cash deposits paid to a U.S.-based financial institution in connection with certain commodity-based swaps outstanding at December 31, 2020, refer to note 14 for further details. The margin deposits were based on the difference between the outstanding commodity-based swaps' fair value and specific credit requirements from the U.S.-based financial institution counterparty.

9. 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.

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 until January 31, 2027.

Stelco paid US$100 million in aggregate cash consideration for the Option (the Initial Consideration), in five US$20 million installments, with the first installment paid upon closing of the Option Agreement, and the remaining installments paid on June 30, 2020, September 1, 2020, October 30, 2020 and December 31, 2020, respectively. If and when the Option is exercised, Stelco would pay an exercise price of US$500 million.

The Option is recorded as 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 then outstanding. At December 31, 2020, the Option's fair value of $133 million was estimated using the Black-Scholes option pricing model, which included the impact from the Initial Consideration of $133 million recorded on the Consolidated Statement of Cash Flows.

The Company's Black-Scholes option pricing model, included the following type of inputs and assumptions:

Inputs	**Description**	**Relationships between key unobservable inputs and fair value measurement**
Estimated fair value of mine asset	Based on a discounted cash flow model.	Increase (decrease) of estimated mine asset price would increase (decrease) the estimated fair value, respectively.
Expected mine asset price volatility	Based on historical equity volatility of publicly traded comparable companies combined with factors such as debt to equity ratios to estimate asset volatility.	Increase (decrease) of expected mine asset price volatility would increase (decrease) the estimated fair value, respectively.
Expected risk-free interest rate	Based on seven year U.S. Treasury bond interest rate.	Increase (decrease) of expected risk-free interest would increase (decrease) the estimated fair value, respectively.
Expected Option life	Based on maximum contractual term of the Option.	Increase (decrease) of expected option life would increase (decrease) the estimated fair value, respectively.

To estimate the fair value of the mine asset, the Company uses a discounted cash flow model which includes the projected future cash flows generated from the mine asset along with following inputs and assumptions:

Inputs	**Description**	**Relationships between key unobservable inputs and fair value measurement**
Iron ore prices	Based on the expected long-term iron ore price in the Great Lake region.	Increase (decrease) of iron ore prices would increase (decrease) the estimated fair value, respectively.
Discount rate	Based on a weighted average cost of capital of selected iron ore producing companies.	Increase (decrease) of the discount rate would decrease (increase) the estimated fair value, respectively.

The following table summarizes the sensitivity impact to the Option fair value from a change in certain assumptions used in the Black-Scholes option pricing model, assuming all other inputs remains unchanged:

As at December 31, 2020	**Change**	**Increase**	**Decrease**
Estimated fair value of mine asset	**1 %**	**$ 3**	**$ (3)**
Expected mine asset price volatility	**1 %**	**4**	**(4)**
Risk-free interest rate	**25 bps**	**3**	**(3)**
Expected Option life	**1 %**	**1**	**(1)**

The Company's valuation policies for Level 3 derivatives are an integral part of its internal control procedures and have been reviewed and approved according to the Company’s principles for establishing such procedures. In particular, such procedures address the accuracy and reliability of input data, the valuation model and the knowledge of the staff performing the valuations. Refer to note 32 for a further discussion of valuation techniques and inputs used in estimating the Option's fair value at December 31, 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 on the Consolidated Statements of Income (Loss).

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

10. PROPERTY, PLANT AND EQUIPMENT

Cost	**Land**	**Buildings**	**Machinery and equipment**	**Vehicles**	**Assets under leases**	**Construction in progress**	**Total**
As at December 31, 2018	$ 93	$ 26	$ 298	$ 8	$ 8	$ 61	$ 494
IFRS 16 adjustment [1]	—	—	—	—	9	—	9
Additions	17	4	12	—	39	183	255
Transfers	—	11	110	1	—	(122)	—
Disposals and other	—	—	(4)	—	(2)	—	(6)
Spare parts reclassified as equipment [2]	—	—	11	—	—	—	11
As at December 31, 2019	$ 110	$ 41	$ 427	$ 9	$ 54	$ 122	$ 763
Additions	1	1	10	—	9	234	255
Transfers	—	1	159	1	—	(161)	—
Write-down of construction in progress [3]	—	—	—	—	—	(5)	(5)
Disposals and other	—	—	(31)	—	—	2	(29)
Strategic Innovation Fund contribution	—	—	(7)	—	—	(1)	(8)
As at December 31, 2020	**$ 111**	**$ 43**	**$ 558**	**$ 10**	**$ 63**	**$ 191**	**$ 976**

1 On January 1, 2019, in connection with the adoption of IFRS 16, *Leases*, the Company recorded a $9 million increase to property, plant and equipment and other liabilities on the Consolidated Balance Sheet, respectively, relating to certain equipment leases that were previously classified as operating leases and disclosed as off-balance sheet commitments as at December 31, 2018.
2 Represents machinery spare parts that contain capital attributes including, but not limited to, future benefit to the Company for a period greater than 12 months. On January 1, 2019, these items were reclassified from spare parts inventory to equipment.
3 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 2020, the Company recognized a $5 million write-down charge in connection with these construction in progress assets, recorded within restructuring and other costs on the Consolidated Statements of Income (Loss).

