Unaudited Interim Condensed Consolidated Financial Statements

Stelco Holdings Inc.

Three months ended March 31, 2022 and 2021

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

As at	Note		**March 31, 2022**		December 31, 2021
Assets					
Current assets					
Cash		**$**	**796**	$	955
Restricted cash	*3*		**9**		20
Trade and other receivables	*4*		**333**		412
Inventories			**505**		617
Prepaid expenses and deposits			**10**		11
Total current assets		**$**	**1,653**	$	2,015
Non-current assets					
Derivative asset	*5*		**128**		126
Property, plant and equipment, net	*6*		**1,044**		1,008
Intangible assets			**8**		8
Investment in associate and joint ventures	*7*		**17**		2
Deferred tax asset	*8*		**73**		78
Total non-current assets		**$**	**1,270**	$	1,222
Total assets		**$**	**2,923**	$	3,237
Liabilities					
Current liabilities					
Trade and other payables	*9*	**$**	**544**	$	717
Other liabilities	*10*		**59**		62
Asset-based lending facility	*11*		**15**		15
Income taxes payable			**58**		252
Obligations to independent employee trusts	*12*		**215**		212
Total current liabilities		**$**	**891**	$	1,258
Non-current liabilities					
Provisions			**7**		7
Pension benefits			**12**		11
Other liabilities	*10*		**77**		71
Asset-based lending facility	*11*		**65**		69
Obligations to independent employee trusts	*12*		**386**		383
Total non-current liabilities		**$**	**547**	$	541
Total liabilities		**$**	**1,438**	$	1,799
Equity					
Common shares	*13*		**416**		446
Retained earnings			**1,069**		992
Total equity		**$**	**1,485**	$	1,438
Total liabilities and equity		**$**	**2,923**	$	3,237

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 AND COMPREHENSIVE INCOME

(In millions of Canadian dollars, except per share amounts)

Three months ended March 31,	Note		2022		2021
Revenue from sale of goods	*15*	**$**	**906**	$	665
Cost of goods sold	*16*		**505**		484
Gross profit		**$**	**401**	$	181
Selling, general and administrative expenses	*17*		**20**		14
Operating income		**$**	**381**	$	167
Finance costs	*19*		**(27)**		(66)
Finance and other income (loss)	*18*		**3**		(17)
Other costs	*20*		**(6)**		—
Income before income taxes		**$**	**351**	$	84
Current income tax expense	*8*		**84**		—
Deferred income tax expense (recovery)	*8*		**5**		(35)
Net income and comprehensive income		**$**	**262**	$	119
Net income per common share					
Basic	*22*	**$**	**3.52**	$	1.34
Diluted	*22*	**$**	**3.52**	$	1.34

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	Retained earnings (Accumulated deficit)	Total equity
Balance, December 31, 2020		88,713	$ 512	$ (231)	$ 281
Changes during the period:					
Net income		—	—	119	119
Dividends to common shareholders	*13*	—	—	(9)	(9)
Balance, March 31, 2021		88,713	$ 512	$ (121)	$ 391
Balance, December 31, 2021		77,315	$ 446	$ 992	$ 1,438
Changes during the period:					
Net income		**—**	**—**	**262**	**262**
Common shares repurchased and cancelled	*13*	**(5,101)**	**(30)**	**(163)**	**(193)**
Dividends to common shareholders	*13*	**—**	**—**	**(22)**	**(22)**
Balance, March 31, 2022		**72,214**	**$ 416**	**$ 1,069**	**$ 1,485**

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	**2022**	2021
Operating activities			
Net income		**$ 262**	$ 119
Items not affecting cash:			
Employee benefit commitment:			
Remeasurement cost	*19*	**2**	52
Accretion expense	*19*	**11**	9
Deferred tax expense (recovery)	*8*	**5**	(35)
Depreciation	*16*	**19**	16
Gain on derivative asset	*5*	**(2)**	(9)
Write-down of construction in progress	*20*	**4**	—
Change in unrealized loss on commodity-based swaps	*18*	**—**	13
Change in non-cash working capital and other operating items	*21*	**(87)**	(87)
Cash provided by operating activities		**$ 214**	$ 78
Investing activities			
Capital expenditures on property, plant and equipment, net of Strategic Innovation Fund contributions	*21*	**(52)**	(27)
Investment in associate	*7*	**(15)**	—
Change in restricted cash	*3*	**11**	(4)
Cash used in investing activities		**$ (56)**	$ (31)
Financing activities			
Repayment of inventory monetization arrangement, net	*9*	**(86)**	(101)
Advances from (Repayment of) asset-based lending facility, net of transaction costs:			
Revolving, net	*11*	**—**	45
Non-revolving term loan	*11*	**(4)**	(4)
Proceeds from Strategic Innovation Fund loan	*6*	**—**	8
Lease obligation principal payments	*10*	**(3)**	(2)
Advances under boiler project financing arrangement	*10*	**—**	4
Common shares repurchased and cancelled	*13*	**(193)**	—
Dividends paid to common shareholders	*13*	**(22)**	(9)
Cash used in financing activities		**$ (308)**	$ (59)
Effect of foreign exchange rate changes on cash		**(9)**	—
Net decrease in cash		**(159)**	(12)
Cash, beginning of period		**955**	59
Cash, end of period		**$ 796**	$ 47
Supplemental cash flow information	*21*		

