STELCO

BUILT CANADIAN

2021 ANNUAL REPORT

FORWARD-LOOKING INFORMATION

Certain information included in this Annual Report contains forward-looking information within the meaning of applicable securities laws. This information includes, but is not limited to, statements made in our "Message to Shareholders"; "Our Business"; "Our Operations"; "Environment, Health, Safety & Inclusion" and "2021 Financial Results" sections of this Annual Report.

Forward-looking information may relate to our future outlook and anticipated events or results and may include information regarding our financial position, business strategy, growth strategy, budgets, operations, financial results, taxes, dividend policy, plans and objectives of our Company. Particularly, information regarding our expectations of future results, performance, achievements, prospects or opportunities is forward-looking information. In some cases, forward-looking information can be identified by the use of forward-looking terminology such as "plans", "targets", "expects" or "does not expect", "is expected", "an opportunity exists", "budget", "scheduled", "estimates", "outlook", "forecasts", "projection", "prospects", "strategy", "intends", "anticipates", "does not anticipate", "believes", or variations of such words and phrases or state that certain actions, events or results "may", "could", "would", "might", "will", "will be taken", "occur" or "be achieved". In addition, any statements that refer to expectations, intentions, projections or other characterizations of future events or circumstances contain forward-looking information. Statements containing forward-looking information are not historical facts but instead represent management's expectations, estimates and projections regarding future events or circumstances. The forward-looking statements contained herein are presented for the purpose of assisting the holders of our securities and financial analysts in understanding our financial position and results of operations as at and for the periods ended on the dates presented, as well as our financial performance objectives, vision and strategic goals, and may not be appropriate for other purposes.

The forward-looking information includes, among other things: statements relating to our expanded distribution capabilities, including the Company's position to grow organically; expectations regarding growth opportunities; expectations regarding generating increased cash flows; expectations regarding the impact of greenhouse gas emission requirements; expectations regarding maintaining our low-cost position in the market; expectations regarding the material nature of future environmental compliance costs; expectations regarding continued investments to reduce our carbon footprint; expectations regarding community engagement resulting from our investment in the Hamilton Sports Group; expectations regarding inflationary pressures and higher interest rates; expectations regarding downward pressure on margins from lower steel pricing and softer demand; expectations for lower shipments resulting from COVID-19 interruptions; and expectations for a rebound following resolution of supply chain constraints affecting the energy and automotive markets.

This forward-looking information and other forward-looking information are based on our opinions, estimates and assumptions in light of our experience and perception of historical trends, current conditions and expected future developments, as well as other factors that we currently believe are appropriate and reasonable in the circumstances. Despite a careful process to prepare and review the forward-looking information, there can be no assurance that the underlying opinions, estimates and assumptions will prove to be correct.

The forward-looking information contained in this Annual Report represents management's expectations as of the date of this Annual Report and is subject to change after such date. However, we disclaim any intention or obligation or undertaking to update or revise any forward-looking information whether as a result of new information, future events or otherwise, except as required under applicable securities laws in Canada.

The forward-looking information contained in this Annual Report is expressly qualified by this cautionary statement.

Forward-looking information is necessarily based on a number of opinions, estimates and assumptions that management considered appropriate and reasonable as of the date such statements are made, is subject to known and unknown risks, uncertainties, assumptions and other factors that may cause the actual results, level of activity, performance or achievements to be materially different from those expressed or implied by such forward-looking information, including but not limited to, those described below and referred to under the heading "Risk Factors" in our MD&A.

We caution that the list of risk factors and uncertainties is not exhaustive and other factors could also adversely affect our results. Readers are urged to consider the risks, uncertainties and assumptions carefully in evaluating the forward-looking information and are cautioned not to place undue reliance on such information.

Building Quality and Trust

Quality is the driving force behind Stelco's commitment to building the trust and loyalty of our customers. Today, in our technologically advanced facilities at Hamilton Works and Lake Erie Works, a proud workforce of approximately 2,300 colleagues bring together more than a century of hard-earned expertise, proprietary practices, and continual innovation.

The record of safety, environmental responsibility and job quality established by Stelco's dedicated employees makes us a leader in the North American steel industry. This is Canadian steel, manufactured by Canadians, for customers who require the highest quality products to get the job done. Together, we are building on a time-tested vision that proves quality will always matter.

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Message to Shareholders

To our fellow Shareholders,

We have worked diligently and relentlessly to position our Company to deliver growing and sustainable value to our shareholders since our purchase of Stelco back in 2017. These efforts have been supported by a consistent focus on reducing and controlling costs while also investing strategically into our business and employing tactical flexibility to take advantage of continually shifting market conditions.

Today, I am proud to say that in just four and a half years, our tireless efforts to build Stelco have delivered remarkable results for our Company, all while in the thick of a global pandemic and continued economic uncertainty. Thanks to our unwavering commitment to our tactical flexibility model, and the dedication of our employees, customers and shareholders, 2021 was by all accounts Stelco's most successful year to date – and I firmly believe that the best is yet to come.

2021: A RECORD-SETTING YEAR

On the heels of a transformational 2020, Stelco capitalized on opportunities presented by favorable market conditions to achieve many new milestones in 2021. The result was a record-setting year for our business, and the strengthening of Stelco's position as the unmitigated low-cost leader in the North American steel industry. Notable achievements from the past year include:

- **Achieved highest shipping volume since 2017** – Our shipping volume for the full year of nearly 2.7 million tons is the highest volume we have seen since acquiring the business nearly five years ago. This achievement serves as a clear demonstration of the value Stelco is deriving from the upgrade of our smart blast furnace and many other strategic capital investments over the last two years;
- **Generated over $2 billion of Adjusted EBITDA[1]** – We exceeded $4 billion in revenue in 2021 and generated Adjusted EBITDA of more than $2 billion. Our industry-leading Adjusted EBITDA margin of 50% was the highest of any of our reporting peers in North America, and a result of utilizing our tactical flexibility model and low-cost structure to drive revenue through to the bottom line. Having successfully converted 83% of our Adjusted EBITDA into net income throughout the last year, we remain one of the only public steel companies in North America to not have required access to the public debt or equity markets during the pandemic. Closing 2021 with $955 million of cash on our balance sheet, we continue to maintain an undrawn revolving credit facility with $240 million of availability;
- **Returned approximately $1 billion of capital to shareholders since 2017** – We finished 2021 having returned approximately $800 million of capital to our shareholders since our IPO in 2017, and have continued to add to those returns. Relative to our market capitalization, Stelco has now returned the largest amount of capital to shareholders of any reporting steelmaker or downstream steel company in North America – and by a significant margin. We have returned more than four times the amount raised in our IPO, including the $164 million deployed for a share buyback through a substantial issuer bid completed in early 2022. We also announced a 50% increase to our dividend in Q3 2021, authorized the continuation of our regular quarterly dividend of $0.30 per share in Q4, and saw our common shares added to the S&P/TSX Composite Index, marking another important milestone for our Company;
- **Entered the high growth EV battery recycling market through agreements with Primobius** – In December, we entered the electric vehicle battery recycling market through licensing and option agreements with Primobius, to commercialize their proprietary advanced electric vehicle battery recycling and processing technologies in North America. This exciting partnership will enable Stelco to create a closed-loop system of auto recycling and provision of green steel and high value battery metals back to our automotive OEM customers;
- **Progressed on building our cogeneration plant** – We have made significant strides over the last year in the construction of our new 65-megawatt electricity cogeneration facility. On track for completion in 2022, the facility will partially shelter Stelco from rising electricity prices, furthering our competitive advantage compared

[1] Refer to Page 10 of our 2021 Management's Discussion and Analysis dated as of February 23, 2022 (available through the SEDAR website at www.sedar.com) for a definition of this non-IFRS measure.

to other steelmakers. This investment has the potential to generate significant savings in the face of skyrocketing electricity demand over the coming years which we expect will drive higher costs and lessen reliability for others;

- **United two Hamilton icons through investment in Hamilton Sports Group** – In early 2022, Stelco announced that it had entered into an agreement to purchase a 40% equity interest in Hamilton Sports Group, the entity that owns the Canadian Football League's Hamilton Tiger-Cats (which, like Stelco, trace their history in the community back over 100 years) and Hamilton's Canadian Premier League team, Forge FC. Consistent with our commitment to the communities where our team members live and work, we plan to jointly develop a community engagement program focused on youth throughout Hamilton and surrounding communities to increase health and wellness; and
- **Embarked on a sustainable pathway for production of green steel** – As a result of our significant investments, we have already seen improvements in our industry-leading environmental footprint, and we share the collective aspiration of the Canadian steel industry as a whole to achieve net-zero GHG emissions by 2050. Beyond our substantial recent investments in commissioning North America's only smart blast furnace, we are working with leading experts in researching new steel production, and alternative technologies to develop innovative, industry-leading solutions to help achieve this goal.

LOOKING AHEAD

Recent world events such as the conflict in eastern Europe and gradual global reopening following the COVID-19 pandemic make it difficult to predict what our industry can expect in 2022. However, we remain confident that our commitment to our tried and true tactical flexibility approach uniquely positions us among our steelmaking peers to adapt regardless of market conditions, including in the operating environment which we anticipate to see over the next year, which we expect to include:

- Inflationary pressures and higher interest rates globally;
- Downward pressure on margins due to lower steel pricing compared to 2021, softer demand and the abovementioned inflationary pressures;
- Continued weak visibility of the supply-demand balance in the flat-rolled steel industry until the auto sector begins to once again produce to its capacity and meet the overwhelming demand; and
- Lower shipments as a result of softer demand conditions and labour force availability due to COVID-19-related disruptions.

As we chart our course through the next year, we will remain committed to our core principles by keeping our costs low and balance sheet strong. By pursuing opportunities to improve our industry-leading cost position and by deploying our capital in a manner that affords as much upside as possible for our shareholders, we believe Stelco will continue to thrive regardless of market conditions. Alongside these expected challenges, we also anticipate our industry will see a rebound in the energy market and improvements in auto sales once that industry's supply chain constraints are addressed and production resumes to meet demand.

In closing, I would like to thank our investors, partners, customers and employees for your continued support over the last four and a half years as we have stayed true to our corporate strategy in the midst of disruption – both inside and outside our industry. Thanks to your support, we have been able to make significant and ground-breaking strides in our business over the last year and are realizing our goal of establishing and maintaining Stelco as a low-cost producer capable of providing sustainable and increasing value to our investors.

Sincerely,

ALAN KESTENBAUM
Executive Chairman and Chief Executive Officer


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Our Business

Established in 1910, Stelco is primarily engaged in the production and sale of steel products. The Company owns and operates what we believe are among the newest and the most technologically advanced integrated steelmaking facilities in North America. We produce flat-rolled value-added steels, including premium-quality coated, pre-painted, cold-rolled full hard, fully processed cold-rolled and hot-rolled sheet products, as well as pig iron and metallurgical coke. With first-rate gauge, crown, and shape control, as well as uniform through-coil mechanical properties, our steel products are supplied to customers in the steel service centre, construction, automotive, energy, appliance, and pipe and tube industries across Canada and the United States. Stelco Holdings Inc. is the parent company of Stelco Inc., and is listed on the Toronto Stock Exchange (TSX) under the symbol 'STLC'.