Accumulated depreciation	**Land**	**Buildings**	**Machinery and equipment**	**Vehicles**	**Assets under leases**	**Construction in progress**	**Total**
As at December 31, 2018	$ —	$ —	$ 44	$ 1	$ 1	$ —	$ 46
Depreciation	—	1	39	1	10	—	51
Disposals and other	—	—	(2)	—	(2)	—	(4)
As at December 31, 2019	$ —	$ 1	$ 81	$ 2	$ 9	$ —	$ 93
Depreciation [4]	—	1	57	1	7	—	66
Disposals and other	—	—	(28)	—	—	—	(28)
As at December 31, 2020	**$ —**	**$ 2**	**$ 110**	**$ 3**	**$ 16**	**$ —**	**$ 131**
Net book value							
As at December 31, 2020	**$ 111**	**$ 41**	**$ 448**	**$ 7**	**$ 47**	**$ 191**	**$ 845**
As at December 31, 2019	$ 110	$ 40	$ 346	$ 7	$ 45	$ 122	$ 670

4 During the year ended December 31, 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.

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

Assets under leases

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

Years ended December 31,		**2020**		2019
Balance, beginning of year	**$**	**45**	$	7
Additions		**9**		39
Depreciation		**(7)**		(10)
IFRS 16 adjustment		**—**		9
Balance, end of year	**$**	**47**	$	45

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

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 on 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 year ended December 31, 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.

Acquisition of Land and Buildings

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

11. INTANGIBLE ASSETS

Intangible assets includes an indefinite life trademark with a carrying value of $7 million (December 31, 2019 - $7 million), recognized by the Company in connection with Bedrock's acquisition of Stelco Inc. on June 30, 2017.

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

12. 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		**December 31, 2020**		December 31, 2019
Current assets	**$**	**23**	$	30
Non-current assets		**6**		6
Current liabilities		**(10)**		(10)
Non-current liabilities		**(22)**		(21)

Statement of loss of the joint ventures

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

Years ended December 31,		**2020**		2019
Net revenue	**$**	**77**	$	83
Depreciation		**(1)**		(1)
Net loss		**(9)**		(5)

Equity investment in the joint ventures

Years ended December 31,		**2020**		2019
Balance, beginning of year	**$**	**3**	$	6
Share of loss from joint ventures [1]		**(1)**		(3)
Balance, end of year	**$**	**2**	$	3

[1] For the year ended December 31, 2020, share of loss excluded approximately $3 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) until the carrying amount of Stelco's equity interest in the respective joint venture is reduced to nil.

13. TRADE AND OTHER PAYABLES

As at		**December 31, 2020**		December 31, 2019
Inventory monetization arrangement	**$**	**389**	$	267
Trade payables		**276**		176
Payables to related parties [1]		**3**		1
Total trade and other payables	**$**	**668**	$	444

[1] Refer to note 35 for details.

Inventory monetization arrangement (IMA)

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

The weighted average finance rate for the IMA for the year ended December 31, 2020 was 4.74% (December 31, 2019 - 5.09%), and related finance costs of $14 million (December 31, 2019 - $10 million) are recorded on the Consolidated Statements of Income (Loss). The IMA is secured by inventory with a carrying value of $408 million (December 31, 2019 - $351 million) serving as collateral.

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

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

Years ended December 31,		**2020**		2019
Balance, beginning of year	**$**	**267**	$	216
Proceeds, net of repayments		**135**		63
Foreign exchange gain		**(13)**		(12)
Balance, end of year	**$**	**389**	$	267

Amendment to the IMA

In October 2020, Stelco entered into an amended IMA, which included the following significant terms:

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

ii) adjusted volume limits of eligible inventory, 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 3.50%);

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

vi) an option for the counterparty to extend the minimum term to 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, extended or renewed, amounts advanced under the amended IMA 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 years ended December 31, 2020 and 2019.

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.

14. DERIVATIVE LIABILITIES

Commodity-based swaps

During the year ended December 31, 2020, Stelco Inc. entered into a series of 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 December 31, 2020, Stelco's commodity-based swap liability was $84 million and included the following outstanding contracts:

Trade date	Commodity type	Trade type	Notional quantity [1]	Maturity date
September 10, 2020	Hot-Rolled Coil	Sell	25,000	December 31, 2020 [2]
September 11, 2020	Hot-Rolled Coil	Sell	25,000	December 31, 2020 [2]
September 24, 2020	Hot-Rolled Coil	Sell	25,000	January 31, 2021
October 1, 2020	Hot-Rolled Coil	Sell	15,000	February 28, 2021
October 7, 2020	Hot-Rolled Coil	Sell	15,000	March 31, 2021
October 7, 2020	Hot-Rolled Coil	Sell	5,000	March 31, 2021
October 13, 2020	Hot-Rolled Coil	Sell	10,000	January 31, 2021
October 13, 2020	Hot-Rolled Coil	Sell	10,000	January 31, 2021
October 22, 2020	Hot-Rolled Coil	Sell	25,000	February 28, 2021
November 6, 2020	Hot-Rolled Coil	Sell	10,000	February 28, 2021
November 10, 2020	Hot-Rolled Coil	Sell	15,000	March 31, 2021

[1] In net tons.
[2] These commodity-based swaps were outstanding at December 31, 2020 and cash settled during January 2021.

Refer to note 24 for further details. Stelco did not enter into these contracts for trading or speculative purposes.

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

Foreign exchange forward contracts

In connection with the Initial Consideration for the Option (further discussed in note 9), 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 year ended December 31, 2020, the Company recorded a $6 million foreign exchange loss within finance costs on the Consolidated Statements of Income (Loss) in connection with these contracts. Stelco did not enter into these contracts for trading or speculative purposes.