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.

Stelco Holdings’ registered and head office is located at 386 Wilcox Street, Hamilton, Ontario, Canada.

2. STATEMENT OF COMPLIANCE AND BASIS OF PREPARATION

Stelco Holdings' unaudited interim condensed consolidated financial statements (Consolidated Financial Statements) have been prepared by management in accordance with International Accounting Standard (IAS) 34, *Interim Financial Reporting*, as issued by the International Accounting Standards Board (IASB). The Consolidated Financial Statements comprise the financial statements of Stelco Holdings and its subsidiaries (collectively, the Company). Under International Financial Reporting Standards (IFRS), additional disclosures are required in the annual financial statements and, therefore, these Consolidated Financial Statements and accompanying notes should be read in conjunction with the notes of the Company's audited consolidated financial statements for the year ended December 31, 2021 (2021 Annual Financial Statements).

These Consolidated Financial Statements have been prepared using accounting policies and methods consistent with those used in the preparation of the Company's 2021 Annual Financial Statements. Refer to note 7 for the Company's accounting policy in connection with the investment in associate recorded during the period.

These Consolidated Financial Statements were authorized for issue on May 5, 2022 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, 2022**		December 31, 2021
Ontario Ministry of the Environment, Conservation and Parks [1]	**$**	**7**	$	7
Receivables purchase agreement [2]		**2**		13
Restricted cash	**$**	**9**	$	20

[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.

4. TRADE AND OTHER RECEIVABLES

As at		**March 31, 2022**		December 31, 2021
Trade receivables [1]	**$**	**319**	$	402
Other receivables		**14**		10
Total trade and other receivables	**$**	**333**	$	412

[1] Net of allowance for doubtful accounts of nil (December 31, 2021 - nil).

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 Interim Condensed Consolidated Balance Sheets as substantially all of the risks and rewards for such receivables have been transferred to the Purchaser.

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

During December 2021, the Company amended the RPA to transition the finance rate benchmark from LIBOR to the Secured Overnight Financing Rate (SOFR), effective January 4, 2022, plus a margin of 1.84% on an equivalent economic basis.

As at March 31, 2022, Stelco's available purchase limit remaining under the RPA was $13 million (December 31, 2021 - $1 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, 2022, the Company recorded $0.3 million (three months ended March 31, 2021 - $0.4 million) in bank fees in connection with the RPA within finance costs on the Interim Condensed Consolidated Statements of Income.

5. 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 would 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, 2022, the Option's fair value of $128 million (December 31, 2021 - $126 million) was estimated using the Black-Scholes option pricing model. During the three months ended March 31, 2022, the Company recognized a gain of $2 million (three months ended March 31, 2021 - gain of $9 million), in connection with the change in fair value of the Option, due to changes in certain assumptions such as expected mine asset value volatility and risk-free interest rates that are based on observable market inputs, and foreign exchange. The expected option life is fixed and based on the maximum contractual term of the Option.

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

		March 31, 2022		December 31, 2021	
As at	**Change**	**Increase**	**Decrease**	Increase	Decrease
Estimated fair value of mine asset	**1 %**	**$ 3**	**$ (3)**	$ 3	$ (3)
Expected mine asset value volatility	**1 %**	**4**	**(4)**	4	(4)
Expected risk-free interest rate	**25 bps**	**2**	**(2)**	2	(2)

Refer to note 23 for a further discussion of valuation techniques and inputs used in estimating the Option's fair value at March 31, 2022 and December 31, 2021.

