Unaudited Interim Condensed Consolidated Financial Statements

Stelco Holdings Inc.

Three months ended March 31, 2021 and 2020

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

As at	Note		**March 31, 2021**		December 31, 2020
Assets					
Current assets					
Cash		**$**	**47**	$	59
Restricted cash	*3*		**12**		8
Trade and other receivables	*4*		**271**		183
Inventories			**379**		509
Prepaid expenses and deposits	*5*		**20**		32
Total current assets		**$**	**729**	$	791
Non-current assets					
Derivative asset	*6*		**142**		133
Property, plant and equipment, net	*7*		**858**		845
Intangible assets			**8**		8
Investment in joint ventures			**2**		2
Deferred tax asset	*8*		**35**		—
Total non-current assets		**$**	**1,045**	$	988
Total assets		**$**	**1,774**	$	1,779
Liabilities					
Current liabilities					
Trade and other payables	*9*	**$**	**505**	$	668
Derivative liabilities	*10*		**29**		84
Other liabilities	*11*		**43**		44
Asset-based lending facility	*12*		**15**		15
Obligations to independent employee trusts	*13*		**36**		36
Total current liabilities		**$**	**628**	$	847
Non-current liabilities					
Provisions			**6**		6
Pension benefits			**12**		11
Other liabilities	*11*		**68**		59
Asset-based lending facility	*12*		**153**		113
Obligations to independent employee trusts	*13*		**516**		462
Total non-current liabilities		**$**	**755**	$	651
Total liabilities		**$**	**1,383**	$	1,498
Equity					
Common shares	*14*		**512**		512
Accumulated deficit			**(121)**		(231)
Total equity		**$**	**391**	$	281
Total liabilities and equity		**$**	**1,774**	$	1,779

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

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

Three months ended March 31,	Note		**2021**		2020
Revenue from sale of goods	*16*	**$**	**665**	$	445
Cost of goods sold	*17*		**484**		429
Gross profit		**$**	**181**	$	16
Selling, general and administrative expenses	*18*		**14**		9
Operating income		**$**	**167**	$	7
Other income (loss) and (expenses)					
Finance costs	*20*		**(66)**		(33)
Finance and other income (loss)	*19*		**(17)**		4
Restructuring and other costs			**—**		(1)
Share of loss from joint ventures			**—**		(1)
Income (loss) before income taxes		**$**	**84**	$	(24)
Deferred tax recovery	*8*		**35**		—
Net income (loss) and comprehensive income (loss)		**$**	**119**	$	(24)
Net income (loss) per common share					
Basic	*22*	**$**	**1.34**	$	(0.27)
Diluted	*22*	**$**	**1.34**	$	(0.27)

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

STELCO HOLDINGS INC.
UNAUDITED INTERIM CONDENSED 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	Accumulated deficit	Total equity
Balance, December 31, 2019		88,713	$ 512	$ (62)	$ 450
Changes during the period:					
Net loss		—	—	(24)	(24)
Dividends to common shareholders	*14*	—	—	(9)	(9)
Balance, March 31, 2020		88,713	$ 512	$ (95)	$ 417
Balance, December 31, 2020		88,713	$ 512	$ (231)	$ 281
Changes during the period:					
Net income		**—**	**—**	**119**	**119**
Dividends to common shareholders	*14*	**—**	**—**	**(9)**	**(9)**
Balance, March 31, 2021		**88,713**	**$ 512**	**$ (121)**	**$ 391**