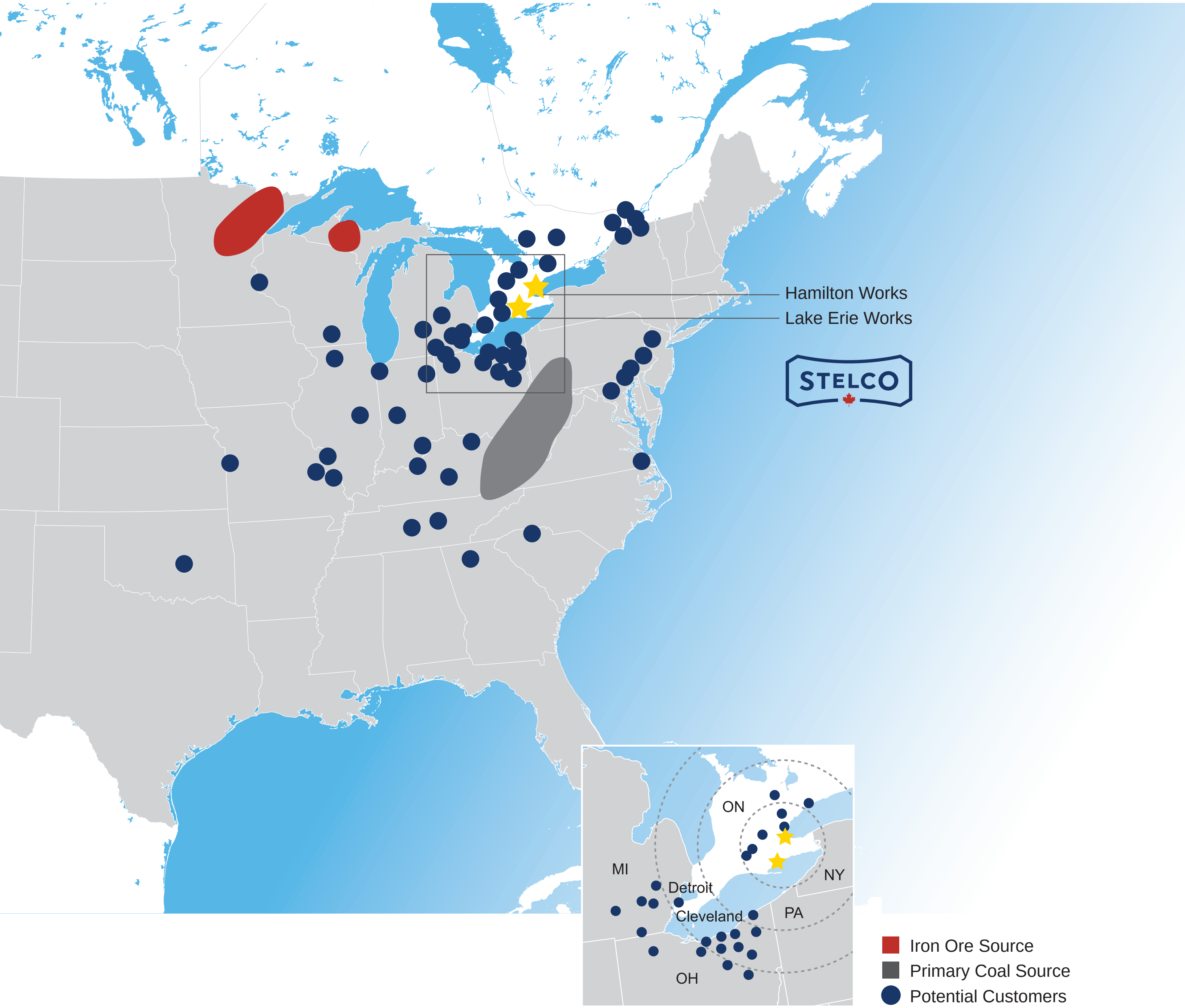
Quality is the driving force behind Stelco's commitment to building the trust and loyalty of our customers. Today, in our technologically advanced facilities at Hamilton Works and Lake Erie Works, a proud workforce of approximately 2,300 colleagues bring together more than a century of hard-earned expertise, proprietary practices, and continual innovation.

Our strategy is to maximize total shareholder returns while maintaining a conservative capital structure. In order to accomplish this strategy, we are focused on six strategic objectives.

These strategic objectives are supported by the entrepreneurial culture that underpins Stelco's returns-based approach to operating our business. This culture is driven by our leadership team's ownership mentality which is unique amongst North American public steel companies. We believe pursuing these strategic objectives will allow us to generate long-term, sustainable returns for our shareholders.

STRATEGIC OBJECTIVES

01	Operating safely and sustainably	04	Maintaining our strong balance sheet
02	Expanding and serving our customer base	05	Maximizing profitability and cash flows
03	Optimizing production from our assets	06	Growing our business



Hamilton Works
Lake Erie Works
STELCO
ON
MI
Detroit
Cleveland
NY
PA
OH
Iron Ore Source
Primary Coal Source
Potential Customers

Our Operations

Stelco operates from two facilities in Ontario: Hamilton Works and Lake Erie Works. Our operations are strategically located near our raw material suppliers and core customers, which we believe positions us to serve both Canadian and American customers with shorter lead-times and lower delivery costs relative to many other steelmakers. Furthermore, the fact that both of our operating facilities are strategically located on waterfront property and have access to multiple modes of transportation (water, rail and truck) allows us to negotiate competitive freight rates, rapidly adapt to changing market environments, and access customers across a wide range of locations. Overall, our facilities have benefited from over $700 million in strategic investments – all funded with internally generated cash flow – to support our future as a green integrated steelmaker.

Our operations are strategically located with access to multiple modes of transportation

HAMILTON WORKS

Stelco's Hamilton Works is driven by innovation. Commissioned in 1905 at Hamilton Harbour, Hamilton Works has evolved with the steel industry and its customers by developing and applying the sector's most modern technology and practices. Home to one of North America's premier zinc-coating lines, Hamilton Works' skilled employees produce world-leading galvanized and galvannealed sheet steel that serves important Canadian sectors such as the automotive, agriculture and infrastructure industries. The Z-Line is a world leader that has the capacity to annually produce up to 470,000 net tons of product with excellent surface quality, corrosion resistance and formability.

LAKE ERIE WORKS

Stelco's Lake Erie Works has been at the forefront of North America's steel industry since it was commissioned in 1980. Located centrally on the north shore of Lake Erie, it is one of the continent's most modern and capable steelmaking facilities. It is also the newest greenfield integrated steelmaking facility in North America, and it serves as an industry flagship of productivity and environmental innovation. The skilled employees who drive the success of this leading-edge operation work in an environment which has benefited from substantial investment and upgrades over the past five years. In addition to providing primary products for value-added finishing at Hamilton Works, Lake Erie Works effectively and reliably integrates Stelco products into customer supply chains for just-in-time delivery.

Environment, Health, Safety & Inclusion

ENVIRONMENT

At Stelco, we are committed to environmental evolution and improvements where possible, as well as to sustained efforts to mitigate our impact on the environments where we operate.

Our ISO 14001 registered environmental management system establishes and reviews environmental objectives and targets to: reduce air, water and waste pollution by means of practices, operating procedures and programs; comply with environmental legal requirements and meet our other environmental goals; prevent pollution in a cost-effective manner; and improve continually.

We also review and audit the operating practices of our business to monitor compliance with the Company's environmental policies and legal requirements. We believe that future costs relating to environmental compliance can be dealt with in a manner such that they will not have a material adverse effect on our financial position or production capabilities. We intend to continue investing in our facilities to reduce our carbon footprint and improve the environmental sustainability of our operations in a financially and socially responsible manner.

HEALTH, SAFETY & INCLUSION

The health and safety of our employees is our top priority. We are committed to continued responsibility and excellence in health and safety, and believe that a job done safely is a job well done. Since 2009, our extensive investment in health and safety equipment and training has helped us reduce our recordable incident rate by more than 70 percent. We are extremely proud of the commitment each and every one of our employees have made to contribute to this stellar result. We also continually review and adapt our policies and procedures, ensuring that best practices are implemented across our facilities, as we did and continue to do to keep our employees safe during the COVID-19 pandemic. At Stelco, we also recognize that fostering a diverse and welcoming workplace is critical to our long-term success and that an accepting and inclusive workplace is of the utmost importance. We are committed to being partners in the fight against racism that has impacted so many in the BIPOC community and continue to be actively engaged as signatories to the BlackNorth Initiative.

STELCO

2021 Highlights

2021 was a record year for Stelco, as we maximized the opportunity presented by favourable market conditions throughout the majority of the year and saw success in the following areas:

JOINED THE S&P/TSX COMPOSITE INDEX

WHAT HAPPENED

On June 21, Stelco's common shares were added to the S&P/TSX Composite Index, marking an important milestone for our company.

WHAT IT MEANS

Stelco will now reach a broader range of investors as we continue our efforts to drive sustainable, long-term value creation for all of our shareholders.

RECORD-SETTING THIRD QUARTER

WHAT HAPPENED

We saw a significant increase in Stelco's average selling price in Q3, up 40% over the previous quarter, which resulted in $787 million of adjusted EBITDA and net income of $614 million.

WHAT IT MEANS

Our many strategic capital investments, tactical flexibility model and commitment to controlling costs have proven effective and enabled us to return $413 million in the quarter to our valued shareholders through dividends and a major share repurchase.

ENTERED EV BATTERY RECYCLING MARKET

WHAT HAPPENED

Stelco executed licensing and option agreements with Primobius GmbH to commercialize Primobius' proprietary advanced electric vehicle battery recycling and processing technologies in North America.

WHAT IT MEANS

Stelco will now be able to recycle end-of-life electric vehicles, convert them into green steel and recover valuable high purity metals such as lithium, nickel, cobalt and manganese from their batteries – positioning Stelco as a best-in-class partner to automotive OEMs pursuing electric vehicle strategies.

RECORD RETURN OF CAPITAL OF APPROXIMATELY $1 BILLION

WHAT HAPPENED

In 2021, Stelco reached almost $800 million of capital returns to shareholders since our IPO in 2017, and returned close to an additional $200 million in Q1 2022.

WHAT IT MEANS

Relative to our market capitalization, Stelco has now returned the largest amount of capital to shareholders of any reporting steelmaker or downstream steel company in North America over the last five years.

HIGHEST SHIPPING VOLUME SINCE IPO IN 2017

WHAT HAPPENED

Stelco achieved a shipping volume of just under 2.7 million tons for the full year of 2021 – the highest volume we have seen since our IPO nearly five years ago.

WHAT IT MEANS

Demonstrates the value Stelco is extracting from the upgrade of our smart blast furnace and other strategic capital investments over the last several years.