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

6. 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, 2021	$ 111	$ 50	$ 680	$ 15	$ 65	$ 284	$1,205
Additions	—	—	5	—	8	46	59
Transfers	—	—	14	7	(2)	(19)	—
Write-down of construction in progress [1]	—	—	—	—	—	(4)	(4)
As at March 31, 2022	**$ 111**	**$ 50**	**$ 699**	**$ 22**	**$ 71**	**$ 307**	**$1,260**

[1] Includes a certain capital project that is no longer being pursued by the Company, representing aborted construction in progress costs without future benefit to Stelco. During the three months ended March 31, 2022, the Company recognized a $4 million write-down charge in connection with this construction in progress asset, recorded within other costs on the Interim Condensed Consolidated Statements of Income.

Accumulated depreciation	Land	Buildings and land improvements	Machinery and equipment	Vehicles	Assets under leases	Construction in progress	Total
As at December 31, 2021	$ —	$ 4	$ 165	$ 5	$ 23	$ —	$ 197
Depreciation	—	1	16	—	2	—	19
As at March 31, 2022	**$ —**	**$ 5**	**$ 181**	**$ 5**	**$ 25**	**$ —**	**$ 216**

Net book value	Land	Buildings and land improvements	Machinery and equipment	Vehicles	Assets under leases	Construction in progress	Total
As at December 31, 2021	$ 111	$ 46	$ 515	$ 10	$ 42	$ 284	$1,008
As at March 31, 2022	**$ 111**	**$ 45**	**$ 518**	**$ 17**	**$ 46**	**$ 307**	**$1,044**

Assets under leases

As at March 31, 2022, the net carrying amount of the Company's right-of-use machinery and equipment (which includes certain information technology related equipment and service contracts) under lease arrangements was $46 million (December 31, 2021 - $42 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 three months ended March 31, 2022, the Company received no cash proceeds in connection with the Contribution (three months ended March 31, 2021 - $16.7 million). As of March 31, 2022, the Company has received an aggregate of $40.8 million in cash proceeds in connection with the Contribution and the non-interest bearing loan is carried at amortized cost of $16 million recorded within other liabilities on the Interim Condensed Consolidated Balance Sheets, at an effective interest rate of 5.0%.

7. INVESTMENT IN ASSOCIATE AND 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.

On March 25, 2022, Stelco Holdings completed the acquisition of a 40% equity interest in Hamilton Sports Group (HSG) and also recorded certain professional fees in connection with the acquisition. An investment in associate is also accounted for using the equity method in the Consolidated Financial Statements.

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

HSG owns the Hamilton Tiger-Cats (of the Canadian Football League) and Hamilton's Forge FC (of the Canadian Premier League), as well as being the holder of license agreements in respect of Tim Hortons Field, a modern 23,000 seat multipurpose stadium located centrally in Hamilton, Ontario.

8. INCOME TAXES

Reconciliation of Effective Tax Rate

Three months ended March 31,		**2022**		2021
Income before income taxes	**$**	**351**	$	84
Combined Canadian federal and provincial income tax rate		**25%**		25%
Income tax expense based on statutory rate		**88**		21
Increase (Decrease) in income taxes resulting from:				
Origination and reversal of temporary differences		**1**		—
Previously unrecognized deferred tax assets		**—**		(56)
Income tax expense	**$**	**89**	$	(35)
Current income tax expense		**84**		—
Deferred income tax expense (recovery)		**5**		(35)

For the three months ended March 31, 2022, the Company recorded a deferred tax expense of $5 million (three months ended March 31, 2021 - a deferred tax recovery of $35 million). As at March 31, 2022, the Company has recorded a net deferred tax asset of $73 million (December 31, 2021 - $78 million).

Non-capital loss carry-forwards

Year of expiry, as at		**March 31, 2022**		December 31, 2021
2037	**$**	**2**	$	2
2038		**4**		4
2039		**5**		5
2040		**12**		12
2041		**2**		2
2042		**2**		—
Total [1]	**$**	**27**	$	25

[1] Represents remaining non-capital loss carry-forwards related and restricted to Stelco Holdings Inc., for which no deferred tax asset has been recognized.

Other tax attributes

As at March 31, 2022, the Company has undepreciated capital cost (UCC) of $600 million (December 31, 2021 - $597 million), which includes certain property eligible for accelerated capital cost allowance where tax deductions may exceed depreciation for accounting purposes for respective future periods. A deferred tax liability of $69 million was recorded in connection with the carrying value of the Company's property, plant and equipment exceeding the UCC balance at March 31, 2022 (December 31, 2021 - $62 million).