15. OTHER LIABILITIES

As at		**December 31, 2020**		December 31, 2019
Lease obligations	**$**	**48**	$	47
Salaries and benefits payable		**26**		24
Post-employment benefits [1]		**8**		8
Boiler project financing arrangement		**7**		—
Deferred income		**4**		—
Strategic Innovation Fund payable [2]		**4**		—
Share-based compensation [3]		**4**		2
Interest payable		**1**		1
Other liabilities		**1**		—
Total other liabilities	**$**	**103**	$	82
Total current other liabilities	**$**	**44**	$	34
Total non-current other liabilities	**$**	**59**	$	48

1 Refer to note 28 for details.
2 Refer to note 10 for details.
3 Refer to note 20 for details.

Lease obligations

As at December 31, 2020, the Company had equipment lease obligations with a carrying value of $48 million (December 31, 2019 - $47 million). Refer to note 10 for details of the carrying value of the right-to-use assets related to these leases.

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

Years ended December 31,		**2020**		2019
Balance, beginning of year	**$**	**47**	$	8
Lease obligation payments		**(11)**		(11)
Additions		**9**		39
Accretion expense related to lease obligations		**3**		2
IFRS 16 adjustment [1]		**—**		9
Balance, end of year	**$**	**48**	$	47

1 On January 1, 2019, in connection with the adoption of IFRS 16, *Leases*, the Company recorded a $9 million increase to property, plant and equipment and other liabilities on the Consolidated Balance Sheet, respectively, relating to certain equipment leases that were previously classified as operating leases and disclosed as off-balance sheet commitments as at December 31, 2018.

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

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

As at		December 31, 2020
2021	$	11
2022		9
2023		9
2024		6
2025		5
Thereafter		21
Total future lease obligations payments	$	61
Less: future interest costs		(13)
Present value of lease obligations	$	48

Energy Services Agreement (ESA)

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 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 second half of 2022. Annual fixed payments to DTE will not commence until construction is complete and the Cogen Plant is operational.

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 December 31, 2020, advances outstanding under the boiler financing arrangement were $7 million.

Future payments are estimated to be as follows:

As at		December 31, 2020
2021	$	—
2022		1
2023		1
2024		1
2025		1
Thereafter		17
Total future payments	$	21
Less: amounts representing future finance costs		(14)
Carrying amount of boiler financing arrangement	$	7

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

16. ASSET-BASED LENDING FACILITY (ABL)

As at		**December 31, 2020**		December 31, 2019
Revolving	**$**	**29**	$	—
Non-revolving term loan		**99**		98
Asset-based lending facility		**128**		98
Current		**15**		8
Non-current	**$**	**113**	$	90

In June 2017, Stelco entered into an ABL agreement with a syndicate of lenders for a maximum credit facility of $375 million. The amount available to be drawn under the ABL varies from time to time, based upon a borrowing base determined with reference to eligible trade receivables and inventory, and excludes certain trade receivables that have been sold under the RPA and inventory that has been monetized under the amended IMA discussed further in note 13 to the Consolidated Financial Statements. At December 31, 2020, the amount available for advances under the ABL was $43 million (December 31, 2019 - $98 million), which reflects the available borrowing base less a minimum excess availability requirement of $30 million (December 31, 2019 - $50 million).

The weighted average finance rate for amounts drawn under the ABL for the year ended December 31, 2020 was 4.36% (December 31, 2019 - 4.78%). In addition, Stelco's outstanding letters of credit under this ABL were $33 million at December 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 years ended December 31, 2020 and 2019.

Amendments to the ABL agreement

In November 2019, Stelco entered into an amended ABL agreement to include the following significant items:

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

ii) term loan interest rate of either:

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

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

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

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

In June 2020, Stelco amended its ABL agreement which included the following significant amendments:

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 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 rate of 0.75%.

In November 2020, Stelco further amended its ABL agreement to extend the total minimum liquidity of $50 million through April 30, 2021 (previously December 31, 2020), consisting of excess availability under the ABL of at least $30 million and cash and cash equivalents of $20 million. The other terms of the ABL agreement have remained substantially similar to the agreement as modified in November 2019 for the addition of the non-revolving loan. The ABL's maturity date of August 16, 2023, remained unchanged from the amendments noted above.

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

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

Years ended December 31,		**2020**		2019
Balance, beginning of year	**$**	**98**	$	—
Advances from ABL:				
Revolving		**238**		81
Non-revolving term loan		**—**		100
Repayment of ABL - revolving		**(210)**		(81)
Foreign exchange on revolving term loan		**1**		—
Amortization of deferred transaction costs		**1**		—
Transaction costs		—		(2)
Balance, end of year	**$**	**128**	$	98

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

As at		**December 31, 2020**
2021		**15**
2022		**15**
2023		**70**
Total minimum future ABL non-revolving term loan principal payments	**$**	**100**
Less: deferred transaction costs		**(1)**
Carrying amount of ABL non-revolving term loan	**$**	**99**

17. OBLIGATIONS TO INDEPENDENT EMPLOYEE TRUSTS

As at		**December 31, 2020**		December 31, 2019
Employee benefit commitment	**$**	**388**	$	395
Mortgage payable		**110**		112
Obligations to independent employee trusts		**498**		507
Current		**36**		35
Non-current	**$**	**462**	$	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's future operating performance and the utilization of specific tax attributes. The obligations to independent employee trusts includes both the employee benefit commitment, entered into as part of Stelco's CCAA reorganization on June 30, 2017, as amended, and a mortgage assumed in connection with the acquisition of the Lands described further below.

Employee benefit commitment

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

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

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

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

Due to the nature of the underlying assumptions and long-term estimates, the employee benefit commitment is highly sensitive to changes in these assumptions. Estimates of expected cash flows are revisited at the end of each Consolidated Balance Sheet date to determine amortized cost. Refer to note 25 for remeasurements of the employee benefit commitment recorded in finance costs on the Consolidated Statements of Income (Loss), as a result of changes in estimates and assumptions related to this obligation.