Our Leadership

BOARD OF DIRECTORS

Alan Kestenbaum
Executive Chairman

Heather Ross
Lead Director

Monty Baker

Michael W. Dees

Alan Goldberg

Jacob Lew

Michael Mueller

Dr. Indira Samarasekera

Daryl Wilson

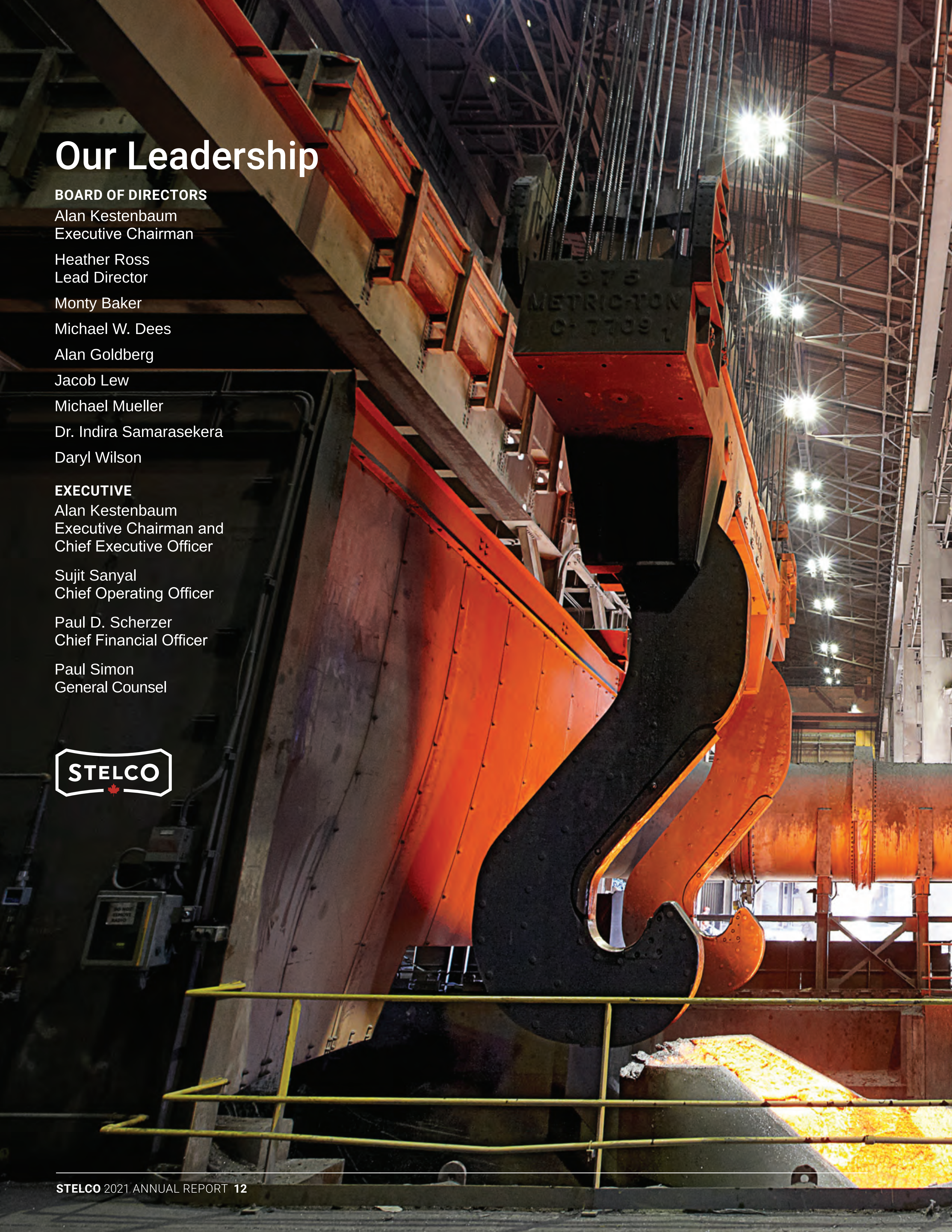
EXECUTIVE

Alan Kestenbaum
Executive Chairman and
Chief Executive Officer

Sujit Sanyal
Chief Operating Officer

Paul D. Scherzer
Chief Financial Officer

Paul Simon
General Counsel



2021 MANAGEMENT'S DISCUSSION AND ANALYSIS
STELCO HOLDINGS INC.

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MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS OF STELCO HOLDINGS INC.

This Management's Discussion and Analysis (MD&A) is intended to enable a reader to assess Stelco Holdings Inc.'s (Stelco Holdings) results of operations and financial performance for the three months and year ended December 31, 2021 (Q4 2021 and 2021, respectively). Unless the context indicates otherwise, references to the "Company", "Stelco", "we", "us" or "our" refer to Stelco Holdings and its consolidated subsidiaries, as applicable. This MD&A, which has been prepared as of February 23, 2022, should be read in conjunction with our audited consolidated financial statements and related notes for the year ended December 31, 2021 (Consolidated Financial Statements). The Consolidated Financial Statements have been prepared in accordance with International Financial Reporting Standards (IFRS) and are presented in millions of Canadian dollars unless otherwise indicated.

These documents, as well as additional information relating to the Company, including our Annual Information Form dated as of February 23, 2022 (2021 AIF) have been filed electronically with the Canadian securities regulators through the System for Electronic Document Analysis and Retrieval (SEDAR) and are available through the SEDAR website at www.sedar.com. Readers are cautioned against relying on or otherwise obtaining information in respect of the Company from sources other than from the Company's public filings on the SEDAR website.

FORWARD-LOOKING INFORMATION

Certain information included in this MD&A contains forward-looking information within the meaning of applicable securities laws. This information includes, but is not limited to, statements made in our "Business Overview"; "Strategy"; "Results of Operations"; "Capital Resources and Liquidity", and "Commitments and Contingencies" sections of this MD&A. Forward-looking information may relate to our future outlook and anticipated events or results and may include information regarding our financial position, business strategy, growth strategy, budgets, operations, financial results, taxes, plans and objectives. Particularly, information regarding our expectations of future results, performance, achievements, prospects or opportunities is forward-looking information. In some cases, forward-looking information can be identified by the use of forward-looking terminology such as ''plans'', ''targets'', ''expects'', ''does not expect'', ''is expected'', ''exists'', ''budget'', "goal", ''scheduled'', ''estimates'', ''outlook'', ''forecasts'', ''projection'', ''prospects'', ''strategy'', ''intends'', ''anticipates'', ''does not anticipate'', ''believes'', or variations of such words and phrases or state that certain actions, events or results ''may'', ''could'', ''would'', ''might'', ''will'', ''will be taken'', ''occur'' or ''be achieved''. In addition, any statements that refer to expectations, intentions, projections or other characterizations of future events or circumstances contain forward-looking information. Statements containing forward-looking information are not historical facts but instead represent management's expectations, estimates and projections regarding future events or circumstances. The forward-looking statements contained herein are presented for the purpose of assisting the holders of our securities and financial analysts in understanding our financial position and results of operations as at and for the periods ended on the dates presented, as well as our financial performance objectives, vision and strategic goals, and may not be appropriate for other purposes.

The forward-looking information includes, among other things: expectations that the LG Bedrock (as hereinafter defined) representatives serving as directors on the Company's board of directors will continue until the next annual general meeting of shareholders; statements regarding our strategy of maximizing total shareholder returns while maintaining a conservative capital structure; statements regarding the Company's six strategic objectives, namely: (i) operating safely and sustainably, (ii) expanding and serving our customer base, (iii) optimizing production from our assets, (iv) maintaining a strong balance sheet, (v) maximizing profitability and cash flows, and (vi) growing our business; statements with respect to the Pellet Agreement (as defined herein), including, with respect to the Company's belief that the Pellet Agreement will supply substantially all of Stelco's anticipated requirements of iron ore pellets at Lake Erie Works through January 31, 2028, including volumes required to support the expansion of production projected as a result of the blast furnace upgrade and reline; our ability to capitalize on any increase in hot metal production through the use of the pig iron caster; statements regarding the timing and cost of the construction of the Cogen Plant (as defined herein) and the related boiler assets and infrastructure; expectations that the Cogen Plant will receive all applicable regulatory approvals in a timely fashion, expectations that such facility will be completed and, if completed, would lower the Company's overall power consumption costs; statements regarding the expected aggregate maximum fixed payment amounts that will be payable by the Company in respect of the Cogen Plant and the related boiler assets and infrastructure; statements with respect to the timing and cost of the Coke Battery Upgrade Project (as defined herein) and the anticipated increase in production capacity resulting from the Coke Battery Upgrade Project; statements regarding the Coke Battery Upgrade Project contributing towards the achievement of the Company's environmental compliance objectives and reducing our energy purchases; statements regarding the Company's belief that the RPA (as defined herein) provides the Company with improved liquidity on certain customers' trade receivables; statements regarding our intention to pursue and complete capital projects in connection with the Contribution (as defined herein); statements with respect to the application of the Contribution to such capital projects; statements with respect to our intention to fully capitalize on the Contribution and expectations that the funding commitment, and any capital projects in connection therewith, will allow us to: (i) increase research and development, (ii) facilitate growth and expansion, (iii) advance industrial research and technology, (iv) produce additional advanced steel products, (v) lower the Company's overall production costs, and/or (vi) improve the Company's environmental footprint; statements regarding the COVID-19 pandemic and the impacts that it may have on the Company and the industry and market in which the Company operates; expectations regarding increased domestic demand for our products as a result of existing Canadian trade measures; expectations regarding Canadian government support for businesses and workers impacted by trade measures; expectations that the CBSA's (as defined herein) policies will provide the Canadian steel industry with effective protection against foreign trade measures; statements regarding the Company's working capital and expectations that cash-on hand, cash generated from our operations, amounts available under our ABL (as defined herein), RPA and IMA (as defined herein), and the availability of debt and equity capital in the public markets will be sufficient to meet our future operating expenses, capital expenditures, and future debt services costs and to support the growth of our business, repay short-term obligations and deploy for general corporate purposes; statements with respect to the NCIB (as hereinafter defined) and any expectation that the

Company will purchase for cancellation any shares thereunder; statements regarding the acquisition of a 40% interest in the Hamilton Sports Group and expectations that the conditions necessary to proceed with closing the transaction during the first quarter of 2022 will be satisfied or waived; expectations that the design, development and construction of an electric vehicle battery recycling refinery contemplated in connection with the Primobius arrangement will, if completed, allow Stelco to become a leading lithium-ion battery recycler in North America and that the anticipated volumes referenced herein will be realizable; statements with respect to the timing of the design, construction and completion of any such electric vehicle battery recycling refinery; expectations that the licensing agreement with Primobius will enable Stelco to advance commercial lithium-ion battery feedstock sourcing agreements and commence engineering and approvals processes; statements regarding potential future acquisitions; expectations that the resolution of any litigation proceedings or actions will not have a material impact on the Company's consolidated balance sheets, statements of income or statements of cash flows; and expectations regarding industry trends, market growth rates and the Company's future growth rates, plans and impact.

This forward-looking information and other forward-looking information are based on our opinions, estimates and assumptions in light of our experience and perception of historical trends, current conditions and expected future developments, as well as other factors that we currently believe are appropriate and reasonable in the circumstances. Despite a careful process to prepare and review the forward-looking information, there can be no assurance that the underlying opinions, estimates and assumptions will prove to be correct. Certain assumptions in respect of the utilization of and access to our excess capacity; capital expenditures associated with accessing such excess capacity; the impact of COVID-19 on our business and the broader market in which we operate; the market's ability to recover from COVID-19; upgrades to our facilities and equipment; our research and development activities associated with advanced steel grades; our ability to source raw materials and other inputs; our ability to supply to new customers and markets; our ability to effectively manage costs; our ability to attract and retain key personnel and skilled labour; our ability to obtain and maintain existing financing on acceptable terms; currency exchange and interest rates; the impact of competition; changes in laws, rules, and regulations, including environmental and international trade regulations; our ability to effectively negotiate labour agreements and mitigate the impact of any labour disputes; and growth in steel markets and industry trends are material factors made in preparing the forward-looking information and management's expectations contained in this MD&A.

KEY ASSUMPTIONS UNDERLYING THE PROPOSED SHREDDING AND HYDROMETALLURGICAL RECYCLING REFINERY FACILITIES' PRODUCTION ESTIMATES

The approval, development, and construction of shredding and hydrometallurgical recycling refinery facilities, the estimated schedules with respect thereto, and the estimated production volumes associated with such facilities included in this MD&A are based on a number of assumptions, including, but not limited to, the following material assumptions: expectations that third party contractors and suppliers will deliver, construct and perform in accordance with agreed upon design plans and plant engineering reports; expectations Stelco will be able to procure and obtain sufficient quantities and quality of end-of-life electric vehicles and/or other batteries to fully-utilize the facilities' design capacities; our ability to obtain any applicable regulatory approvals and permits required in connection with developing, constructing and operating the facilities; expectations that, upon completion, the facilities will produce in accordance with anticipated design capacity; expectations that the market for electric vehicle batteries and steel products does not experience a material adverse change that would render the development, construction and /or operation of the facilities uneconomical; expectations that our customers will continue to purchase material volumes of production outputs upon completion of the project; expectations that the hydrometallurgical refinery facility will produce sufficient quality grades of battery metals following completion of the refining process; expectations that North America will be the world's fastest growing cell-making region; and expectations that we will fully realize current and future production levels at our facilities.