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

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

Three months ended March 31,	Note	**2021**	2020
Operating activities			
Net income (loss)		**$ 119**	$ (24)
Items not affecting cash:			
Employee benefit commitment:			
Remeasurement cost (recovery)	*20*	**52**	(1)
Accretion expense	*20*	**9**	9
Deferred tax recovery	*8*	**(35)**	—
Depreciation		**16**	13
Change in unrealized loss (gain) on commodity-based swaps	*19*	**13**	(2)
Gain on derivative asset	*6*	**(9)**	—
Equity-settled share-based compensation	*15*	**—**	(1)
Share of loss from joint ventures		**—**	1
Change in non-cash working capital and other operating items	*21*	**(87)**	113
Cash provided by operating activities		**$ 78**	$ 108
Investing activities			
Capital expenditures on property, plant and equipment, net of Strategic Innovation Fund contribution	*21*	**(27)**	(43)
Change in restricted cash	*3*	**(4)**	1
Cash used in investing activities		**$ (31)**	$ (42)
Financing activities			
Repayment of inventory monetization arrangement, net	*9*	**(101)**	(113)
Asset-based lending facility:			
Advances from revolving, net	*12*	**45**	33
Repayment of non-revolving term loan	*12*	**(4)**	—
Proceeds from Strategic Innovation Fund loan	*7*	**8**	—
Advances under boiler project financing arrangement	*11*	**4**	—
Lease obligation principal payments	*11*	**(2)**	(2)
Dividends paid to common shareholders	*14*	**(9)**	(9)
Cash used in financing activities		**$ (59)**	$ (91)
Net decrease in cash		**(12)**	(25)
Cash, beginning of period		**59**	257
Cash, end of period		**$ 47**	$ 232
Cash flows provided by operating activities include:			
Interest paid		**$ 10**	$ 7
Interest received		**—**	1

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

NOTES TO UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

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

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 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 38.5% 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

Stelco Holdings' unaudited interim condensed consolidated financial statements (Interim Condensed Consolidated Financial Statements) have been prepared by management in accordance with International Accounting Standard (IAS) 34, *Interim Financial Reporting*, as issued by the International Accounting Standards Board (IASB). The Interim Condensed Consolidated Financial Statements comprise the financial statements of Stelco Holdings and its subsidiaries (collectively, the Company). Under International Financial Reporting Standards (IFRS), additional disclosures are required in the annual financial statements and therefore, these Interim Condensed Consolidated Financial Statements and accompanying notes should be read in conjunction with the notes of the Company's audited consolidated financial statements for the year ended December 31, 2020 (2020 Annual Financial Statements).

These Interim Condensed Consolidated Financial Statements have been prepared using consistent accounting policies and methods used in the preparation of the Company's 2020 Annual Financial Statements. Refer to note 8 for the Company's accounting policy in connection with deferred taxes recognized during the interim periods, using an income tax rate that would be applicable to the Company's expected total annual taxable income. Certain comparative information has been reclassified to conform to the current period's presentation.

These Interim Condensed Consolidated Financial Statements were authorized for issue on May 4, 2021 in accordance with a resolution of the board of directors (Board of Directors) of Stelco Holdings.

3. RESTRICTED CASH

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

As at		**March 31, 2021**		December 31, 2020
Ontario Ministry of the Environment, Conservation and Parks [1]		**8**		6
Receivables purchase agreement [2]		**4**		2
Restricted cash	**$**	**12**	$	8

1 Represents deposits associated with the Company's environmental obligations recorded within provisions on the Interim Condensed 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 4. 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 Interim Condensed Consolidated Statements of Cash Flows.

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

4. TRADE AND OTHER RECEIVABLES

As at		**March 31, 2021**		December 31, 2020
Trade receivables [1]	**$**	**270**	$	171
Other receivables		**1**		12
Total trade and other receivables	**$**	**271**	$	183

[1] Net of allowance for doubtful accounts of nil (December 31, 2020 - nil).

Receivables Purchase Agreement (RPA)

In June 2019, Stelco entered into a RPA with a Schedule II bank (the Purchaser), enabling Stelco, from time to time, to sell certain customer trade receivables to the Purchaser on an uncommitted revolving basis. Under the terms of the RPA, Stelco administers and processes the collection of receivables and remits those collections to the Purchaser. The Company has derecognized the trade receivables sold under the RPA from the Interim Condensed Consolidated Balance Sheets as substantially all of the risks and rewards for such receivables have been transferred to the Purchaser. As at March 31, 2021, Stelco's available purchase limit remaining under the RPA was $9 million (December 31, 2020 - $19 million).

Proceeds received by Stelco under the RPA are recorded within cash flows from operations on the Interim Condensed Consolidated Statements of Cash Flows. For the three months ended March 31, 2021, the Company recorded $0.4 million (three months ended March 31, 2020 - $0.2 million), in bank fees in connection with the RPA within finance costs on the Interim Condensed Consolidated Statements of Income (Loss) and Comprehensive Income (Loss).