9. TRADE AND OTHER PAYABLES

As at		**March 31, 2022**		December 31, 2021
Inventory monetization arrangement	**$**	**323**	$	414
Trade payables [1]		**216**		293
Payables to related parties [2]		**5**		10
Total trade and other payables	**$**	**544**	$	717

[1] 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.
[2] Refer to note 26 for details.

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

Inventory monetization arrangement (IMA)

The weighted average finance rate for the IMA for the three months ended March 31, 2022 was 3.61% (three months ended March 31, 2021 - 4.74%) and the finance costs of $4 million (three months ended March 31, 2021 - $4 million) are recorded within the Interim Condensed Consolidated Statements of Income. This financing arrangement is secured by inventory with a carrying value of $317 million (December 31, 2021 - $454 million) serving as collateral.

Amendment to the IMA

On February 25, 2022, Stelco entered into an amended IMA, which included the following significant terms:

i) an extended term with an expiry date of January 31, 2023;

ii) adjusted volume limits of eligible inventory, consistent with the Company's projected operating levels;

iii) finance rate of SOFR plus a margin of 3.125% (previously LIBOR plus a margin of 3.5%); and

iv) an option for Stelco to terminate the arrangement early on December 31, 2022.

Unless otherwise amended, extended or renewed, amounts advanced under the amended IMA are required to be repaid when the facility expires on January 31, 2023. 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, 2022.

10. OTHER LIABILITIES

As at		**March 31, 2022**		December 31, 2021
Lease obligations	**$**	**49**	$	44
Salaries and benefits payable		**30**		39
Strategic Innovation Fund loan		**16**		16
Share-based compensation [1]		**14**		11
Boiler project financing arrangement		**12**		12
Post-employment benefits		**8**		7
Deferred income		**5**		2
Interest payable		**1**		1
Other liabilities		**1**		1
Total other liabilities	**$**	**136**	$	133
Total current other liabilities	**$**	**59**	$	62
Total non-current other liabilities	**$**	**77**	$	71

[1] Refer to note 14 for details.

Lease obligations

As at March 31, 2022, the Company has equipment lease obligations with a carrying value of $49 million (December 31, 2021 - $44 million). Refer to note 6 for details of the carrying value of the right-of-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 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 commissioning of the Cogen Plant, which is expected to be operational during the second quarter 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.

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

During the three months ended March 31, 2022, the Company received nil (three months ended March 31, 2021 - $4 million) in cash advances under the boiler project financing arrangement. The Company recorded $0.3 million (three months ended March 31, 2021 - $0.2 million) in interest costs in connection with the boiler project financing arrangement within property, plant and equipment on the Interim Condensed Consolidated Balance Sheets.

11. ASSET-BASED LENDING FACILITY (ABL)

As at		March 31, 2022		December 31, 2021
Revolving	$	—	$	—
Non-revolving term loan		80		84
Asset-based lending facility		**80**		84
Current		**15**		15
Non-current		**65**		69

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, inventory and cash collateral, and excludes certain trade receivables that have been sold under the RPA and inventory that has been monetized under the IMA discussed further in note 9. At March 31, 2022, the amount available for advances under the ABL was $244 million (December 31, 2021 - $240 million), which includes the available borrowing base less outstanding letters of credit of $20 million (December 31, 2021 - $20 million), cash amounts drawn and outstanding under the revolving ABL of nil (December 31, 2021 - nil), non-revolving term loan of $81 million (December 31, 2021 - $85 million) and a minimum excess availability requirement of $30 million (December 31, 2021 - $30 million).

The weighted average finance rate for amounts drawn under the ABL for the three months ended March 31, 2022 was 3.0% (three months ended March 31, 2021 - 4.0%) 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, 2022.

Future principal payments

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

As at		March 31, 2022
2022 [1]	$	11
2023		15
2024		15
2025		15
2026		25
Total minimum future ABL non-revolving term loan principal payments	$	**81**
Less: deferred transaction costs subject to amortization		**(1)**
Carrying amount of ABL non-revolving term loan	$	**80**

[1] Represents remaining nine months of 2022.