KEY ASSUMPTIONS UNDERLYING OUR COKE BATTERY UPGRADE PROJECT

The estimated budget, schedule and production volumes associated with the Coke Battery Upgrade Project included in this MD&A are based on a number of assumptions, including, but not limited to, the following material assumptions: expectations that third party contractors and suppliers will deliver, construct and perform in accordance with agreed upon budgets and schedules; expectations that the scope of work will remain unchanged in all material respects; our ability to obtain any applicable regulatory approvals and permits required in connection with the Coke Battery Upgrade Project; expectations that, upon completion, the facility will produce in accordance with anticipated design capacity; expectations that the market for steel does not experience a material adverse change subsequent to the completion of the Coke Battery Upgrade Project; expectations that our customers will continue to purchase material volumes of production upon completion of the project; the facility, upon completion, performing in such a manner so as to provide sufficient coke that, together with our HW coke battery, meet our production needs; and expectations that we will fully realize current and future production levels at our LEW facility.

KEY ASSUMPTIONS UNDERLYING OUR SHIPPING VOLUME ESTIMATES FOR THE FIRST QUARTER OF 2022

The estimates with respect to our Shipping Volumes (as hereinafter defined) during the first quarter of 2022 referenced in this MD&A are based on a number of assumptions in addition to the foregoing assumptions, including, but not limited to, the following material assumptions: the Company's ability to continue to access the U.S. market without any adverse trade restrictions; no significant legal or regulatory developments, changes in economic conditions, or macro changes in the competitive environment affecting our business activities; upgrades to existing facilities remaining on schedule and on budget and their anticipated effect on revenue and costs; the Company's ability to attract new customers and further develop and maintain existing customers; currency exchange and interest rates; the impact of competition; and growth in steel markets and industry trends.

We believe that our performance and our ability to achieve these shipments during the first quarter of 2022 depend on a number of material factors including: (i) sustained global demand growth; (ii) continued steel production capacity curtailments in China; (iii) continued fair trade practices, particularly with respect to the North American market; (iv) the COVID-19 pandemic not having an adverse impact on North American demand for our products; (v) continued signs of a broad economic recovery, together with ongoing economic support from federal, provincial, and local governments in connection with the recovery from the COVID-19 pandemic; and (vi) stable supply and demand fundamentals in the rest of the world. These factors are also subject to a number of inherent risks, challenges and assumptions.

KEY ASSUMPTIONS UNDERLYING CAPACITY TO ACHIEVE SHIPMENTS UP TO 3.0 MILLION NT

We believe that our performance and our ability to produce shipments up to 3.0 million nt disclosed in this MD&A depend on a number of material factors including: (i) sustained global demand growth; (ii) continued steel production capacity curtailments in China; (iii) fair trade practices, particularly with respect to the North American market; (iv) the COVID-19 pandemic not having an adverse impact on North American demand for our products and federal, state, provincial and local governments continuing to support the economy; (v) a broad economic recovery following the COVID-19 pandemic; (vi) our ability to source third party slabs at attractive pricing to utilize the excess capacity in our LEW hot strip mill; and (vii) stable supply and demand fundamentals in the rest of the world. These factors are also subject to a number of inherent risks, challenges and assumptions. Certain assumptions underlying the shipment capacity estimates disclosed in this MD&A are included in the final prospectus relating to the Company's initial public offering and include the following:

- our ability to utilize and access our excess capacity with limited capital investment;
- the execution of our planned upgrades to our facilities and equipment;
- our research and development activities being successful to allow us to produce advanced steel grades and AHSS (as defined herein) and UHSS (as defined herein);
- our ability to re-engage with customers to increase sales volume of technically advanced steels;
- steel consumption in North American automobiles growing to 6.7m nt by 2025 at the expected rate as estimated by World Steel Dynamics Inc.;
- the anticipated growth in the North American market for steel products growing in line with expected gross domestic product growth of 2% to 3% per annum;
- our ability to remain a low-cost producer of steel products through our ability to effectively manage costs;
- our product mix being heavily weighted toward hot-rolled coil;
- the current higher international prices of steel products remaining so as to disincentivize imports;
- our ability to attract and retain key personnel and skilled labour; and
- our ability to obtain orders on acceptable terms for our planned increased production.

Management currently believes that the achievement of the shipment capacity of 3.0 million nt by the end of 2022 is possible, can be reasonably estimated and is based on underlying assumptions that management believes are reasonable in the circumstances, given the time period of such target. However, there can be no assurance that we will be able to continue to grow our annual shipments. Furthermore, there can be no assurance that inflation rates, foreign currency exchange rates, taxation rates, interest rates, debt repayment terms or our ability to continue generating free cash flow through limited investment in capital expenditures will be consistent with our assumptions as actual rates and levels may vary.

The description of our potential growth opportunities in this MD&A is based on management's current views and strategies, our assumptions and expectations concerning our growth opportunities and our assessment of the opportunities for our business and the steel industry as a whole, and has been calculated using accounting policies that are generally consistent with our current accounting policies. The purpose of disclosing our production capacity estimates is to provide investors with more information concerning what management currently believes is achievable based on our growth strategies.

The description of our estimated shipment capacity is forward looking information for purposes of applicable securities laws in Canada and readers are therefore cautioned that actual results may vary from those described elsewhere in this MD&A. See above for a description of the assumptions expected capacity, and see the section "Risk Factors" in the 2021 AIF and filed on SEDAR at www.sedar.com for a description of the risks and uncertainties that impact our business and that could cause actual results to vary.

The forward-looking information contained in this MD&A represents management's expectations as of the date of this MD&A and is subject to change after such date. However, we disclaim any intention or obligation or undertaking to update or revise any forward-looking information whether as a result of new information, future events or otherwise, except as required under applicable securities laws in Canada.

The forward-looking information contained in this MD&A is expressly qualified by this cautionary statement. Forward-looking information is necessarily based on a number of opinions, estimates and assumptions that management considered appropriate and reasonable as of the date such statements are made, is subject to known and unknown risks, uncertainties, assumptions and other factors that may cause the actual results, level of activity, performance or achievements to be materially different from those expressed or implied by such forward-looking information, including but not limited to, those described herein and referred to under the heading "Risk and Uncertainties" below, and see the section "Risk Factors" in the 2021 AIF for a description of the risks and uncertainties that impact our business. We caution that the list of risk factors and uncertainties is not exhaustive and other factors could also adversely affect our results. Readers are urged to consider the risks, uncertainties and assumptions carefully in evaluating the forward-looking information and are cautioned not to place undue reliance on such information.

Management's Discussion and Analysis

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MANAGEMENT'S DISCUSSION AND ANALYSIS

Business Overview

Stelco Holdings is the parent company of Stelco Inc. (Stelco), one of Canada's leading steel producers, and is listed on the Toronto Stock Exchange (TSX) under the symbol 'STLC'. Stelco Holdings was incorporated on September 25, 2017 under the *Canada Business Corporations Act* and is based in Hamilton, Ontario, Canada.

Stelco Holdings completed an initial public offering on November 10, 2017, and acquired all outstanding shares of Stelco from Bedrock Industries Cooperatief U.A. (formerly known as Bedrock Industries B.V. (Bedrock Industries)), which is a wholly-owned indirect subsidiary of Bedrock Industries LP (Bedrock).

Overview

Stelco was established in 1910 and is primarily engaged in the production and sale of steel products. The Company owns and operates what we believe is among the newest and the most technologically advanced integrated steelmaking facilities in North America. Stelco produces flat-rolled value-added steels, including premium-quality coated, pre-painted, cold-rolled full hard, fully processed cold-rolled and hot-rolled sheet products, as well as pig iron and metallurgical coke. With first-rate gauge, crown, and shape control, as well as uniform through-coil mechanical properties, our steel products are supplied to customers in the steel service centre, construction, automotive, energy, appliance, and pipe and tube industries across Canada and the United States. We believe our total cash costs per net ton (nt) are among the lowest in North America.

We operate from two facilities: Lake Erie Works (LEW) near Nanticoke, Ontario and Hamilton Works (HW) in Hamilton, Ontario. Our LEW facility is comprised of a coke battery, a blast furnace, a pig iron caster, two basic oxygen furnace steelmaking vessels, a steel ladle treatment system, an RHOB vacuum steel degassing facility, a twin-strand slab caster, a 6-stand hot strip mill, and three pickling lines. LEW produces hot-rolled and hot-rolled pickled steel coils that are either sold to third-parties or sent on to HW for further processing. Our HW facility is comprised of a coke battery, a 4-stand cold-rolling mill, a continuous galvanizing line, a galvanizing and galvannealing Z-Line, batch anneal furnaces and a temper mill. HW is supplied with hot-rolled pickled steel from LEW and produces high quality cold-rolled full hard, fully processed cold-rolled, and coated sheet steel products as well as metallurgical coke that is both supplied to LEW to fuel its blast furnace and sold to third-parties. We believe our rolling and finishing capabilities represent some of the most advanced in our industry and differentiate us from our North American competitors. In addition to LEW and HW, we own a 50% interest in two separate joint ventures: Baycoat Limited Partnership, which complements our finishing capabilities, and D.C. Chrome Limited, which provides services related to equipment used for our rolling mills.

Our operations are strategically located near our raw material suppliers and core customers which we believe positions us to serve both Canadian and U.S. customers with shorter lead-times relative to other steelmakers. Furthermore, the fact that both of our operating facilities have access to multiple modes of transportation (water, rail and truck) allows us to negotiate competitive freight rates, rapidly adapt to changing market environments, and access customers across a wide range of locations.

Unfair Trade Practices

On May 17, 2019, Canada and the United States issued a joint statement agreeing to eliminate tariffs on steel and aluminum effective May 20, 2019. As a result of the understanding between the two countries, neither Canadian importers of steel from the United States, nor U.S. importers of steel from Canada are required to pay tariffs or surtaxes pursuant to these measures. While imports into both countries continue to be monitored by the respective governments, we anticipate that the Government of Canada will continue to support the businesses and workers impacted by the U.S. administration's trade measures.

On August 23, 2019, the Government of Canada announced regulatory and policy changes intended to improve the effectiveness and transparency of Canada's trade remedy system that were in effect. In connection with these changes, the Canada Border Services Agency (CBSA) has updated its policy to allow anti-dumping levels to be reviewed more frequently, which may provide the Canadian steel industry with more effective and up-to-date protection in the face of changing market circumstances. The CBSA and Global Affairs Canada have also taken steps to enhance the verification of steel import data. Furthermore, the Government of Canada has implemented regulatory amendments which are intended to provide the CBSA with greater flexibility when calculating appropriate levels of anti-dumping duties in circumstances in which price distortions may be involved.

On July 9, 2021, the Canadian International Trade Tribunal (CITT) initiated an expiry review of its order made in August 2016 concerning the dumping and subsidization of flat hot-rolled sheet and strip from Brazil, China, Ukraine and India. Under the current order, anti-dumping duty equal to 77% of the export price is applied to subject imports from Brazil, China and Ukraine, and countervailing duty equal to 3,150 rupees per metric tonne is applied to subject imports from India. On December 6, 2020, the CBSA determined that allowing the measure to expire would likely result in the resumption of dumping and subsidizing of hot-rolled sheet and strip into the Canadian market from the subject countries. The CITT will hold a hearing during Q1 2022 to determine whether the rescission of the order is likely to result in injury to the Canadian industry. A final decision from the CITT is expected no later than May 13, 2022.

The Government of Canada has continued to consult with the steel industry and workers regarding additional improvements to Canada's trade remedy system. As a result, on April 19, 2021, the Government of Canada announced its intention to launch public consultations on measures to further strengthen Canada's trade remedy system. On August 6, 2021, the government launched public consultations regarding possible legislative and regulatory changes which could ultimately result in amendments to the *Special Import Measures Act* and the *Canadian International Trade Tribunal Act* and related regulations. The proposed measures are intended to maintain a robust trade remedy system that helps ensure unfairly traded foreign imports do not damage the domestic industry.