5. PREPAID EXPENSES AND DEPOSITS

As at		**March 31, 2021**		December 31, 2020
Commodity-based swap margin deposits [1]	**$**	**11**	$	20
Advance payments to vendors		**6**		8
Prepaid insurance		**3**		4
Total prepaid expenses and deposits	**$**	**20**	$	32

[1] Represents cash deposits paid to a U.S.-based financial institution in connection with certain commodity-based swaps outstanding at March 31, 2021; refer to note 10 for further details. The deposits were based on the difference between the outstanding commodity-based swaps' fair value and specific credit requirements from the counterparty.

6. DERIVATIVE ASSET

On April 30, 2020, Stelco entered into an option agreement (the Option Agreement) with United States Steel Corporation (USS) 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 USS'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.

During 2020, Stelco paid US$100 million in aggregate cash consideration for the Option. 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 Interim Condensed Consolidated Balance Sheets as a financial asset and carried at fair value through income or loss. At March 31, 2021, the Option's fair value of $142 million (December 31, 2020 - $133 million) was estimated using the Black-Scholes option pricing model. During the three months ended March 31, 2021, the Company recognized a $9 million gain in connection with the change in fair value of the Option, due to changes in certain assumptions such as expected mine asset price volatility and risk-free interest rates that are based on observable market inputs, and foreign exchange.

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 March 31, 2021	**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**		**2**		**(2)**
Expected Option life	**1 %**		**1**		**(1)**

Refer to note 23 for a further discussion of valuation techniques and inputs used in estimating the Option's fair value at March 31, 2021.

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

7. PROPERTY, PLANT AND EQUIPMENT

Cost	Land	Buildings and land improvements	Machinery and equipment	Vehicles	Assets under leases	Construction in progress	Total
As at December 31, 2020	$ 111	$ 43	$ 558	$ 10	$ 63	$ 191	$ 976
Additions	—	—	3	—	1	35	39
Transfers	—	2	57	1	(1)	(59)	—
Strategic Innovation Fund contribution	—	—	(10)	—	—	—	(10)
As at March 31, 2021	**$ 111**	**$ 45**	**$ 608**	**$ 11**	**$ 63**	**$ 167**	**$1,005**

Accumulated depreciation	Land	Buildings and land improvements	Machinery and equipment	Vehicles	Assets under leases	Construction in progress	Total
As at December 31, 2020	$ —	$ 2	$ 110	$ 3	$ 16	$ —	$ 131
Depreciation	—	1	13	—	2	—	16
As at March 31, 2021	**$ —**	**$ 3**	**$ 123**	**$ 3**	**$ 18**	**$ —**	**$ 147**

Net book value	Land	Buildings and land improvements	Machinery and equipment	Vehicles	Assets under leases	Construction in progress	Total
As at March 31, 2021	**$ 111**	**$ 42**	**$ 485**	**$ 8**	**$ 45**	**$ 167**	**$ 858**
As at December 31, 2020	$ 111	$ 41	$ 448	$ 7	$ 47	$ 191	$ 845

Assets under leases

As at March 31, 2021, the net carrying amount of the Company's right-of-use machinery and equipment under lease arrangements was $45 million (December 31, 2020 - $47 million).

Innovation, Science and Economic Development Canada funding commitment

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

During the three months ended March 31, 2021, the Company received $16.7 million in cash proceeds in connection with the Contribution, of which $10.5 million was deducted from the carrying amount of the respective qualified capital expenditures within property, plant and equipment and $6.2 million was recorded as a non-interest bearing loan within other liabilities on the Interim Condensed Consolidated Balance Sheets.

The difference between the fair value of the non-interest bearing loan cash proceeds of $6.2 million on initial recognition and fifty percent of the Contribution proceeds received of $8.4 million, represents a $2.1 million present value benefit from the Company receiving a non-interest bearing loan, which was included within the aforementioned $10.5 million deduction from property, plant and equipment.