12. OBLIGATIONS TO INDEPENDENT EMPLOYEE TRUSTS

As at		March 31, 2022		December 31, 2021
Employee benefit commitment	$	**493**	$	487
Mortgage payable		**108**		108
Obligations to independent employee trusts		**601**		595
Current		**215**		212
Non-current		**386**		383

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

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 estimated 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, 2022, the Company recorded a $2 million remeasurement charge (three months ended March 31, 2021 - $52 million) in connection with changes of estimates related to the timing and magnitude of estimated cash flows and future funding requirements of the employee benefit commitment. Due to the long-term nature of the underlying assumptions, 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, 2022**
2022 [1]	**$**	**206**
2023		**136**
2024		**22**
2025		**21**
2026		**24**
Thereafter		**334**
Total estimated employee benefit commitment payments	**$**	**743**
Less: amounts representing future finance costs		**(250)**
Present value of employee benefit commitment	**$**	**493**

[1] Represents remaining nine months of 2022.

Mortgage payable

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

As at		**March 31, 2022**
2022 [1]	**$**	**8**
2023		**11**
2024		**11**
2025		**11**
2026		**11**
Thereafter		**172**
Total future mortgage payments	**$**	**224**
Less: amounts representing future finance costs		**(116)**
Carrying amount of mortgage payable	**$**	**108**

[1] Represents remaining nine months of 2022.

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

13. 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, 2022		December 31, 2021
Common shares				
Outstanding (in thousands)		**72,214**		77,315
Carrying amount	**$**	**416**	$	446

Dividends to common shareholders

Common share dividends declared and paid in 2022 were as follows:

(millions of Canadian dollars, except per share amounts) Record date	Payment date		Cash dividend per common share		Total common share dividends
March 4, 2022	March 9, 2022	$	0.30	$	22

During March 2021, Stelco Holdings paid an ordinary dividend to common shareholders in the aggregate amount of $9 million, or $0.10 per common share.

Subsequent to March 31 2022, the Board of Directors declared a dividend of $0.30 per common share, payable on May 20, 2022, to shareholders of record as of May 16, 2022.

Substantial Issuer Bid (SIB)

On December 22, 2021, Stelco Holdings commenced a SIB for the purchase of up to $250 million in value of its outstanding common shares. The SIB proceeded by way of a "modified Dutch auction", whereby, the purchase price paid by the Company for each validly deposited common share was based on the number of common shares validly deposited and the prices specified by shareholders making auction tenders. The purchase price was the lowest price which enabled the Company to purchase the maximum number of common shares not exceeding an aggregate of $250 million.

On February 2, 2022, the Company repurchased and cancelled all shares validly tendered, representing 4,441,023 common shares in total, at a price of $37.00 per share for an aggregate purchase price of approximately $164 million. The excess of the purchase price paid over the average carrying value of the shares purchased in the amount of $139 million was recognized as a share repurchase premium and reduction to retained earnings.

Normal Course Issuer Bid (NCIB)

On February 23, 2022, the Company received approval from the TSX to commence an NCIB. Stelco Holdings is entitled to purchase up to 4,353,418 common shares pursuant to this NCIB, which commenced on February 28, 2022 and expires on February 27, 2023, or such earlier date as Stelco may complete its purchases pursuant to the notice of intention filed with the TSX or for any other reason Stelco may determine.

The maximum number of common shares that may be repurchased for cancellation under the NCIB represents approximately 5.9% of the 72,874,242 issued and outstanding common shares and 10% of the Company's public float, as calculated in accordance with the TSX rules as of February 22, 2022. The average daily trading volume for the six months ended January 31, 2022 (ADTV), calculated in accordance with the rules of the TSX for purposes of the NCIB, was 467,996 common shares. Under the rules of the TSX, Stelco is entitled to repurchase, during each trading day, up to 25% of the ADTV or 116,999 common shares (excluding purchases made pursuant to the block purchase exception) through the TSX.

Repurchases will be made through the facilities of the TSX as well as through other designated exchanges and alternative trading systems in Canada in accordance with applicable regulatory requirements. The price paid for such repurchased shares will be the market price of such shares at the time of acquisition or such other price as may be permitted by the TSX. All common shares repurchased under the NCIB will be cancelled. The actual number of common shares and timing of the repurchases under the NCIB will be determined by Stelco.

During the three months ended March 31, 2022, Stelco Holdings purchased and cancelled 659,728 common shares at a weighted average price of $43.10 per share for a total purchase price of approximately $29 million. The excess of the purchase price paid over the average carrying value of the shares purchased, in the amount of $24 million, was recognized as a share repurchase premium and reduction to retained earnings.