We support the continued effort of the government to modernize and strengthen Canada's trade remedy system and will monitor developments and continue to advocate in the interest of the domestic steel industry. In addition, we continuously monitor imports of steel products into Canada and continue to support the utilization of the domestic trade remedy system when and where circumstances warrant to prevent dumped and subsidized imports from injuring our business and to aid in the stabilization of the domestic market and steel prices.

Repurchase and cancellation of common shares

Normal Course Issuer Bid (NCIB)

Subsequent to December 31, 2021, the Company received approval from the TSX to commence a normal course issuer bid (NCIB). Stelco Holdings is entitled to purchase up to 4,353,418 common shares pursuant to this NCIB. The NCIB will commence on February 28, 2022 and end 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. Shareholders can obtain a copy of the NCIB notice accepted by the TSX, without charge, by contacting the Company.

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 January 26, 2022, the SIB expired with fewer shares tendered than were required to enable the Company to purchase the maximum amount. In February 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 $164.3 million.

LG Bedrock Holdings LP

During August, 2021, the Company repurchased and cancelled 11,398,024 common shares (the Repurchase) from LG Bedrock Holdings LP (LG Bedrock or the Selling Shareholder) at a price of $34.93 per common share, for gross proceeds to the Selling Shareholder of approximately $398 million. As a result of the Repurchase, the Selling Shareholder's ownership in the Company was reduced from 19,052,235 common shares to 7,654,211 of the issued and outstanding common shares representing a decrease from approximately 21.5% to approximately 9.9% of the issued and outstanding common shares at that time after giving effect to the Repurchase. With the subsequent completion of the SIB, LG Bedrock's ownership percentage increased to 10.5% of the issued and outstanding common shares.

The Repurchase was completed pursuant to a definitive share purchase agreement between the Company and the Selling Shareholder, which included a customary lock-up in respect of LG Bedrock's remaining common shares for a period of 12 months expiring on August 13, 2022, subject to certain limited exceptions. The Repurchase was completed at a discount of approximately 26% to the closing price of the Company's common shares on August 12, 2021. The Company believes that the Repurchase provided a number of benefits to our shareholders, including improved market liquidity in respect of the Company's common shares and an improved capital markets profile.

As a result of the Repurchase, LG Bedrock ceased to have any nomination rights or preemptive rights pursuant to the investor rights agreement between, among others, the Company and LG Bedrock. However, each of LG Bedrock's current representatives on the Board of Directors will continue to serve as a director of the Company, subject to the Board of Directors' ordinary course director assessment and succession processes.

Secondary Offerings

On March 10, 2021, Stelco Holdings announced the completion of a bought deal secondary offering (the March Offering) of 7,000,000 common shares of Stelco Holdings by Bedrock Industries at a price of $26.25 per common share for aggregate gross proceeds of $184 million. The net proceeds of the March Offering, after deducting the underwriter's commission, were paid to Bedrock Industries. Prior to the March Offering, Bedrock Industries held 41,172,315 of Stelco Holdings' common shares, which represented approximately 46.4% of the total issued and outstanding common shares at that time. Following the completion of the March Offering, Bedrock Industries held 34,172,315 common shares, representing approximately 38.5% of the issued and outstanding common shares of Stelco Holdings at that time. Subsequent to the March Offering, Bedrock Industries completed a distribution in kind of all of its common shares in Stelco Holdings to LG Bedrock and to Alan Kestenbaum.

On June 2, 2021, Stelco Holdings announced the completion of a bought deal secondary offering (the June Offering) of 6,670,000 common shares of Stelco Holdings by LG Bedrock at a price of $33.00 per common share for aggregate gross proceeds of $220 million. The net proceeds of the June Offering, after deducting the underwriter's commission, were paid to LG Bedrock. Prior to the completion of the June Offering, LG Bedrock held 25,752,236 of Stelco Holdings' common shares, which represented approximately 29.0% of the issued and outstanding common shares at that time. Following the completion of the June Offering, LG Bedrock held 19,082,236 common shares, representing approximately 21.5% of the issued and outstanding common shares of Stelco Holdings at that time.

The March Offering was completed by way of a prospectus supplement dated March 5, 2021 to the final base shelf prospectus of the Company dated February 11, 2021 (the Base Shelf Prospectus). The June Offering was completed by way of a prospectus supplement dated May 28, 2021, to the Base Shelf Prospectus. Each of the Base Shelf Prospectus and the prospectus supplements in respect of the March Offering and the June Offering are available on the Company's SEDAR profile at www.sedar.com.

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 the Contribution that Stelco will receive is dependent upon qualified expenditures made by the Company in connection with 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.

As of December 31, 2021, the Company has received an aggregate of $40.8 million in cash proceeds in connection with the Contribution. Management believes that investment in these capital projects will allow the Company to produce additional advanced steel products, lower its overall production costs and improve its environmental footprint.

Strategy

Our strategy is to maximize total shareholder returns while maintaining a conservative capital structure. In order to accomplish this strategy, we are focused on six strategic objectives: (i) operating safely and sustainably; (ii) expanding and serving our customer base; (iii) optimizing production from our assets; (iv) maintaining a strong balance sheet; (v) maximizing profitability and cash flows; and (vi) growing our business. These strategic objectives are supported by the entrepreneurial culture that underpins our return-based approach to operating our business. This culture is driven by our leadership team's ownership mentality and significant ownership interest in the Company, which is unique amongst North American publicly traded steel companies. We believe pursuing these strategic objectives will allow us to generate sustainable long-term returns for our shareholders.

Operate Safely and Sustainably

Our business upholds a social contract with both our employees and the communities in which we operate. The health and safety of our employees is always at the core of our strategy, and we believe that a job done safely is a job well done. We intend to build on our success in this area and continue to focus on ensuring our employees return home safely each and every day. We also intend to continue investing in our facilities to reduce our carbon footprint and improve the environmental sustainability of our operations. Through investments in research and development as well as emerging technologies, we intend to reduce emissions, improve efficiency, and in turn generate positive returns for our valued stakeholders.

Expand and Serve our Customer Base

We remain committed to serving our customers through strategic investments, expanding the current steel products we offer, and delivering those products more efficiently through improved logistics capabilities. We expect to continue working closely with our customer base to identify and develop the next generation of steel products to serve both their needs and those of the end-users of our products.

Optimize Production from our Assets

As a result of historical underutilization, we have excess capacity in certain of our strategic steel product production capabilities. We believe we can utilize this excess capacity to grow our revenues and lower our costs per ton. We actively pursue initiatives that can be implemented with limited investment to improve asset utilization. In addition to utilizing excess capacity, we are continuing to pursue initiatives such as capturing, recycling, and selling the by-products generated in our production process. We believe we can deliver organic growth from these types of low-capital, high-return projects.

Maintain a Strong Balance Sheet

We believe maintaining financial discipline leads to the delivery of sustainable, long-term shareholder returns and will ensure Stelco is well-positioned to manage the cyclical nature of the steel industry. We are committed to maintaining a strong balance sheet with sufficient liquidity and financial flexibility to support our operational and strategic initiatives. This will allow us to finance selective capital expenditure programs aimed at improving our product mix to focus on more advanced steel products, including additional Advanced High Strength Steel (AHSS) and Ultra High Strength Steel (UHSS) grades. Unlike many of our integrated peers, we are not encumbered by significant and uncapped liabilities associated with pensions and other post-employment benefits. We seek to maintain a capital structure with low financial leverage that is largely free from legacy liabilities in order to ensure maximum free cash flow generation.

Maximize Profitability and Cash Flow

Our production and sales efforts are focused on products and end-markets that we consider to have the highest potential for profitability and growth. We are currently focused on expanding our technical capabilities in order to produce additional AHSS and UHSS grades and a broader range of fully-processed cold-rolled products. We believe these products, which are geared toward the automotive and construction end-markets, will enable us to deliver higher margins and generate increased cash flow. Additionally, we seek to aggressively maintain our low-cost position by controlling the cost of our raw material inputs by entering into long-term supply contracts at either fixed or floating prices and regularly reviewing these contracts with a view toward improving terms, and through other cost saving initiatives focused on operating efficiencies and generating returns for our shareholders. We have also focused on improving our working capital velocity through initiatives aimed at optimizing inventory levels and accounts receivable. We believe we can maximize our profitability and cash flow generation by pursuing these initiatives.

The Company's sales strategy is focused on maximizing profits, including regaining higher margin business, increasing our expansion into additional markets outside Canada with respect to hot-rolled, cold-rolled and coated coil sales, and assessing opportunities to introduce new products.

Grow our Business

We take a disciplined approach to our capital investments with a focus on return-based metrics. Our management team has a proven track record of value creation through an opportunistic and disciplined approach to acquisitions. By maintaining a strong balance sheet, we can selectively pursue organic and strategic opportunities when market conditions are favourable to us. We have adopted this return-based approach to evaluate opportunities for our business as we seek to expand our capabilities. We evaluate and consider strategic opportunities based on strictly defined financial criteria focused on pursuing projects with the highest cash-on-cash returns and fastest payback. We believe this will position us to grow our business through complementary acquisitions and other investments to maximize shareholder returns.

Health, Safety and Environment

Health and Safety

The health and safety of our employees is our top priority and we are committed to continued responsibility and excellence in health and safety. In recent years, we have invested in the health and safety of our employees by enhancing personal protective equipment (PPE), adding additional safety features to existing equipment and improving the overall conditions of the workplace environment. We also continually review our policies and procedures ensuring that best practices are implemented across our facilities.

We comply with a variety of health and safety requirements administered by regulatory authorities in Ontario where our facilities are located. We do not believe that we are faced with any requirements in respect of health and safety or industrial hygiene that will have a material adverse effect on our financial position. We maintain an internal health, safety, asset integrity, and risk audit system, which is carried out at the corporate level, to determine compliance with legal requirements and our corporate policies in these areas.

COVID-19 Pandemic

We continue to undertake comprehensive measures to protect the health of our employees and their families, and ensure the continuity of our operations to serve the needs of our customers. Some of the measures taken by the Company include, but are not limited to, a constant supply of PPE for our employees, enhanced cleaning and sanitation procedures, social distancing, hosting vaccination clinics for employees, implementing a vaccine bonus incentive program, remote working and a company-wide communication plan, which enables us to safeguard employee health while ensuring service continuity for our customers. The Company also continues to evaluate all developments and make any necessary modifications and enhancements to our COVID-19 response as new and updated information is provided by public health authorities and governments.

While COVID-19 continues to have a significant worldwide impact, we are confident that as one of North America's most technologically advanced steel companies we are well positioned to succeed. Our tactical flexibility business model will ensure that Stelco remains competitive, versatile and ready to capitalize on the expected economic recovery across North America.

Environment

We are committed to being an environmentally responsible company and in protecting the environment of the communities where we have operating facilities. Our ISO 14001 registered environmental management system establishes and reviews environmental objectives and targets to: reduce air, water and waste pollution by means of established and continually updated practices, operating procedures and programs; comply with environmental legal requirements and meet our other environmental goals; prevent pollution in a cost effective manner; and continually improve. We review and audit the operating practices of our business to monitor compliance with the Company's environmental policies and legal requirements. We believe that future costs relating to environmental compliance can be dealt with in a manner such that they will not have a material adverse effect on our financial position. In addition, we believe that our plans to increase production to use our excess capacity may not be materially affected by the applicable environmental requirements, including greenhouse gas (GHG) and other air emissions requirements, subject to the updated GHG regulation as described below.

In connection with its emergence from *Companies' Creditors Arrangement Act* (CCAA) creditor protection, Stelco Inc. entered into a Framework Agreement Concerning Environmental Issues at the Hamilton Works and Lake Erie Works properties with Bedrock and the Province of Ontario (the Environmental Framework Agreement) which we believe has significantly lowered our exposure to unforeseen historic environmental issues at LEW and HW. As Stelco Inc. has been conducting steel-making operations at HW for more than a century and LEW for several decades, there are instances of historical contamination of the lands at our HW and LEW facilities. Under the terms of the Environmental Framework Agreement, we are required to measure and monitor the extent and nature of such historical contamination. Stelco Inc. has received a release from the Province of Ontario pursuant to which it agreed not to hold Stelco Inc. liable for certain historical contamination provided that we comply with the terms of the Environmental Framework Agreement.