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

8. INCOME TAXES

For the three months ended March 31, 2021, the Company recorded a deferred tax recovery of $35 million and a net deferred tax asset of $35 million (December 31, 2020 - nil), which includes previously unrecorded deferred tax assets of $56 million. Refer to the reconciliation of effective tax rate below for further details.

The Company recognized previously unrecorded deferred tax assets of $56 million due to the increased probability that the Company will be able to utilize such previously unrecognized tax attributes against future taxable income. In evaluating the Company's ability to utilize any deferred tax assets, Stelco considers information such as projected future taxable income and results of recent operations. In projecting future taxable income, the Company prepares forecasts based on available operational and financial information (including steel market prices), considers future capital expenditure requirements, and includes other significant assumptions that are consistent with Stelco's future business plans.

Reconciliation of Effective Tax Rate:

Three months ended March 31,		**2021**		2020
Income (loss) before income taxes	**$**	**84**	$	(24)
Combined Canadian federal and provincial income tax rate		**25%**		25%
Income tax expense (recovery) based on statutory rate		**21**		(6)
Increase (decrease) in income taxes resulting from non-taxable items or adjustments of prior period taxes:				
Unrecognized deferred tax assets		**(56)**		10
Permanent difference - other		**—**		(4)
Deferred tax recovery	**$**	**(35)**	$	—

Deferred taxes arise from temporary differences between the tax basis of assets and liabilities and their carrying amounts on the Interim Condensed Consolidated Financial Statements.

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 income 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. In evaluating the Company's ability to utilize any deferred tax assets, Stelco considers information such as projected future taxable income and results of recent operations. In projecting future taxable income, the Company prepares forecasts based on available operational and financial information (including steel market prices and foreign exchange), considers future capital expenditure requirements, and includes other significant assumptions that are consistent with Stelco's future business plans.

Non-capital loss carry forwards:

Year of expiry, as at		**March 31, 2021**		December 31, 2020
2034	**$**	**42**	$	136
2035		**238**		238
2037		**2**		2
2038		**4**		4
2039		**14**		14
2040		**13**		13
Total	**$**	**313**	$	407

Other tax attributes

As at March 31, 2021, the Company has other tax attributes available for future use as deductions from taxable income, including but not limited to, undepreciated capital cost (UCC) of $848 million (December 31, 2020 - $821 million) and scientific research and experimental development (SRED) deductions of $36 million (December 31, 2020 - $36 million).

The use of tax attributes is 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 addition, the use of certain tax attributes are also subject to the employee benefit commitment tax savings agreement entered into on completion of Stelco's CCAA reorganization on June 30, 2017. Refer to note 13 for further details.

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

9. TRADE AND OTHER PAYABLES

As at		**March 31, 2021**		December 31, 2020
Inventory monetization arrangement	**$**	**284**	$	389
Trade payables		**218**		276
Payables to related parties [1]		**3**		3
Total trade and other payables	**$**	**505**	$	668

[1] Refer to note 26 for details.

Trade payables

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

Inventory monetization arrangement (IMA)

The weighted average finance rate for the IMA for the three months ended March 31, 2021 was 4.74% (three months ended March 31, 2020 - 4.91%) and resulting finance costs of $4 million (three months ended March 31, 2020 - $3 million), are recorded within the Interim Condensed Consolidated Statements of Income (Loss) and Comprehensive Income (Loss). This financing arrangement is secured by inventory with a carrying value of $259 million (December 31, 2020 - $408 million) serving as collateral.

Amendment to the IMA

In March 2021, Stelco entered into an amended IMA, which included the following significant terms:

i) an extended minimum term with an expiry date of February 28, 2022;

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 $40 million (previously $50 million), which includes maintaining a minimum level of cash and cash equivalents of $20 million;

iv) finance rate of LIBOR plus a margin of 3.5% (previously LIBOR plus a margin of 4.5%);

v) an option for Stelco to terminate the arrangement early on January 31, 2022; and

vi) an option by mutual agreement, to renew the IMA 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 February 28, 2022. The Company was in compliance with the financial covenants pursuant to the inventory monetization agreement as at and for the three months ended March 31, 2021.