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

14. SHARE-BASED COMPENSATION

Long-term incentive plan

Stelco Holdings' amended and restated long-term incentive plan (LTIP) is 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 treasury-settled 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, 2022, the Company recorded share-based compensation expense of $6 million (three months ended March 31, 2021 - $2 million) in selling, general and administrative expenses on the Interim Condensed Consolidated Statements of Income related to the vesting, which includes the impact from the grant date fair value, service and periodic fair value remeasurements, of awards granted under the 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,	**2022**
Balance, beginning of period	**112,698**
Granted	**132,500**
Vested and cash settled	**(47,384)**
Balance, end of period	**197,814**

On February 28, 2022, 130,967 RSUs were granted to certain employees, including members of the Company’s Executive Leadership Team (ELT), with a grant date fair value of $36.33 per RSU, with one-third of the total grant amount vesting on January 1 of each of 2023, 2024 and 2025.

In addition, 1,533 RSUs were granted during the three months ended March 31, 2022, with an average grant date fair value of $43.40 per RSU in respect of dividend equivalent units issued pursuant to the terms of the LTIP.

As at March 31, 2022, there were 197,814 outstanding and unvested RSUs (December 31, 2021 - 112,698 RSUs) under the Company's LTIP, for which the Company recorded a liability of $2 million (December 31, 2021 - $3 million) in other liabilities.

Stock appreciation rights (SARs)

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

(SARs in total) Three months ended March 31,	**2022**
Balance, beginning of period	**100,001**
Exercised [1]	**(20,000)**
Balance, end of period [2]	**80,001**

[1] Represents approximately $1.1 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, 2022 and cash settled during April 2022.
[2] Includes 13,333 SARs that are fully vested and exercisable.

As at March 31, 2022, there were 80,001 SARs outstanding (December 31, 2021 - 100,001 SARs), for which the Company recorded a liability of $2 million (December 31, 2021 - $2 million) in other liabilities.

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

Deferred share units (DSUs)

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

(DSUs in total)	
Three months ended March 31,	**2022**
Balance, beginning of period	**135,467**
Granted	**7,301**
Balance, end of period	**142,768**

As at March 31, 2022, there were 142,768 vested and outstanding DSUs (December 31, 2021 - 135,467 DSUs) under the Company's LTIP, for which the Company recorded a liability of $8 million (December 31, 2021 - $6 million) in other liabilities.

Total shareholder return (TSR) based incentive program (TSR Incentive Program)

On February 23, 2022, the Company's Board of Directors approved a TSR Incentive Program. Under the terms of the TSR Incentive Program, upon the TSR reaching specified target thresholds of 50%, 75% and 100%, and, subject to the discretion of the Board of Directors, participants in the program will receive RSUs issued in accordance with the terms of the LTIP. TSR is measured based on the total shareholder return percentage increase from (i) the 30-day volume weighted average price of the common shares on the TSX ending immediately prior to February 23, 2022 to (ii) the day on which the volume weighted TSR over a period of 90 calendar days reaches one of the specified TSR thresholds.

The TSR Incentive Program is a cash-settled share-based compensation plan, which is measured at fair value through income or loss at each reporting date. The fair value of the TSR Incentive Program was estimated using a Monte-Carlo simulation which takes into account the market value of the Company's common shares and a wide range of possible share price outcomes. The Monte-Carlo simulation assumptions used to estimate the fair value of the TSR Incentive Program at the respective dates are noted below:

As at,		March 31, 2022		February 23, 2022
Common share price	$	51.99	$	34.50
Term (in years)		3.75		3.85
Common share expected volatility		54.03%		52.96%
Expected risk-free interest rate		2.39%		1.75%
Indicated dividend yield		2.31%		3.48%

During the three months ended March 31, 2022, the Company recorded $2 million in share-based compensation expense and no RSUs were granted by Stelco Holdings under the LTIP in connection with the TSR Incentive Program. The share-based compensation expense in connection with the TSR Incentive Program is recognized over the term of the program and varies based on changes in the Company's common share price and the performance of the share price in relation to the specified target thresholds.