GHG regulation update

On July 3, 2018, the Government of Ontario revoked the Cap and Trade Regulation and all the other regulations under the Climate Change Mitigation and Low-carbon Economy Act, 2016, effectively ceasing Ontario's Cap and Trade program. The revocation regulation also prohibits registered participants in the former cap and trade program from purchasing, selling, trading or otherwise dealing with emission allowances and credits.

Although the cap and trade program has been canceled, many emitters still have an obligation to report on their GHG emissions to the Ontario government. Without a cap and trade system or carbon tax in place that meets the minimum federal requirements, regulated entities in the Province of Ontario are subject to the federal carbon pricing legislation, the Greenhouse Gas Pollution Pricing Act, also called the 'Federal Backstop', which received Royal Assent in June 2018.

In July 2019, the Government of Ontario released its decision to proceed with Ontario’s Emissions Performance Standard program (the Provincial Program) and complementary reporting amendments for all large industrial emitters in the province. This is an integral component of the proposed Made-in-Ontario Environment Plan (the Provincial Plan) which was released in November 2018. The Provincial Plan requires all large industrial emitters in the province to demonstrate compliance in meeting certain emission levels tied to their level of output or production on a regular basis, and the program may include compliance flexibility mechanisms such as offset credits and/or payments to achieve compliance, but will not enforce a blanket cap on emissions across Ontario. The Provincial Program is an alternative to the Output-Based Pricing System component of the “Federal Backstop’.

On September 21, 2020, the Ontario Minister of the Environment, Conservation and Parks announced that the federal government has accepted Ontario’s Provincial Program as an alternative to the federal carbon pricing regime. The Provincial Program came into effect on January 1, 2022.

Non-IFRS Performance Measures

In this MD&A, we refer to certain non-IFRS measures which we use in addition to International Financial Reporting Standards (IFRS) measures to evaluate the financial condition and results of operations of the business. We use non-IFRS measures that are typically used by our competitors in the North American steel industry, including “Adjusted Net Income”, ‘‘Adjusted EBITDA’’, ‘‘Adjusted EBITDA per net ton’’, ‘‘Average Selling Price per net ton’’ and ‘‘Shipping Volume" to provide supplemental measures of our operating performance and thus highlight trends in our core business that may not otherwise be apparent when relying solely on IFRS financial measures. We also believe that securities analysts, investors and other interested parties frequently use non-IFRS measures in the evaluation of issuers. Our management uses these non-IFRS financial measures in order to facilitate operating performance comparisons from period-to-period, to prepare annual operating budgets and forecasts, and drive performance through our management compensation program.

These measures are not recognized measures under IFRS, do not have a standardized meaning prescribed by IFRS and therefore may not be comparable to similar measures presented by other companies. Rather, these measures are provided as additional information to complement those IFRS measures by providing further understanding of our results of operations from management’s perspective. Accordingly, these measures should not be considered in isolation nor as a substitute for analysis of our financial information reported under IFRS. Reconciliation of these measures to IFRS can be found in the ‘*Review of Non-IFRS Measures*’ section of this MD&A.

Adjusted Net Income (Loss) and Adjusted Net Income (Loss) per common share (diluted)

Adjusted Net Income (Loss) is defined as net income or loss for the period adjusted for the impact of impairment charges related to intangibles, property, plant and equipment and investments; acquisitions/disposition gains or losses and related transaction costs; gains or losses on derivative instruments; remeasurement impacts related to employee benefit commitment obligations; adjustment for other significant non-routine, non-recurring and/or non-cash items; and the tax effect of the adjusted items. In this MD&A, the Company adjusted for the following non-routine, non-recurring, and/or non-cash items: (i) remeasurement of employee benefit commitment, (ii) gain/loss from commodity-based swaps, (iii) gain/loss on derivative asset, (iv) transaction-based and other corporate-related costs, and (v) other costs. Management believes adjusting net income by excluding the impact of specified items may be more reflective of ongoing operational results and uses this measure internally to assist with the planning and forecasting of future operating results. Management is of the view that Adjusted Net Income (Loss) is a useful measure of our performance because the aforementioned adjusting items do not reflect the underlying operating performance of our core business and are not necessarily reflective of future operating results. Adjusted Net Income (Loss) is intended to provide additional information only and does not have a standardized definition under IFRS and therefore may not be comparable to similar measures presented by other companies.

Adjusted Net Income (Loss) per common share (diluted) is defined as Adjusted Net Income (Loss) divided by the weighted average number of diluted shares outstanding for the period.

Adjusted EBITDA (Loss) and Adjusted EBITDA (Loss) as a percentage of total revenue

Adjusted EBITDA (Loss) is defined as net income or loss for the period before finance costs, finance income, income tax expense, depreciation and amortization and the impact of certain non-routine, non-recurring, and/or non-cash items. In this MD&A, the Company adjusted for the following non-routine, non-recurring, and/or non-cash items: (i) deferred tax recovery, (ii) gain/loss from commodity-based swaps, (iii) gain/loss on derivative asset, (iv) transaction-based and other corporate-related costs, and (v) other costs. Adjusted EBITDA (Loss) is used by management, investors, and securities analysts to measure operating performance of the Company and is a supplement to our Consolidated Financial Statements presented in accordance with IFRS. Adjusted EBITDA (Loss) is a helpful measure of operating performance before non-operating financial items such as finance costs, finance income and income tax expense, as well as depreciation which is a non-cash expense. Adjusted EBITDA (Loss) also removes the impact of certain non-routine, non-recurring, and/or non-cash items to enable management, investors and securities analysts to gain a clearer understanding of the underlying financial performance of the Company. Adjusted EBITDA (Loss) is also helpful to facilitate comparison of operating performance on a consistent basis from period-to-period and to provide a more complete understanding of factors and trends impacting our business. While management considers Adjusted EBITDA (Loss) to be a meaningful measure for assessing the underlying financial performance of the Company, Adjusted EBITDA (Loss) is a non-IFRS measure and does not have a standardized meaning prescribed by IFRS and therefore may not be comparable to similar measures presented by other companies.

Adjusted EBITDA (Loss) as a percentage of total revenue is defined as Adjusted EBITDA (Loss) divided by total revenue for the period.

Adjusted EBITDA (Loss) per net ton

We monitor Adjusted EBITDA (Loss) per nt, defined as Adjusted EBITDA (Loss) (defined above) divided by Shipping Volume (defined below), as a key indicator of performance during the period. Generally, Adjusted EBITDA (Loss) per nt is used by management, investors, and securities analysts to measure profitability on a per ton basis, while excluding the impacts of finance costs and finance income, income tax expense, and depreciation, as well as the impacts of certain non-routine, non-recurring, and/or non-cash items. Adjusted EBITDA (Loss) per nt is also helpful to facilitate comparison of per unit profitability on a consistent basis from period-to-period and to provide a more complete understanding of factors and trends impacting our business. Adjusted EBITDA (Loss) per nt is a non-IFRS measure and does not have a standardized meaning prescribed by IFRS and therefore may not be comparable to similar measures presented by other companies.

Average Selling Price per net ton

We believe another key measure of performance is Average Selling Price per nt, which is defined as revenue from steel products divided by Shipping Volume (defined below) in the period. Average Selling Price per nt is used by management, investors, and securities analysts to measure sales price on a per unit basis. Average Selling Price per nt is helpful in isolating a key driver in the generation of revenue, selling price, and helps facilitate the comparison of sales performance relative to peers. Average Selling Price per nt is also helpful in comparing performance from period-to-period and understanding factors and trends impacting our business. Average Selling Price per nt is a non-IFRS measure and does not have a standardized meaning prescribed by IFRS and therefore may not be comparable to similar measures presented by other companies.

Shipping Volume

Shipping Volume represents the total volume of steel products shipped in the respective period measured in nt. Steel product shipments include hot-rolled, cold-rolled and coated coils, as well as other steel products. Other steel product shipments include pig iron, slabs and non-prime steel products such as secondary steel. Shipping Volume is used by management, investors, and securities analysts to measure quantities of products sold in the period and isolate a key element in the generation of revenue. Measuring Shipping Volume helps facilitate comparison of sales performance relative to peers and comparison of performance from period-to-period. It also provides a more complete understanding of factors and trends impacting our business. Shipping Volume is a non-IFRS measure and does not have a standardized meaning prescribed by IFRS and therefore may not be comparable to similar measures presented by other companies.

Selected Financial Information

The following table provides selected information for the period as indicated:

(millions of Canadian dollars, except where otherwise noted) Years ended December 31,		**2021**		2020		2019
Financial results						
Total revenue	**$**	**4,123**	$	1,517	$	1,841
Gross profit		**2,041**		41		96
Selling, general and administrative expenses		**58**		48		46
Net income (loss)		**1,609**		(159)		20
Adjusted Net Income (Loss) [1]		**1,709**		(52)		42
Adjusted EBITDA [1]		**2,055**		75		141
Per common share (diluted)						
Net income (loss)	**$**	**19.08**	$	(1.79)	$	0.23
Adjusted Net Income (Loss) [1]	**$**	**20.26**	$	(0.59)	$	0.47
Common share dividends declared and paid	**$**	**0.70**	$	0.10	$	1.53
Operating results						
Average Selling Price per nt (in dollars per nt) [1]	**$**	**1,473**	$	705	$	729
Adjusted EBITDA per nt (in dollars per nt) [1]		**764**		37		58
Shipping Volume (in thousands of nt) [1]		**2,690**		2,020		2,444
Hot-rolled		**1,973**		1,454		1,699
Coated		**498**		361		326
Cold-rolled		**63**		81		89
Other [2]		**156**		124		330
As at December 31,		**2021**		2020		2019
Financial position						
Total assets	**$**	**3,237**	$	1,779	$	1,594
Total non-current liabilities		**541**		651		623

[1] The definition and reconciliation of these non-IFRS measures are included in the 'Non-IFRS Performance Measures' and 'Review of Non-IFRS Measures' sections of this MD&A.

[2] Includes other steel products: pig iron, slabs and non-prime steel sales.

Review of Annual Financial Results

For the year ended December 31, 2021, Stelco realized net income of $1,609 million compared to a net loss of $159 million during 2020, representing an increase of $1,768 million which is primarily due to the net effect of the following:

- $2,000 million increase in gross profit, resulting from $2,606 million higher revenue from sale of goods partly offset by $606 million increase in cost of goods sold;
- $79 million deferred tax recovery;
- $55 million decrease in finance income and other losses;
- $6 million decrease in other costs; and
- $1 million decrease in share of loss from joint ventures; partly offset by
- $252 million current income tax expense;
- $111 million increase in finance costs; and
- $10 million in higher selling, general and administrative expenses.

Revenue

The majority of our revenue from the sale of goods is derived from hot-rolled, cold-rolled and coated steel products. A substantial portion of the Company's revenue is derived from spot sales rather than through fixed-price contracts with customers. In addition, sales of other products such as coke and by-products (including kish, tar, slag, mill scale, dross, light oil and ammonia) are included in revenue. Our revenues include sales to customers from the steel service centre, appliance, automotive, energy, construction, and pipe and tube industries in Canada and the United States.

For 2021, revenue increased by $2,606 million or 172%, from $1,517 million in 2020 to $4,123 million in 2021, primarily due to an increase in the market price of steel and higher steel shipments. Average Selling Price per nt increased by 109% or $768 per nt, from $705 per nt in 2020 to $1,473 per nt in 2021. Our Shipping Volumes increased 33% to 2,690 thousand nt from 2,020 thousand nt in 2020.