10. DERIVATIVE LIABILITIES

Commodity-based swaps

During 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 March 31, 2021, Stelco's commodity-based swap liability was $29 million (December 31, 2020 - $84 million) and included the following outstanding contracts:

Trade date	**Commodity type**	**Trade type**	**Notional quantity** [1]	**Maturity date**
October 7, 2020	Hot-Rolled Coil	Sell	15,000	March 31, 2021 [2]
October 7, 2020	Hot-Rolled Coil	Sell	5,000	March 31, 2021 [2]
November 10, 2020	Hot-Rolled Coil	Sell	15,000	March 31, 2021 [2]

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

During the three months ended March 31, 2021, the Company paid approximately $82 million in cash in connection with commodity-based swap contracts that matured during the period. Refer to note 19 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)

11. OTHER LIABILITIES

As at		**March 31, 2021**		December 31, 2020
Lease obligations	**$**	**47**	$	48
Salaries and benefits payable		**27**		26
Boiler project financing arrangement		**11**		7
Strategic Innovation Fund payable [1]		**11**		4
Post-employment benefits		**8**		8
Share-based compensation [2]		**5**		4
Interest payable		**1**		1
Deferred income		**1**		4
Other liabilities		**—**		1
Total other liabilities	**$**	**111**	$	103
Total current other liabilities		**43**		44
Total non-current other liabilities	**$**	**68**	$	59

[1] Refer to note 7 for details.
[2] Refer to note 15 for details.

Lease obligations

As at March 31, 2021, the Company has equipment lease obligations with a carrying value of $47 million (December 31, 2020 - $48 million). Refer to note 7 for details of the carrying value of the right-to-use assets related to these leases.

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 net 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 the 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

In 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.

During the three months ended March 31, 2021, the Company received $4 million in cash advances under the boiler project financing arrangement.

12. ASSET-BASED LENDING FACILITY (ABL)

As at		**March 31, 2021**		December 31, 2020
Revolving	**$**	**73**	$	29
Non-revolving term loan		**95**		99
Asset-based lending facility		**168**		128
Current		**15**		15
Non-current	**$**	**153**	$	113

The amount available to be drawn under the ABL will vary from time to time, based upon a borrowing base determined with reference to eligible trade receivables, inventory and cash collateral, and excludes certain trade receivables that have been sold under the RPA and inventory that has been monetized under the amended IMA, discussed further in note 9 to the Interim Condensed Consolidated Financial Statements. At March 31, 2021, the amount available for advances under the ABL was $109 million (December 31, 2020 - $43 million), which reflects the available borrowing base less a minimum excess availability requirement of $30 million (December 31, 2020 - $30 million).

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

The weighted average finance rate for amounts drawn under the ABL for the three months ended March 31, 2021 was 4.00% (three months ended March 31, 2020 - 4.79%). In addition, Stelco's outstanding letters of credit under the ABL were $32 million at March 31, 2021 (December 31, 2020 - $33 million) and the Company was in compliance with the financial covenants pursuant to the ABL agreement as at and during the three months ended March 31, 2021.

Future principal payments

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

As at		**March 31, 2021**
2021 [1]	**$**	**11**
2022		**15**
2023		**70**
Total minimum future ABL non-revolving term loan principal payments	**$**	**96**
Less: deferred transaction costs subject to amortization		**(1)**
Carrying amount of ABL non-revolving term loan	**$**	**95**

[1] Represents remaining nine months of 2021.

13. OBLIGATIONS TO INDEPENDENT EMPLOYEE TRUSTS

As at		**March 31, 2021**		December 31, 2020
Employee benefit commitment	**$**	**442**	$	388
Mortgage payable		**110**		110
Obligations to independent employee trusts		**552**		498
Current		**36**		36
Non-current	**$**	**516**	$	462

The Company's obligations to independent employee trusts consist of multiple funding requirements to certain pension and independent employee health and life trusts. These funding requirements include both fixed scheduled payments and variable contributions based on Stelco Holdings' operating performance, which is estimated for purposes of determining the future obligations presented herein, and the utilization of specific tax attributes. The obligations to independent employee trusts include 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 land and buildings located in Hamilton and Nanticoke, Ontario on June 5, 2018.