15. REVENUE FROM SALE OF GOODS

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

Three months ended March 31,		**2022**		2021
Steel products	**$**	**887**	$	647
Non-steel products		**19**		18
Total	**$**	**906**	$	665

Revenue by geographical location is comprised of:

Three months ended March 31,		**2022**		2021
Canada	**$**	**505**	$	485
United States and other		**401**		180
Total	**$**	**906**	$	665

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

16. COST OF GOODS SOLD

Cost of goods sold is comprised of:

Three months ended March 31,		**2022**		2021
Cost of inventories sold:				
Steel products [1]	**$**	**467**	$	458
Non-steel products		**13**		10
Other [2]		**25**		16
Total	**$**	**505**	$	484

[1] Includes depreciation expense of $19 million (March 31, 2021 - $16 million).
[2] Includes freight, certain employee variable compensation expenses and other non-inventory related costs.

17. SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

Selling, general and administrative expenses is comprised of:

Three months ended March 31,		**2022**		2021
Share-based compensation expense [1]	**$**	**6**	$	2
Employee salary and benefits expense		**5**		6
Management fees [2]		**4**		2
Professional, consulting and legal fees		**2**		2
Other [3]		**3**		2
Total	**$**	**20**	$	14

[1] Refer to note 14 for details.
[2] Refer to note 26 for details.
[3] Includes corporate, public company, travel and certain COVID-19 related costs such as additional employee personal protective equipment, enhanced sanitization and other cleaning services.

18. FINANCE AND OTHER INCOME (LOSS)

Finance and other income (loss) is comprised of:

Three months ended March 31,		**2022**		2021
Gain (Loss) on derivative asset [1]	**$**	**2**	$	9
Finance income		**1**		—
Gain (Loss) on commodity-based swaps		**—**		(27)
Other income		**—**		1
Total	**$**	**3**	$	(17)

[1] Refer to note 5 for details.

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 loss of $27 million on the Interim Condensed Consolidated Statements of Income in connection with these swap contracts.

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

Three months ended March 31,		**2022**		2021
Realized loss on settled swap contracts	**$**	**—**	$	(82)
Reversal of opening derivative liabilities in connection with settled swaps contracts [1]		**—**		68
Change in unrealized loss during the period on unsettled swap contracts		**—**		(13)
Total	**$**	**—**	$	(27)

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

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

No commodity-based swaps were outstanding as at March 31, 2022. Stelco did not enter into these contracts for trading or speculative purposes.

19. FINANCE COSTS

Finance costs are comprised of:

Three months ended March 31,		2022		2021
Accretion of employee benefit commitment	**$**	**11**	$	9
Interest on loans and borrowings		**7**		9
Foreign exchange loss (gain)		**6**		(5)
Remeasurement of employee benefit commitment [1]		**2**		52
Accretion expense related to lease obligations		**1**		1
Total	**$**	**27**	$	66

[1] Remeasurement of employee benefit commitment for change in the timing and magnitude of estimated cash flows and future funding requirements. Refer to note 12 for further details.

20. OTHER COSTS

Three months ended March 31,		2022		2021
Write-down of construction in progress [1]	**$**	**4**	$	—
Demolition costs [2]		**2**		—
Total	**$**	**6**	$	—

[1] Includes a certain capital project that is no longer being pursued by the Company, representing aborted construction in progress costs without future benefit to Stelco.
[2] Represents demolition costs for certain buildings (and other assets) not connected to the Company's ongoing operations.

21. SUPPLEMENTAL CASH FLOW INFORMATION

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

Three months ended March 31,		2022		2021
Changes in non-cash operating working capital:				
Trade and other receivables	**$**	**77**	$	(88)
Inventories		**112**		130
Prepaid expenses and deposits		**1**		12
Trade and other payables		**(81)**		(60)
Derivative liabilities [1]		**—**		(68)
Income taxes payable		**(194)**		—
Other liabilities		**(2)**		(2)
	$	**(87)**	$	(76)
Changes in other operating items:				
Employee benefit commitment	**$**	**(7)**	$	(7)
Pension benefits		**1**		1
Foreign exchange and other		**6**		(5)
	$	**—**	$	(11)
Change in non-cash operating working capital and other operating items	**$**	**(87)**	$	(87)

[1] Refer to note 18 for details.