The mix of our hot-rolled, coated, cold-rolled and other steel products represented approximately 73%, 19%, 2% and 6%, respectively, of the total sales volume in 2021, whereas in 2020 it was approximately 72%, 18%, 4% and 6%, respectively. Also impacting revenue were non-steel sales which increased to $160 million in 2021, from $92 million in 2020, mostly due to higher iron oxide, nut coke, pellet fines and kish sales, partly offset by lower metallurgical coke sales during the period.

Gross profit

Gross profit reflects revenue from sale of goods less cost of goods sold. Cost of goods sold includes product-related costs, labour costs, employment benefits and other operating costs such as repairs and maintenance, freight and depreciation.

Gross profit increased by $2,000 million, from $41 million in 2020 to $2,041 million in 2021 mainly due to higher revenue of $2,606 million for the period as discussed above, partly offset by higher cost of goods sold of $606 million. The increase in cost of goods sold was due to the following: $538 million increase from steel product sales in connection with higher steel shipments and certain higher raw material costs, in particular, scrap metal purchased during the period, $42 million related mostly to the impact of CEWS received by the Company during 2020, and $26 million increase in cost of non-steel product sales.

During 2021, the Company received $1 million in connection with the CEWS program (2020 - $46 million), which was recorded as a reduction to cost of goods sold.

Selling, general and administrative expenses (SG&A)

(millions of Canadian dollars) Years ended December 31,	**2021**	2020	2019
Employee salary and benefits expense	**$ 21**	$ 14	$ 17
Management fees [1]	**13**	7	6
Share-based compensation expense	**8**	4	2
Professional, consulting and legal fees	**6**	15	9
Enterprise Resource Planning (ERP)	**—**	—	6
Other [2]	**10**	8	6
	$ 58	$ 48	$ 46

[1] Represents management fees to an affiliate of Bedrock.
[2] Includes corporate, public company, travel and certain COVID-19 related costs such as additional employee PPE, enhanced sanitization and other cleaning services.

SG&A increased by $10 million or 21%, from $48 million in 2020 to $58 million in 2021, primarily due to the following: $7 million in higher employee salary and benefits expenses, $6 million increase in management fees, $4 million increase in share-based compensation expense (which includes the impact from a fair value remeasurement of outstanding share-based awards), and $2 million increase in other expenses, partly offset by $9 million lower professional, consulting and legal fees.

The aggregate increase in employee salaries and benefits, and management fees of $13 million as described above, is primarily due to a higher variable compensation expense in connection with the Company's short-term incentive plan in 2021 and a $2 million reduction in employee salary costs during 2020 in connection with the CEWS.

Professional, consulting and legal fees for 2020 included cyberattack-related costs and certain transaction fees in connection with the acquisition of the Minntac iron ore option (the Minntac Option). Refer to note 9 of the Consolidated Financial Statements for further details.

Finance costs

(millions of Canadian dollars) Years ended December 31,	**2021**	2020	2019
Remeasurement of employee benefit commitment	**$ 91**	$ (12)	$ (26)
Accretion of employee benefit commitment	**41**	37	41
Interest on loans and borrowings	**31**	32	24
Foreign exchange loss (gain)	**(5)**	(9)	(13)
Accretion expense related to lease obligations	**3**	3	2
Other	**1**	—	—
	$ 162	$ 51	$ 28

Finance costs increased by $111 million or 218%, from $51 million in 2020 to $162 million in 2021, primarily due to the following: $103 million change related to the gross remeasurement impact from our employee benefit commitment obligation, $4 million higher accretion expense associated with our employee benefit commitment obligation, and $4 million related to the period-over-period impact of foreign exchange translation on U.S. dollar denominated working capital during the period.

In 2021, the Company recorded a $91 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 which are revisited at each balance sheet date to determine the carrying amount of amortized cost. Due to the long-term nature of the underlying assumptions, the employee benefit commitment is highly sensitive to changes in these assumptions. Refer to note 26 of the Consolidated Financial Statements for further details.

Finance and other income (loss)

(millions of Canadian dollars) Years ended December 31,	**2021**	2020	2019
Gain (Loss) on commodity-based swaps	**$ (27)**	$ (90)	$ —
Gain (Loss) on derivative asset [1]	**(7)**	—	—
Finance income	**1**	2	6
Other income	**1**	1	1
	$ (32)	$ (87)	$ 7

[1] Refer to note 9 on the Consolidated Financial Statements for further details.

Commodity-based swaps

During 2020, Stelco entered into a series of commodity-based swaps with U.S.-based financial institutions as part of a strategy to lessen the Company's exposure to hot-rolled coil steel market price volatility in connection with existing and future sales orders from customers. During the year ended December 31, 2021, the Company recorded a loss of $27 million (December 31, 2020 - $90 million) within finance and other income (loss) in connection with these swap contracts. The Company did not have any outstanding commodity-based swap contracts at December 31, 2021.

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

Other costs

(millions of Canadian dollars) Years ended December 31,	**2021**	2020	2019
Demolition costs [1]	**$ 5**	$ 7	$ —
Write-down of construction in progress [2]	**1**	5	—
Employee termination benefits [3]	**—**	—	5
Consulting and legal costs	**—**	—	1
Other	**1**	1	—
	$ 7	$ 13	$ 6

[1] Represents demolition costs for certain buildings (and other assets) not connected to the Company's ongoing operations.
[2] Includes certain capital projects that are no longer being pursued by the Company, representing aborted construction in progress costs without future benefit to Stelco.
[3] Represents employee termination benefits in connection with the Company's voluntary early retirement plan, consisting of employee termination benefits and consulting costs.

Deferred tax recovery

During the year ended December 31, 2021, the Company recorded a deferred tax recovery of $79 million and a net deferred tax asset of $78 million at December 31, 2021 (December 31, 2020 - nil), due to claiming a significant portion of its non-capital loss carry-forwards and other deductible amounts to reduce taxable income during the period. In addition, the Company expects to utilize the remaining previously unrecognized deferred tax assets against future taxable income.

Deferred tax assets are recognized for all deductible temporary differences, the carry-forward of unused tax credits, any unused tax losses and other tax attributes, to the extent that it is probable that taxable income will be available against such items and 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 and input prices, and foreign exchange), considers future capital expenditure requirements, and includes other significant assumptions that are consistent with Stelco's future business plans. Refer to note 13 of the Consolidated Financial Statements for further details.

Review of Non-IFRS Measures

Adjusted Net Income (Loss)

The following table provides a reconciliation of net income (loss) to Adjusted Net Income (Loss):

(millions of Canadian dollars) Years ended December 31,	**2021**	2020	2019
Net income (loss)	**$ 1,609**	$ (159)	$ 20
Add back/(Deduct) following items:			
Remeasurement of employee benefit commitment [1]	**91**	(12)	(26)
Loss from commodity-based swaps	**27**	90	—
Other costs [2]	**7**	13	6
Loss on derivative asset [3]	**7**	—	—
Transaction-based and other corporate-related costs [4]	**2**	12	6
Tariff-related costs [5]	**—**	—	19
Separation costs related to U.S. Steel (USS) support services [6]	**—**	—	9
Property related idle costs included in cost of goods sold [7]	**—**	—	5
Batch annealing facility startup related costs [8]	**—**	—	1
Other	**—**	4	2
Total adjusted items before tax	**134**	107	22
Tax impact of above items	**(34)**	—	—
Total adjusted items after tax	**100**	107	22
Adjusted Net Income (Loss)	**$ 1,709**	$ (52)	$ 42

1 Remeasurement of employee benefit commitment for change in the timing of estimated cash flows and future funding requirements.
2 Other costs primarily includes the write-down of certain capital projects that are no longer being pursued by the Company, representing aborted construction in progress costs without future benefit to Stelco, and demolition costs for certain buildings (and other assets) not connected to the Company's ongoing operations. For 2019, other costs includes certain employee termination benefits and consulting costs.
3 Refer to note 9 on the Consolidated Financial Statements for further details.
4 Represents certain non-routine items that include, but are not limited to, professional and consulting fees in connection with the cyberattack and acquisition of the Minntac Option during 2020, and Stelco Inc.'s withdrawn proposed senior secured notes offering during September 2019.
5 Included tariff and tariff related costs associated with U.S. bound steel shipments. In connection with the US administration announcing effective May 20, 2019, the elimination of all tariffs imposed under Section 232 of the *U.S. Trade and Expansion Act* (Section 232) on imports of aluminum and steel products from Canada, the Company previously modified the definition of Adjusted Net Income and Adjusted Net Income per common share to include tariff and tariff related costs as a non-recurring item adjustment from earnings.
6 Included ERP implementation costs associated with the process of separating from USS, management fees and shared services arrangement costs.
7 Included utility costs incurred by Stelco for non-operating and idled assets acquired from the Land Vehicle on June 5, 2018.
8 Represented incremental employee training and other costs connected with Stelco's new batch annealing facility that was completed during the second quarter of 2019 and commenced operations during June 2019.

Adjusted Net Income for the year was $1,709 million compared to an Adjusted Net Loss of $52 million for 2020, a change of $1,761 million, primarily due to the net effect of the following:

- $2,000 million increase in gross profit; and
- $79 million in deferred tax recovery; partly offset by
- $252 million in current income taxes;
- $24 million higher selling, general and administrative expenses (adjusted for $10 million decrease in transaction-based and other corporate-related costs and $4 million in other expenses);
- $8 million increase in finance costs (adjusted for a $103 million gross remeasurement charge increase from the

employee benefit commitment); and

- $34 million related to the tax impact of the adjusted items noted in the table above.

For discussion and analysis of our financial results, refer to *'Review of Annual Financial Results'* section in this MD&A.

Adjusted EBITDA

The following table provides a reconciliation of net income (loss) to Adjusted EBITDA for the periods indicated:

(millions of Canadian dollars, except where otherwise noted) Years ended December 31,	**2021**	2020	2019
Net income (loss)	**$ 1,609**	$ (159)	$ 20
Add back/(Deduct) following items:			
Income tax expense (recovery):			
Current	**252**	—	—
Deferred	**(79)**	—	—
Finance costs	**162**	51	28
Depreciation	**69**	66	51
Loss from commodity-based swaps	**27**	90	—
Loss on derivative asset [1]	**7**	—	—
Other costs [2]	**7**	13	6
Transaction-based and other corporate-related costs [3]	**2**	12	6
Finance income	**(1)**	(2)	(6)
Tariff-related costs [4]	**—**	—	19
Separation costs related to USS support services [5]	**—**	—	9
Property related idle costs included in cost of goods sold [6]	**—**	—	5
Batch annealing facility startup related costs [7]	**—**	—	1
Other	**—**	4	2
Adjusted EBITDA	**$ 2,055**	$ 75	$ 141
Adjusted EBITDA as a percentage of total revenue	**50 %**	5 %	8%

1 Refer to note 9 on the Consolidated Financial Statements for further details.
2 Other costs primarily includes the write-down of certain capital projects that are no longer being pursued by the Company, representing aborted construction in progress costs without future benefit to Stelco, and demolition costs for certain buildings (and other assets) not connected to the Company's ongoing operations. For 2019, other costs includes certain employee termination benefits and consulting costs.
3 Represents certain non-routine items that include, but are not limited to, professional and consulting fees in connection with the cyberattack and acquisition of the Minntac Option during 2020, and Stelco Inc.'s withdrawn proposed senior secured notes offering during September 2019.
4 Included tariff and tariff related costs associated with U.S. bound steel shipments. In connection with the US administration announcing effective May 20, 2019, the elimination of all tariffs imposed under Section 232 on imports of aluminum and steel products from Canada, the Company previously modified the definition of Adjusted Net Income and Adjusted Net Income per common share to include tariff and tariff related costs as a non-recurring item adjustment from earnings.
5 Included ERP implementation costs associated with the process of separating from USS, management fees and shared services arrangement costs.
6 Included utility costs incurred by Stelco for non-operating and idled assets acquired from the Land Vehicle on June 5, 2018.
7 Represented incremental employee training and other costs connected with Stelco's new batch annealing facility that was completed during the second quarter of 2019 and commenced operations during June 2019.