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

Years ended December 31,		**2020**		2019
Balance, beginning of year	**$**	**395**	$	478
Accretion expense		**37**		41
Remeasurement recovery		**(12)**		(26)
Cash payments		**(32)**		(98)
Balance, end of year	**$**	**388**	$	395

Future employee benefit commitment payments are estimated as follows:

As at		**December 31, 2020**
2021	**$**	**34**
2022		**53**
2023		**51**
2024		**54**
2025		**46**
Thereafter		**552**
Total estimated employee benefit commitment payments	**$**	**790**
Less: amounts representing future finance costs		**(402)**
Present value of employee benefit commitment	**$**	**388**

Mortgage payable

On June 5, 2018, Stelco completed the acquisition of land and buildings beneficially owned by the Land Vehicle on which Stelco conducts its operations in Hamilton and Nanticoke, Ontario, including lands in Hamilton that contain the Hamilton Works blast furnace and cast houses, as well as developable lands and port facilities (collectively, the Lands). The Lands were acquired for approximately $114 million which was financed by Stelco through a 25-year, 8% per annum mortgage payable as purchase consideration to the Land Vehicle, which is payable through quarterly fixed payments of approximately $2.7 million over the term. In connection with the acquisition of Lands from the Land Vehicle, the properties (land and buildings) acquired serve as security for Stelco's mortgage payable and certain obligations in respect of the amended EBC.

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

Years ended December 31,		**2020**		2019
Balance, beginning of year	**$**	**112**	$	113
Interest costs		**9**		9
Cash payments		**(11)**		(10)
Balance, end of year	**$**	**110**	$	112

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

As at		**December 31, 2020**
2021	**$**	**11**
2022		**11**
2023		**11**
2024		**11**
2025		**11**
Thereafter		**183**
Total future mortgage payments	**$**	**238**
Less: amounts representing future finance costs		**(128)**
Carrying amount of mortgage payable	**$**	**110**

18. PROVISIONS

Provisions include an environmental remediation provision with a carrying value of $6 million (December 31, 2019 - $6 million), in connection with waste generated from steel making operations subsequent to June 30, 2017. Stelco is required to remediate the sites where this waste is held pursuant to requirements of the Ontario Ministry of Environment, Conservation and Parks (MECP). The Company recorded $0.6 million in net income on the Consolidated Statement of Income (Loss) in connection with this provision during the year ended December 31, 2020.

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

19. SHARE CAPITAL

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

As at		**December 31, 2020**		December 31, 2019
Common shares				
Outstanding (in thousands)		**88,713**		88,713
Carrying amount	**$**	**512**	$	512

Dividends to common shareholders

During the years ended December 31, 2020 and 2019, Stelco Holdings declared and paid ordinary dividends to common shareholders in aggregate amounts of $9 million and $36 million, respectively, or $0.10 and $0.40 per common share, respectively. 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. Refer to note 9 for details.

Subsequent to December 31, 2020, the Board of Directors declared a dividend of $0.10 per common share, payable on March 4, 2021, to shareholders of record as of February 26, 2021.

Normal Course Issuer Bid (NCIB)

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

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

20. SHARE-BASED COMPENSATION

Long-term incentive plan

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

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

For the year ended December 31, 2020, the Company recorded a share-based compensation expense of $4 million (December 31, 2019 - $2 million) in selling, general and administrative expenses on the Consolidated Statements of Income (Loss) related to the vesting of awards granted under the LTIP.

Restricted share units

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

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

On March 20, 2020, 73,529 RSUs were granted to a certain member of the Company’s ELT, 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.

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

(RSUs in total) Years ended December 31,	**2020**	2019
Balance, beginning of year	**6,313**	34,528
Granted	**73,578**	65,440
Cash-settled	**(2,710)**	(17,625)
Forfeited	**—**	(76,030)
Balance, end of year [1]	**77,181**	6,313

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

As at December 31, 2020, there were 77,181 RSUs outstanding (December 31, 2019 - 6,313) with an estimated fair value of $22.73 per RSU (December 31, 2019 - $10.91 per RSU) under the Company's LTIP, for which the Company recognized a liability of $0.9 million (December 31, 2019 - nil) in other liabilities.

Share options

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

On January 10, 2019, 1,500,000 Share Options were granted and issued to certain members of the ELT with an exercise price of $14.59. Two-thirds of the Share Options were to vest on January 10, 2020, with the remaining one-third to vest on

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

January 10, 2021. The Company accounts for Share Options by estimating the fair value of each tranche of an award at the grant date and subsequently recognizing the compensation expense over the vesting period.

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

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

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

(Share Options in total) Years ended December 31,		**2020**		2019
Balance, beginning of year		**1,000,000**		—
Granted		**—**		1,500,000
Exercised		**(666,667)**		—
Forfeited		**(333,333)**		(500,000)
Balance, end of year		**—**		1,000,000
Fair value of outstanding Share Options, end of year (per Share Option)	**$**	**—**	$	1.75

For the years ended December 31, 2020 and 2019, 333,333 and 500,000 Share Options, respectively, were forfeited in connection with the resignation of certain ELT members from Stelco Holdings. During December 2020, 666,667 vested Share Options were surrendered for cash in accordance with the Company's LTIP for approximately $2.3 million. As at December 31, 2019, Company recorded a Share Option liability of $1.5 million in other liabilities.