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 each Consolidated Balance Sheet date to determine amortized cost.

During the three months ended March 31, 2021, the Company recorded a $52 million remeasurement charge in connection with a change of estimate related to the timing and magnitude of estimated cash flows and future funding requirements of the employee benefit commitment. 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.

Future employee benefit commitment payments are estimated as follows:

As at		**March 31, 2021**
2021 [1]	**$**	**27**
2022		**166**
2023		**44**
2024		**37**
2025		**40**
Thereafter		**466**
Total estimated employee benefit commitment payments	**$**	**780**
Less: amounts representing future finance costs		**(338)**
Present value of employee benefit commitment	**$**	**442**

[1] Represents remaining nine months of 2021.

Mortgage payable

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

As at		**March 31, 2021**
2021 [1]	**$**	**8**
2022		**11**
2023		**11**
2024		**11**
2025		**11**
Thereafter		**184**
Total future mortgage payments	**$**	**236**
Less: amounts representing future finance costs		**(126)**
Carrying amount of mortgage payable	**$**	**110**

[1] Represents remaining nine months of 2021.

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

14. SHARE CAPITAL

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

As at		**March 31, 2021**		December 31, 2020
Common shares				
Outstanding (in thousands)		**88,713**		88,713
Carrying amount	**$**	**512**	$	512

Dividends to common shareholders

During the three months ended March 31, 2021 and 2020, Stelco Holdings declared and paid ordinary dividends to common shareholders in aggregate amount of $9 million or $0.10 per common share.

Subsequent to March 31, 2021, the Board of Directors declared a dividend of $0.10 per common share, payable on May 19, 2021, to shareholders of record as of May 14, 2021.

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

15. SHARE-BASED COMPENSATION

Stelco Holdings' amended and restated long-term incentive plan (LTIP), was designed to promote the alignment of senior management, employees and consultants of the Company with shareholder interests and the creation of sustainable shareholder value, and facilitate recruitment, motivation and retention of executives and key talent.

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

For the three months ended March 31, 2021, the Company recorded a share-based compensation expense of $2 million (three months ended March 31, 2020 - a net recovery of $1 million), in selling, general and administrative expenses on the Interim Condensed Consolidated Statements of Income (Loss) and Comprehensive Income (Loss) in connection with share-based awards granted under the Company's LTIP.

Restricted share units (RSUs)

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

(RSUs in total) Three months ended March 31,	**2021**
Balance, beginning of period	**77,181**
Granted	**58,827**
Vested [1]	**(27,062)**
Balance, end of period	**108,946**

[1] Represents approximately $0.7 million in fully vested RSUs which were recorded in salaries and benefits within other liabilities on the Interim Condensed Consolidated Balance Sheet as at March 31, 2021 and cash settled during April 2021.

On February 22, 2021, 58,346 RSUs were granted to certain members of the Company's Executive Leadership Team (ELT), with a grant date fair value of $22.81 per RSU, with one-third of the total grant amount vesting on each of the first three anniversaries commencing January 1, 2022.

As at March 31, 2021, there were 108,946 RSUs outstanding (December 31, 2020 - 77,181 RSUs) under the Company's LTIP, for which the Company recorded a liability of $0.8 million (December 31, 2020 - $0.9 million) in other liabilities.

Stock appreciation right awards (SARs)

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

(SARs in total) Three months ended March 31,	**2021**
Balance, beginning of period	**150,000**
Exercised [1]	**(23,333)**
Balance, end of period [2]	**126,667**

[1] Represents approximately $0.5 million in fully vested and exercised SARs which were recorded in salaries and benefits within other liabilities on the Interim Condensed Consolidated Balance Sheet as at March 31, 2021 and cash settled during April 2021.
[2] Includes 10,000 SARs that are fully vested and exercisable.

As at March 31, 2021, there were 126,667 SARs outstanding (December 31, 2020 - 150,000 SARs), for which the Company recorded a liability of $1.2 million (December 31, 2020 - $1.1 million) in other liabilities.