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

Three months ended March 31,		**2022**		2021
Capital expenditures and additions:				
Machinery, equipment, assets under leases and construction in progress	**$**	**59**	$	39
Strategic Innovation Fund contributions		**—**		(8)
Capital expenditures and additions not affecting cash:				
Finance leases - machinery and equipment		**(8)**		(1)
Construction in progress and other capital additions included in trade and other payables		**1**		(3)
Capital expenditures on property, plant and equipment	**$**	**52**	$	27

Other supplemental cash flow information includes:

Three months ended March 31,		**2022**		2021
Interest paid	**$**	**7**	$	10
Interest received		**1**		—
Income taxes paid		**278**		—

22. NET INCOME PER SHARE

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

Three months ended March 31,		**2022**		2021
Weighted average common shares outstanding - basic and diluted (in thousands)		**74,338**		88,713
Net income per common share - basic and diluted	**$**	**3.52**	$	1.34

23. FAIR VALUE OF FINANCIAL INSTRUMENTS

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

	March 31, 2022		December 31, 2021	
As at	**Carrying Value**	**Fair Value**	Carrying Value	Fair Value
Financial assets:				
Cash	**$ 796**	**$ 796**	$ 955	$ 955
Restricted cash	**9**	**9**	20	20
Trade and other receivables	**333**	**333**	412	412
Derivative asset	**128**	**128**	126	126
Financial liabilities:				
Trade and other payables	**$ 544**	**$ 544**	$ 717	$ 717
Income taxes payable	**58**	**58**	252	252
Other liabilities	**136**	**144**	133	142
Asset-based lending facility	**80**	**80**	84	84
Obligations to independent employee trusts:				
Employee benefit commitment	**493**	**541**	487	532
Mortgage payable	**108**	**113**	108	113

The fair values of cash, restricted cash, trade and other receivables, trade and other payables, and income taxes payable 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 estimated cost of borrowing to the Company.

The fair value of the Company's derivative asset is determined using a discounted cash flow method and Black-Scholes option model, which incorporates observable or unobservable inputs for interest and foreign exchange rates, equity and commodity prices (including indices), 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.

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

The fair values of the Strategic Innovation Fund loan, boiler project financial arrangement, mortgage payable and ABL are estimates based on a discounted cash flow model applying 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 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, 2022			December 31, 2021		
	Level 1	**Level 2**	**Level 3**	Level 1	Level 2	Level 3
Derivative asset [1]	**$ —**	**$ —**	**$ 128**	$ —	$ —	$ 126

[1] Refer to note 5 for details.

There were no transfers between Level 1, Level 2 or Level 3 during the three months ended March 31, 2022.

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, 2022**	December 31, 2021
Amounts drawn and outstanding under the:		
ABL	**$ 81**	$ 85
IMA	**323**	414
Total	**$ 404**	$ 499
Total equity	**1,485**	1,438
Total capital	**$ 1,889**	$ 1,937

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 and Comprehensive Income or Statements of Cash Flows.

Purchase commitments

At March 31, 2022, the Company had future commitments of approximately $80 million in capital expenditures, of which

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

$64 million is expected to be paid within 2022.

Licensing and option agreements

On December 30, 2021, the Company executed licensing and option agreements with Primobius GmbH (Primobius) to commercialize Primobius's proprietary advanced electric vehicle battery recycling and processing technologies in North America. The option agreement grants Primobius (the EV Option) the right to acquire between 25% and 50% equity in a wholly owned subsidiary of Stelco performing these activities. If the EV Option is not exercised by Primobius, Stelco will still have the exclusive rights to utilize Primobius's proprietary technology in Canada, the United States and Mexico to recycle lithium-ion batteries removed from end-of-life electric vehicles, and Primobius will be entitled to a gross revenue royalty.

The EV Option expires December 31, 2022, and the licensing agreement requires that Stelco complete an engineering and commercial study that is subject to certain minimum internal rates of return targets and acceptance by Primobius. The fair value of the purchase consideration for the license intangible asset, as defined in the licensing and option agreements, is immaterial as at March 31, 2022.

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, and key management personnel, among other entities and persons.

The following table provides the total value 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,	**2022**	2021
Purchases of services		
Joint ventures	**$ 5**	$ 4
Bedrock Management [1]	**4**	2

As at	**March 31, 2022**	December 31, 2021
Amounts payable to related parties		
Bedrock Management [1]	**$ 3**	$ 9
Joint ventures	**2**	1

[1] Stelco Inc. is party to a management services agreement with Bedrock ManagementCo Inc. (Bedrock Management), under which Stelco Inc. receives senior management, commercial, business development, operating, financial, human resources, and executive recruitment services, as well as other services that may be required from time to time.

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.

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,	**2022**	2021	**2022**	2021
Share-based compensation	**$ 2**	$ 1	**$ 4**	$ 1
Management and director fees	**—**	—	**4**	2
Salaries and benefits	**—**	—	**2**	1
Total	**$ 2**	$ 1	**$ 10**	$ 4