Stock appreciation right awards

Under the terms of the LTIP, stock appreciation right awards (SARs) may be issued to eligible participants as may be designated by the Board of Directors from time to time. SARs granted under the Company's LTIP represents the participant's right to receive a cash award payment equal to the fair value (at the time of exercise) of the Company's common share over the grant date SAR base price, with graded vesting over three years. The Company accounts for SARs by estimating the fair value of each tranche of an award at the grant date and subsequently recognizing the compensation expense over the vesting period. These awards are exercisable for up to ten years from the grant date and are settled in cash within 30 days of their exercise.

During the year ended December 31, 2020, the Company granted and issued SARs under the LTIP to certain employees, including a member of the Company's ELT, with one-third of the total grant amount vesting on each of the first three anniversaries of the grant date.

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

The Black-Scholes option-pricing model assumptions used to estimate the fair value of the SARs at the respective dates are 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 dividend yield		9.8%		—%
Expected share price volatility		53.0%		52.0%
Expected SAR life (years)		6.00		6.00
Grant date fair value of SARs granted (per SAR)	$	0.78	$	4.44
As at December 31, 2020:				
SARs outstanding (in total) [1]		100,000		50,000
Expected risk-free interest rate		0.4%		0.4%
Expected dividend yield		—%		—%
Expected share price volatility		52.0%		52.0%
Expected SAR life (years)		5.25		5.75
Fair value of SARs outstanding (per SAR)	$	19.04	$	15.81

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

As at December 31, 2020, there were 150 thousand SARs outstanding (December 31, 2019 - nil), for which the Company recognized a liability of $1.1 million (December 31, 2019 - nil) in other liabilities.

Deferred share units

Stelco Holdings has a deferred share unit (DSU) plan for the independent members of its Board of Directors which provides that each independent director receives, on each date that the director retainer fees are payable, an amount of DSUs which the director has elected relative to their respective fee entitlement. Each independent director can elect annually to receive a specified percentage of their respective direct retainer fee entitlement as DSUs. The number of DSUs granted to an independent director is based on the closing price of the common shares of Stelco Holdings on the Toronto Stock Exchange (TSX) on the grant date. Dividends declared on common shares accrue to the DSU holder in the form of additional DSUs. At such time as an independent director ceases to be a director of the Company, Stelco Holdings will make a cash payment to the applicable director in respect of the total amount of the issued and outstanding DSUs held by such director based on the fair market value of the common shares of Stelco Holdings at such time. As at December 31, 2020, there were 104,538 vested and outstanding DSUs (December 31, 2019 - 39,445), for which the Company recognized a liability of approximately $2.4 million (December 31, 2019 - $0.4 million) in other liabilities.

21. REVENUE FROM SALE OF GOODS

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

Years ended December 31,		**2020**		2019
Steel products	**$**	**1,425**	$	1,782
Non-steel products		**92**		59
Total	**$**	**1,517**	$	1,841

Revenue by geographical location is comprised of:

Years ended December 31,		**2020**		2019
Canada	**$**	**1,134**	$	1,382
United States and other		**383**		459
Total	**$**	**1,517**	$	1,841

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

22. COST OF GOODS SOLD

Cost of goods sold is comprised of:

Years ended December 31,		**2020**		2019
Cost of inventories:				
Steel products	**$**	**1,293**	$	1,596
Non-steel products		**69**		39
Fixed overhead and other costs [1]		**48**		59
Depreciation [2]		**66**		51
Total	**$**	**1,476**	$	1,745

[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 10 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 June 2021, and for the year ended December 31, 2020, the Company recorded a $46 million reduction to cost of goods sold in connection with the CEWS.

23. SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

Selling, general and administrative expenses is comprised of:

Years ended December 31,		**2020**		2019
Employee salary and benefits expense [1]	**$**	**14**	$	17
Professional, consulting and legal fees		**15**		9
Management fees [2]		**7**		6
Share-based compensation expense [3]		**4**		2
Enterprise resource planning system		**—**		6
Other [4]		**8**		6
Total	**$**	**48**	$	46

[1] For the year ended December 31, 2020, the Company recorded a $2 million reduction to employee salary expense in connection with the CEWS. Refer to note 22 for further details.
[2] Refer to note 35 for details.
[3] Refer to note 20 for details.
[4] Includes corporate, public company and travel related expenses.

24. FINANCE AND OTHER INCOME (LOSS)

Finance and other income (loss) comprised of:

Years ended December 31,		**2020**		2019
Loss on commodity-based swaps, net	**$**	**(90)**	$	—
Finance income		**2**		6
Other income		**1**		1
Total	**$**	**(87)**	$	7

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. The swap contract settled during May 2020 and the Company recorded a $3 million gain within finance and other income (loss) on the Consolidated Statements of Income (Loss) during the year ended December 31, 2020.

In addition, Stelco Inc. entered into a series of 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. During the year ended December 31, 2020, the Company recorded a $93 million loss within finance and other income (loss) on the Consolidated Statements of Income (Loss) in connection with these swap contracts.

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

Loss on commodity-based swaps, net is comprised of the following items:

Year ended December 31,		**2020**
Realized loss on settled or terminated swap contracts, net	**$**	**(6)**
Changes in unrealized loss on unsettled and outstanding swap contracts		**(84)**
Total	**$**	**(90)**

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

25. FINANCE COSTS

Finance costs are comprised of:

Years ended December 31,		**2020**		2019
Accretion of employee benefit commitment	**$**	**37**	$	41
Interest on loans and borrowings		**32**		24
Foreign exchange gain		**(9)**		(13)
Remeasurement of employee benefit commitment [1]		**(12)**		(26)
Accretion expense related to lease obligations		**3**		2
Total	**$**	**51**	$	28

1 Remeasurement of employee benefit commitment for change in the timing and magnitude of estimated cash flows and future funding requirements. Refer to note 17 for further details.