Deferred share units (DSUs)

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

(DSUs in total) Three months ended March 31,	**2021**
Balance, beginning of period	**104,538**
Granted	**8,556**
Balance, end of period	**113,094**

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

As at March 31, 2021, there were 113,094 DSUs outstanding (December 31, 2020 - 104,538 DSUs) under the Company's LTIP, for which the Company recorded a liability of $3.2 million (December 31, 2020 - $2.4 million).

16. REVENUE FROM SALE OF GOODS

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

Three months ended March 31,		2021		2020
Steel products	**$**	**647**	$	438
Non-steel products		**18**		7
Total	**$**	**665**	$	445

Revenue by geographical location is comprised of:

Three months ended March 31,		2021		2020
Canada	**$**	**485**	$	317
United States and other		**180**		128
Total	**$**	**665**	$	445

17. COST OF GOODS SOLD

Cost of goods sold is comprised of:

Three months ended March 31,		2021		2020
Cost of inventories:				
Steel products	**$**	**440**	$	398
Non-steel products		**10**		6
Fixed overhead and other costs [1]		**18**		12
Depreciation		**16**		13
Total	**$**	**484**	$	429

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

The Government of Canada passed the CEWS as part of its COVID-19 response. For the three months ended March 31, 2021, the Company recorded a $1 million reduction to cost of goods sold in connection with the CEWS.

18. SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

Selling, general and administrative expenses is comprised of:

Three months ended March 31,		2021		2020
Employee salary and benefits expense	**$**	**6**	$	4
Professional, consulting and legal fees		**2**		3
Management fees [1]		**2**		2
Share-based compensation expense (recovery) [2]		**2**		(1)
Other [3]		**2**		1
Total	**$**	**14**	$	9

1 Refer to note 26 for details.
2 Refer to note 15 for details.
3 Includes corporate, public company and travel related expenses.

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

19. FINANCE AND OTHER INCOME (LOSS)

Finance and other income (loss) comprised of:

Three months ended March 31,		**2021**		2020
Gain (loss) on commodity-based swaps, net	**$**	**(27)**	$	2
Gain on derivative asset		**9**		—
Finance income		**—**		1
Other income		**1**		1
Total	**$**	**(17)**	$	4

Commodity-based swaps

During 2020, 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 three months ended March 31, 2021, the Company recorded a $27 million loss on the Interim Condensed Consolidated Statements of Income (Loss) and Comprehensive Income (Loss) in connection with these swap contracts.

Gain (loss) on commodity-based swaps, net is comprised of the following items:

Three months ended March 31,		**2021**		2020
Realized loss on settled swap contracts	**$**	**(82)**	$	—
Reversal of opening derivative liabilities in connection with settled swaps contracts [1]		**68**		—
Change in unrealized gain (loss) during the period on unsettled swap contracts		**(13)**		2
Total	**$**	**(27)**	$	2

[1] Refer to note 21 for changes in non-cash working capital and other operating activities.

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

20. FINANCE COSTS

Finance costs are comprised of:

Three months ended March 31,		**2021**		2020
Remeasurement of employee benefit commitment [1]	**$**	**52**	$	(1)
Accretion of employee benefit commitment		**9**		9
Interest on loans and borrowings		**9**		8
Foreign exchange loss (gain)		**(5)**		16
Accretion expense related to lease obligations		**1**		1
Total	**$**	**66**	$	33

[1] Remeasurement of employee benefit commitment for change in the timing and magnitude of estimated cash flows and future funding requirements. Refer to note 13 for further details.

21. SUPPLEMENTAL CASH FLOW INFORMATION

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

Three months ended March 31,		**2021**		2020
Changes in non-cash operating working capital:				
Trade and other receivables	**$**	**(88)**	$	19
Inventories		**130**		105
Prepaid expenses and deposits		**12**		2
Trade and other payables		**(60)**		(16)
Derivative liabilities [1]		**(68)**		—
Other liabilities		**(2)**		(9)
	$	**(76)**	$	101
Changes in other operating items:				
Pension benefits		**1**		1
Employee benefit commitment		**(7)**		(7)
Foreign exchange and other		**(5)**		18
	$	**(11)**	$	12
Change in non-cash operating working capital and other operating items	**$**	**(87)**	$	113

[1] Refer to note 19 for details.