26. RESTRUCTURING AND OTHER COSTS

Years ended December 31,		**2020**		2019
Demolition costs [1]	**$**	**7**	$	—
Write-down of construction in progress [2]		**5**		—
Employee termination benefits [3]		**—**		5
Consulting costs		**—**		1
Other		**1**		—
Total	**$**	**13**	$	6

1 Represents demolition costs for certain buildings (and other assets) not connected to the Company's ongoing operations.
2 Refer to note 10 for details.
3 Represents employee termination benefits in connection with the Company's voluntary early retirement plan, consisting of employee termination benefits and consulting costs.

27. INCOME TAXES

The major components of income tax expense are as follows:

Years ended December 31,		**2020**		2019
Deferred income tax:				
Origination and reversal of temporary differences	**$**	**(40)**	$	6
Previously unrecognized deferred tax assets		**40**		(6)
Income tax expense	**$**	**—**	$	—

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

Reconciliation of Effective Tax Rate:

Years ended December 31,		**2020**		2019
Income (loss) before income taxes	**$**	**(159)**	$	20
Combined Canadian federal and provincial income tax rate		**25 %**		25 %
Income tax expense (recovery) based on statutory rate		**(40)**		5
Increase (decrease) in income taxes resulting from non-taxable items or adjustments of prior period taxes:				
Permanent differences:				
Other		**—**		1
Unrecognized deferred tax assets		**40**		(6)
Income tax expense	**$**	**—**	$	—

Deferred tax

Reconciliation of movements in the deferred tax asset (liability):

As at		**December 31, 2020**		Movement		December 31, 2019		Movement		December 31, 2018
Employee benefit commitment	**$**	**101**	$	(1)	$	102	$	(20)	$	122
Non-capital and capital loss carry-forwards		**102**		4		98		3		95
Deductible SRED expenditures		**9**		—		9		—		9
Financing fee		**2**		—		2		(1)		3
Provisions		**3**		1		2		2		—
Impairment provision of investment in subsidiaries		**3**		1		2		—		2
Plant and equipment		**31**		16		15		9		6
Commodity based swaps		**21**		21		—		—		—
Right-of-use assets		**(12)**		—		(12)		(12)		—
Right-of-use liabilities		**12**		—		12		12		—
Other		**2**		2		—		—		—
Deferred tax assets not recognized		**(274)**		(44)		(230)		7		(237)
Net deferred tax asset	**$**	**—**	$	—	$	—	$	—	$	—

Non-capital loss carry forwards:

As at		**December 31, 2020**		December 31, 2019
2034	**$**	**136**	$	136
2035		**238**		238
2037		**2**		2
2038		**4**		4
2039		**14**		13
2040		**13**		—
Total	**$**	**407**	$	393

Other tax attributes

As at December 31, 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 $821 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.

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

28. PENSION AND OTHER POST-EMPLOYMENT BENEFITS

Net employee defined benefit liabilities, pension and other benefits:

As at		December 31, 2020		December 31, 2019
Defined benefit pension plans	$	(11)	$	(7)
Other post-employment benefit plans [1]		(8)		(8)
Total	$	**(19)**	$	(15)

[1] The other post-employment benefits is recorded within other liabilities, refer to note 15.

Defined benefit pension plans

On January 1, 2018, defined benefit pension plans were established for certain active hourly employees of Stelco Inc. on substantially the same terms as those contained in the main pension plans for the Hamilton Bargaining Unit Plan, the Lake Erie Bargaining Unit Plan and the Pickle Line Plan that were settled as part of the CCAA reorganization. Under the special regulation under the *Pension Benefits Act* (Ontario), Stelco Inc. is required to make annual contributions to the new pension plans for the years 2018 to 2027 inclusive. Required contributions for years 2018 through 2023 are approximately $4 million annually and decline to approximately $3 million annually for years 2024 through 2027. After 2027, these plans are subject to the *Pension Benefits Act* (Ontario) including, applicable solvency funding requirements. Actuarial valuation reports were prepared for each plan as at December 31, 2020.

Other post-employment benefit plans

Stelco sponsors an unfunded compensated absence plan that provides non-pension benefits and is the administrator of the plan. Funded Status and other post-employment benefit reports for the compensated absences plan (Hamilton and Lake Erie) are prepared based on projections of employees' compensation levels to the time of retirement and future health care costs based on management's best estimate. Expected contributions to the compensated absences plan during 2021 are approximately $1 million.

Net benefit expense

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

Years ended December 31,		2020		2019
Defined benefit pension plans - service costs and finance costs	$	7	$	7
Other post employment benefit plans - service costs and finance costs		1		1
Net benefit expense	$	**8**	$	8

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

Years ended December 31,		2020		2019
Defined benefit pension plans:				
Change in economic assumptions	$	2	$	2
Return on plan assets		(1)		—
Remeasurement effects recognized in OCI	$	**1**	$	2

Reconciliation of defined benefit obligations

	Defined benefit pension plans				Other post-employment benefit plans			
Years ended December 31,		2020		2019		2020		2019
Balance, beginning of year	$	(15)	$	(6)	$	(8)	$	(7)
Net benefit expense		(7)		(7)		(1)		(1)
Benefits paid		1		—		1		1
Actuarial loss		(2)		(2)		—		(1)
Balance, end of year	$	(23)	$	(15)	$	(8)	$	(8)

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

Reconciliation of fair value of plan assets

	Defined benefit pension plans		Other post-employment benefit plans	
Years ended December 31,	**2020**	2019	**2020**	2019
Balance, beginning of year	**$ 8**	$ 4	**$ —**	$ —
Employer contributions	**4**	4	**1**	1
Actuarial gain	**1**	—	**—**	—
Benefits paid	**(1)**	—	**(1)**	(1)
Balance, end of year	**$ 12**	$ 8	**$ —**	$ —
Defined benefit obligation, net	**$ (11)**	$ (7)	**$ (8)**	$ (8)

Categories of plan assets:

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

	Defined benefit pension plans	
As at December 31,	**2020**	2019
Securities:		
Equity	**55 %**	55 %
Debt	**42 %**	44 %
Cash	**3 %**	1 %
	100 %	100 %

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

Actuarial assumptions

The following key assumptions were used to determine the benefit obligations at December 31, 2020 and 2019:

	Defined benefit pension plans		Other post-employment benefit plans	
As at December 31,	**2020**	2019	**2020**	2019
Discount rate	**2.8 %**	3.2 %	**2.5 %**	3.1 %
Future salary growth	**3.0 %**	3.0 %	**3.0 %**	3.0 %
Mortality	**CPM2014 Private table, Scale CPM-B with size adjustments**	CPM2014 Private table, Scale CPM-B with size adjustments	**CPM2014 Private table, Scale CPM-B with size adjustments**	CPM2014 Private table, Scale CPM-B with size adjustments
Average duration of the obligation	**20 years**	20 years	**8 years**	8 years

Sensitivity analysis

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

	2020		2019	
As at December 31,	**Increase**	**Decrease**	Increase	Decrease
Discount rate (0.25% movement)	**$ (1.3)**	**$ 1.4**	$ (0.9)	$ 0.9
Future salary growth (0.5% movement)	**0.5**	**(0.4)**	0.3	(0.3)

29. RISK MANAGEMENT

The Company's activities expose it to a variety of financial risks including price risk, foreign currency risk, interest rate risk, credit risk, liquidity risk and risks related to pensions. For a discussion of other risks the Company is exposed to, refer to the heading '*Risk Factors'* in the Annual Information Form of Stelco Holdings dated February 17, 2021, and filed under the Company's SEDAR profile at www.sedar.com. The Company's senior management oversees the management of these risks, as summarized below.

Price risk

The Company is exposed to price risk related to purchases of certain commodities used as raw materials, including iron ore and metallurgical coal. The Company may use fixed price contracts with suppliers to mitigate commodity price risk. Specifically, Stelco has entered into an agreement with U.S. Steel to purchase all of its iron ore requirements at fixed prices up to a specified amount through January 31, 2028. Refer to note 9 for further details. In addition during January 2021, Stelco entered into fixed price coal contracts with third party suppliers for fiscal 2021 purchases, reducing Stelco's commodity price risk in connection with this raw material.

In addition, the Company may use derivative instruments, such as non-exchange traded over-the-counter swaps, to manage its exposure to hot-rolled coil steel market price volatility in connection with existing and future sales orders from customers. As at December 31, 2020, the Company had commodity-based swap contracts with an aggregate notional quantity of 180 thousand net tons outstanding, and a 10% increase in the price of hot-rolled coil (U.S. Midwest Domestic Hot-Rolled Coil Steel (CRU) Index), assuming foreign exchange remains unchanged, would result in approximately $16 million decrease in the Company's net income. Refer to note 14 for further details.

Foreign currency risk

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

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

As at December 31, 2020, a 1% strengthening in the Canadian dollar would have resulted in a $5 million increase in net income (December 31, 2019 - $2 million increase) from translating foreign currency denominated monetary assets and liabilities balances, assuming all other variables remain unchanged, and a 1% weakening in the Canadian dollar would have resulted in a $5 million decrease in net income (December 31, 2019 - $2 million decrease).

Interest rate risk

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

The Company's financial instruments subject to interest rate risk primarily included the ABL and inventory monetization arrangement, as both arrangements contain finance costs based on variable interest rates. As at December 31, 2020, the aggregate carrying value of the Company's ABL and inventory monetization arrangement was $517 million (December 31, 2019 - $365 million), and a 1% in increase in market interest rates would result in approximately $5 million decrease in the Company's net income (December 31, 2019 - $4 million decrease).

Credit risk

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

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

Trade receivables

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

As at December 31, 2020, five of the Company's customers made up 71% of the total trade accounts receivable. The Company's credit exposure to these customers was $121 million (December 31, 2019 - five customers at $100 million or 59% of total trade accounts receivable).

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

Concentration of credit

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

Liquidity risk

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

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

The following table includes the Company's gross contractual obligations as at December 31, 2020, which are expected to be payable in the following respective periods:

	Total	2021	2022-2023	2024-2025	Thereafter
Trade and other payables	$ 668	$ 668	$ —	$ —	$ —
Derivative liabilities	84	84	—	—	—
Other liabilities	128	42	22	16	48
Asset-based lending facility [1]	136	19	117	—	—
Obligations to independent employee trusts:					
Employee benefit commitment	790	34	104	100	552
Mortgage payable	238	11	22	22	183
	$ 2,044	$ 858	$ 265	$ 138	$ 783

[1] Includes interest payable on non-revolving term loan until maturity date.