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

Three months ended March 31,		**2021**		2020
Capital expenditures and additions:				
Machinery, equipment, assets under leases and construction in progress	**$**	**39**	$	65
Strategic Innovation Fund contribution		**(8)**		—
Capital expenditures and additions not affecting cash:				
Finance leases - machinery and equipment		**(1)**		(3)
Construction in progress and other capital additions included in trade and other payables		**(3)**		(19)
Capital expenditures on property, plant and equipment	**$**	**27**	$	43

22. NET INCOME (LOSS) PER SHARE

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

Three months ended March 31,		**2021**		2020
Weighted average common shares outstanding (in thousands):				
Basic		**88,713**		88,713
Dilutive effect of outstanding common share options[1]		**—**		—
Diluted		**88,713**		88,713
Net income (loss) per common share:				
Basic	**$**	**1.34**	$	(0.27)
Diluted	**$**	**1.34**	$	(0.27)

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

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

23. FAIR VALUE OF FINANCIAL INSTRUMENTS

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

	March 31, 2021		December 31, 2020	
As at	**Carrying Value**	**Fair Value**	Carrying Value	Fair Value
Financial assets:				
Cash	**$ 47**	**$ 47**	$ 59	$ 59
Restricted cash	**12**	**12**	8	8
Trade and other receivables	**271**	**271**	183	183
Derivative asset	**142**	**142**	133	133
Financial liabilities:				
Trade and other payables	**$ 505**	**$ 505**	$ 668	$ 668
Derivative liabilities	**29**	**29**	84	84
Other liabilities	**111**	**116**	103	103
Asset-based lending facility	**168**	**168**	128	128
Obligations to independent employee trusts:				
Employee benefit commitment	**442**	**435**	388	383
Mortgage payable	**110**	**102**	110	103

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 nature of these instruments. The fair values of other liabilities in particular, 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 values of the Company's derivative asset and liabilities, 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 values of the mortgage payable and ABL are estimates made at a specific point in time, based on relevant market information. These estimates are 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 Interim Condensed Consolidated Balance Sheets is as follows:

	March 31, 2021			December 31, 2020		
	Level 1	**Level 2**	**Level 3**	Level 1	Level 2	Level 3
Derivative asset [1]	**$ —**	**$ —**	**$ 142**	$ —	$ —	$ 133
Derivative liabilities [2]	**—**	**29**	**—**	—	84	—

[1] Refer to note 6 for details.
[2] Refer to note 10 for details.

There were no transfers between Level 1, Level 2 or Level 3 during the three months ended March 31, 2021.

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

24. 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 various 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 under existing financing arrangements including the ABL, and IMA, as well as all components of equity and is comprised as follows:

As at		**March 31, 2021**		December 31, 2020
Amounts drawn and outstanding under the:				
ABL	**$**	**169**	$	129
IMA		**284**		389
Total	**$**	**453**	$	518
Total equity		**391**		281
Total capital	**$**	**844**	$	799

25. 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 Interim Condensed Consolidated Balance Sheets, Statements of Income (Loss) and Comprehensive Income (Loss) or Statements of Cash Flows.

Purchase commitments

At March 31, 2021, the Company had future commitments of approximately $74 million in capital expenditures, with the majority expected to be paid within 2021.

26. RELATED PARTY TRANSACTIONS

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

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

Three months ended March 31,		**2021**		2020
Purchases of services				
Joint ventures	**$**	**4**	$	2
Bedrock and its affiliates - management fees		**2**		2

As at		**March 31, 2021**		December 31, 2020
Amounts payable to related parties				
Joint ventures	**$**	**2**	$	1
Bedrock and its affiliates		**1**		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 Interim Condensed 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.

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

	Board of Directors		**ELT**	
Three months ended March 31,	**2021**	2020	**2021**	2020
Salaries and benefits	**$ —**	$ —	**$ 2**	$ 1
Management fees	**—**	—	**2**	2
Share-based compensation	**1**	—	**1**	(1)
	$ 1	$ —	**$ 5**	$ 2