Pensions - defined benefit plans

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

30. SUPPLEMENTAL CASH FLOW INFORMATION

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

Years ended December 31,		2020		2019
Changes in non-cash operating working capital:				
Trade and other receivables	**$**	**(25)**	$	94
Inventories		**(26)**		(26)
Prepaid expenses and deposits		**(24)**		20
Trade and other payables		**89**		(48)
Other liabilities		**7**		(11)
	$	**21**	$	29
Changes in other operating items:				
Provisions	**$**	**—**	$	1
Pension benefits		**3**		5
Employee benefit commitment		**(32)**		(98)
Foreign exchange and other		**(12)**		(14)
	$	**(41)**	$	(106)
Change in non-cash operating working capital and other operating items	**$**	**(20)**	$	(77)

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

Years ended December 31,		2020		2019
Capital expenditures and additions:				
Machinery, equipment and construction in progress	**$**	**253**	$	234
Land and buildings		**2**		21
Total capital expenditures and additions		**255**		255
Strategic Innovation Fund contribution		**(6)**		—
Capital expenditures and additions not affecting cash:				
Finance leases - machinery and equipment		**(9)**		(39)
Construction in progress and other capital additions included in trade and other payables		**(14)**		(6)
Capital expenditures on property, plant and equipment	**$**	**226**	$	210

31. NET INCOME (LOSS) PER SHARE

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

Years ended December 31,		2020		2019
Weighted average common shares outstanding (in thousands):				
Basic		**88,713**		88,746
Dilutive effect of outstanding common share options[1]		**—**		—
Diluted		**88,713**		88,746
Net income (loss) per common share:				
Basic	**$**	**(1.79)**	$	0.23
Diluted	**$**	**(1.79)**	$	0.23

[1] The dilutive effect of the Company's Option awards were calculated using the treasury stock method. For the year ended December 31, 2020, the calculation of diluted weighted average common shares outstanding excluded all outstanding Options, as they were anti-dilutive for the period. For the year ended December 31, 2019, the calculation of diluted weighted average common shares outstanding excluded all outstanding Options, as the exercise price of the outstanding Options was greater than the average market price of the Company's common shares.

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

32. FAIR VALUE OF FINANCIAL INSTRUMENTS

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

	2020		2019	
As at December 31,	**Carrying Value**	**Fair Value**	Carrying Value	Fair Value
Financial assets:				
Cash	**$ 59**	**$ 59**	$ 257	$ 257
Restricted cash	**8**	**8**	8	8
Trade and other receivables	**183**	**183**	158	158
Derivative asset	**133**	**133**	—	—
Financial liabilities:				
Trade and other payables	**$ 668**	**$ 668**	$ 444	$ 444
Derivative liabilities	**84**	**84**	—	—
Other liabilities	**103**	**103**	82	82
Asset-based lending facility	**128**	**128**	98	98
Obligations to independent employee trusts:				
Employee benefit commitment	**388**	**383**	395	404
Mortgage payable	**110**	**103**	112	114

The fair values of cash, restricted cash, trade and other receivables, and trade and other payables approximate their carrying amounts largely due to the short-term maturities of these instruments. The fair values of the lease liability, boiler project financing arrangement and Strategic Innovation Fund loan are estimated by discounting the future contractual cash flows at the cost of borrowing to the Company, which approximates their carrying values.

The fair value of the Company's derivative instruments, such as the Option, foreign exchange forward contracts and commodity-based swaps, are determined using certain valuation models when quoted market prices or third-party consensus pricing information is not available. Valuation models, such as discounted cash flow method or Black-Scholes option model, incorporates 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 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 fair value hierarchy of assets and liabilities measured at fair value on a recurring basis in the Consolidated Balance Sheets is as follows:

		2020			2019	
As at December 31,	**Level 1**	**Level 2**	**Level 3**	Level 1	Level 2	Level 3
Derivative asset [1]	**$ —**	**$ —**	**$ 133**	$ —	$ —	$ —
Derivative liabilities [2]	**—**	**84**	**—**	—	—	—

[1] Refer to note 9 for details.
[2] Refer to note 14 for details.

There were no transfers between Level 1, Level 2 or Level 3 during the years ended December 31, 2020 and 2019.

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

33. 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, and IMA, as well as all components of equity and is comprised as follows:

As at	**December 31, 2020**	December 31, 2019
Amounts drawn and outstanding under the:		
IMA	**$ 389**	$ 267
ABL	**129**	100
Amounts available for advances under the ABL	**43**	148
Total	**$ 561**	$ 515
Total equity	**281**	450
Total capital	**$ 842**	$ 965

34. 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, Consolidated Statements of Income (Loss), or Statements of Cash Flows.

Purchase commitments

At December 31, 2020, the Company had future commitments of approximately $76 million for capital expenditures, with the majority expected to be paid within 2021.

Secondary waste materials

In connection with the acquisition of the Lands as disclosed in note 17, Stelco Inc. assumed approximately 1.8 million metric tons of secondary waste materials. Stelco is assessing the future use requirements in respect of the Lands and will accrue a liability in the event that the future use of the Lands requires the Company to incur costs in connection with these waste materials.

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

35. RELATED PARTY TRANSACTIONS

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

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

Years ended December 31,	**2020**	2019
Purchases of services		
Joint ventures	**$ 12**	$ 17
Bedrock and its affiliates - management fees	**7**	6

As at	**December 31, 2020**	December 31, 2019
Amounts payable to related parties		
Joint ventures	**$ 1**	$ 1
Bedrock and its affiliates	**2**	—

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 ELT and the Board of Directors. The ELT 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 February 18, 2020, the Board appointed Heather Ross as Lead Director.

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

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.

Remuneration of the Company's Board of Directors and ELT for the respective periods is as follows:

	Board of Directors		**ELT**	
Years ended December 31,	**2020**	2019	**2020**	2019
Salaries and benefits	**$ 1**	$ 1	**$ 2**	$ 2
Management fees	—	6	**7**	—
Share-based compensation	**1**	—	**3**	2
	$ 2	$ 7	**$ 12**	$ 4