Adjusted EBITDA for the year was $2,055 million compared to $75 million for 2020, representing an increase of $1,980 million which is primarily due to the net effect of the following:

- $2,003 million increase in gross profit (adjusted for $3 million in higher depreciation expense); partly offset by
- $24 million higher selling, general and administrative expenses (adjusted for $10 million decrease in transaction-based and other corporate-related costs and $4 million in other expenses).

For discussion and analysis of our financial results, refer to *'Review of Annual Financial Results'* section in this MD&A.

Review of Balance Sheets

The following table provides selected balance sheet information as at the date indicated:

(millions of Canadian dollars) As at December 31,		**2021**		2020		2019
Cash	**$**	**955**	$	59	$	257
Trade and other receivables		**412**		183		158
Inventories		**617**		509		483
Derivative asset		**126**		133		—
Property, plant and equipment, net		**1,008**		845		670
Deferred tax asset		**78**		—		—
Total assets	**$**	**3,237**	$	1,779	$	1,594
Trade and other payables		**717**		668		444
Derivative liabilities		**—**		84		—
Other liabilities		**133**		103		82
Income taxes payable		**252**		—		—
Asset-based lending facility (ABL)		**84**		128		98
Obligations to independent employee trusts		**595**		498		507
Total liabilities	**$**	**1,799**	$	1,498	$	1,144
Total equity	**$**	**1,438**	$	281	$	450

As reflected in the selected balance sheet information above, between December 31, 2020 and December 31, 2021, the Company's trade and other receivables increased from $183 million to $412 million (representing a change of $229 million or 125%), derivative asset decreased from $133 million to $126 million (representing a change of $7 million or 5%) (refer to note 9 of the Consolidated Financial Statements for further details), deferred tax asset increased from nil to $78 million (refer to note 13 of the Consolidated Financial Statements for further details), trade and other payables increased from $668 million to $717 million (representing a change of $49 million or 7%) which includes the impact of our inventory monetization arrangement discussed further below, derivative liabilities decreased from $84 million to nil (refer to note 15 to the Consolidated Financial Statements for further details), other liabilities increased from $103 million to $133 million (representing a change of $30 million or 29%), income taxes payable increased to $252 million (refer to note 13 to the Consolidated Financial Statements for further details) from nil, total liabilities increased from $1,498 million to $1,799 million (representing a change of $301 million or 20%), and total equity increased from $281 million to $1,438 million (representing a change of $1,157 million or 412%).

Our inventories increased by 21% from $509 million at December 31, 2020 to $617 million at December 31, 2021, primarily due to higher slab and steel coil inventory which was impacted by various production challenges, including unplanned outages at the hot strip mill, logistics challenges, and delays at the end of the fourth quarter of 2021 brought on by the emergence of the COVID-19 Omicron variant which affected Stelco, its customers and logistics suppliers. In addition, the Company had higher volumes of metallurgical coke on hand, owing to external purchases in 2021 in connection with the Coke Battery Upgrade Project at LEW, ahead of the winter months and closure of international waterways restricting deliveries from vessel and barge shipments.

Property, plant and equipment increased to $1,008 million at December 31, 2021 from $845 million at December 31, 2020, mainly due to the following: capital additions of $251 million, partly offset by depreciation expense of $69 million for the period and a Strategic Innovation Fund contributions of $18 million. For discussion of the Strategic Innovation Fund contribution, refer to note 10 to the Consolidated Financial Statements. Our capital additions for the period include costs related to the Coke Battery Upgrade Project, normative projects at our steelmaking facilities, certain assets under lease and other capital assets relating to operations.

During 2021, the Company received net proceeds of approximately $25 million, under the inventory monetization arrangement (IMA), in connection with receipts, production and consumption of raw materials, metallurgical coke and slabs financed under this arrangement, in addition to impacts from foreign exchange. As at December 31, 2021, amounts utilized under this arrangement amounted to $414 million (December 31, 2020 - $389 million) and are recorded within trade and other payables on the Company's consolidated balance sheets.

Our ABL indebtedness decreased from $128 million at December 31, 2020 to $84 million at December 31, 2021, due to net cash repayments by the Company of $27 million of the revolving portion during the period and scheduled repayments of $15 million on the non-revolving term loan. Amounts available to be drawn under the revolving ABL will vary from time to time, based upon a borrowing base determined with reference to Stelco's trade receivables and certain inventory balances, as well as amounts outstanding under the non-revolving portion of the ABL. Refer to note 17 of the Consolidated Financial Statements for further details.

Review of Cash Flows

The following section provides an overview analysis of cash flows for the respective periods as indicated:

(millions of Canadian dollars) Years ended December 31,		2021		2020		2019
Cash, beginning of year	**$**	**59**	$	257	$	438
Cash provided by (used in):						
Operating activities		**1,607**		4		14
Investing activities		**(248)**		(359)		(210)
Financing activities		**(466)**		157		15
Effect of foreign exchange rate changes on cash		**3**		—		—
Cash, end of year	**$**	**955**	$	59	$	257

Cash provided by Operating Activities

For 2021, cash provided by operating activities totaled $1,607 million compared to $4 million for the same period of 2020. Cash provided by operating activities for the year benefited from higher gross profit primarily due to higher revenue from the sale of goods, partly offset by an increase in cost of goods sold. Partly offsetting the impact of higher gross profit realized during the year was the net effect from changes in working capital and other operating items, in particular the timing impact from trade receivable collections, inventories, prepaids, trade payables, income tax payable and derivative contracts settlement payments compared to 2020. Refer to note 29 to the Consolidated Financial Statements for further details.

Cash used in Investing Activities

For 2021, cash used in investing activities totaled $248 million compared to $359 million for the same period of 2020. Cash used in investing activities during the year included capital expenditures (net of a Strategic Innovation Fund contribution) of $236 million primarily related to growth and normative capital projects, including our Coke Battery Upgrade Project, and other capital assets relating to operations. For 2020, cash used in investing activities included $226 million primarily related to growth and normative projects including our blast furnace upgrade project, pig iron casting facility then under development, coke ovens, certain assets under lease and other capital assets relating to operations; $133 million in connection with the acquisition of the Minntac Option; and $60 million of restricted cash, which included $48 million of cash collateral in connection with the Company's asset-based lending facility borrowing base availability.

Cash used in Financing Activities

For 2021, cash used in financing activities totaled $466 million which includes $399 million from the repurchase and cancellation of 11,398,024 common shares during the year, $56 million in dividends paid to common shareholders, $28 million in net repayments on the revolving portion of our asset-based loan facility, $15 million in principal payments on the non-revolving term loan and lease and mortgage obligation principal repayments of $9 million and $2 million, respectively, partly offset by $25 million in IMA net proceeds, $14 million in non-interest bearing loan proceeds in connection with the Strategic Innovation Fund contribution and $4 million in advances under the boiler project financing arrangement.

Results of Operations

In 2021, Stelco experienced stronger market conditions and more favourable pricing trends across its key products, including hot-rolled, cold-rolled and coated products, compared to 2020. Our steel selling prices remain influenced by overall international demand, scrap steel prices, iron ore prices, trade sanctions and product availability. Volatile steel prices may cause fluctuations in our financial results. We expect that our steel shipments during the first quarter of 2022 will be in line with or potentially lower than the fourth quarter 2021 amount.

On January 28, 2021, the Company announced that Stelco successfully commissioned the new pig iron caster at its LEW facility. The addition of the pig iron caster to Stelco's operations further supports the Company's tactical flexibility strategy and allows the Company to fully capitalize on increased hot metal capacity resulting from the blast furnace upgrade project completed in late-2020. The total cost of the pig iron casting project was approximately $52 million and is recorded as property, plant and equipment on the Company's consolidated balance sheet.

In July 2019, we commenced the rehabilitation of the LEW coke battery by idling one half of the battery and preparing the ovens for repair and related demolition work. During the first quarter of 2021, the Company ceased its coke production at LEW to proceed with an expanded project to rehabilitate the coke battery, which includes upgrading the LEW coke oven end flues (the Coke Battery Upgrade Project). Based on currently available information, the Coke Battery Upgrade Project is expected to cost approximately $185 million in total (which includes $65 million of capital expenditures prior to 2021), and is anticipated to be substantially completed by March 2022.

We expect that the Coke Battery Upgrade Project will improve the integrity and efficiency of the LEW coke oven battery, with the potential of further increasing our production capability by up to 50 thousand nt of coke per annum while also helping us to meet our environmental compliance objectives and providing waste gases that we will recycle into our other operations, thereby reducing energy purchases and emissions.

The Company believes it has the capacity to achieve shipments of up to 3.0 million nt, on an annualized basis by the end of 2022, depending on, inter alia, overall product mix and customer demand. Actual future product mix may differ materially from our current product mix. See *'Forward-Looking Information'* section in this MD&A for a discussion of the uncertainties, risks and assumptions associated with this statement.

As previously noted, the Company remains committed to its focus on maximizing profits, including regaining higher margin business, increasing our expansion into additional markets outside Canada with respect to hot-rolled, cold-rolled and coated coil sales, and assessing opportunities to introduce new products. Stelco, as a low cost advanced integrated steel producer in North America with flexible shipping and production capabilities, will continue to seek new opportunities in the domestic and international steel markets and expects to continue to maximize profitability and cash flows in the near term.

Capital Resources and Liquidity

The liquidity and capital resources of the Company are dependent upon a number of factors including, without limitation, market and economic conditions and the impact of these conditions on the demand and price of steel products, raw material costs, the ability to fund necessary capital projects, employee life and health trust (ELHT) funding requirements and labour negotiations and disputes.

Our principal uses of funds are for operating expenses, capital expenditures, finance costs and debt service. Management believes that cash generated from operations, together with amounts available under our ABL, receivables purchase agreement (RPA), and IMA, and the availability of debt and equity capital in the public markets will be sufficient to meet our future operating expenses, capital expenditures and debt service costs, and to support the growth of our business (primarily through working capital and capital expenditures), repay short-term obligations, and deploy for general corporate purposes.

Our ability to fund future operating expenses, capital expenditures and debt service costs will depend on our future operating performance which may be affected by general economic, financial and other factors including factors beyond our control, including demand and pricing of steel products. From time to time, our management team reviews acquisition opportunities and, if suitable opportunities arise, may make selected acquisitions to implement our business strategy.

The Company has significant working capital requirements related to inventories due to the lead time of acquiring raw materials, the quantities of raw materials that are required to produce semi-finished steel and the amount of time required to process this semi-finished steel into a finished product. Additionally, because the Company’s principal raw materials, specifically iron ore pellets and metallurgical coal, are brought in by vessel and barge, we typically build our raw materials inventory ahead of the winter months and closure of international waterways. This working capital requirement is characteristic of many companies within the steel industry.

As at December 31, 2021, management believes that the Company's overall liquidity and operating cash flow will be sufficient to meet the Company’s anticipated cash requirements for capital expenditures, working capital, debt obligations and other commitments, based on the following:

- $955 million in cash;
- $240 million available for advances under the ABL facility;
- Liquidity on certain raw material purchases, slabs, and metallurgical coke inventories provided by the IMA;
- $1 million purchase limit remaining under the RPA with a Schedule II bank which provides Stelco Inc. with improved liquidity on certain customers’ trade receivables on an uncommitted revolving basis; and
- Stable demand and pricing for our products resulting in positive future cash generation from operations.

Credit Facility and Other Arrangements

Asset-Based Lending Facility (ABL)

As at		**December 31, 2021**		December 31, 2020
Revolving	**$**	**—**	$	29
Non-revolving term loan		**84**		99
Asset-based lending facility	**$**	**84**	$	128

In June 2017, Stelco entered into an ABL agreement with a syndicate of lenders for a maximum credit facility of $375 million. The amount available to be drawn under the ABL 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 IMA discussed further in note 14 in the Consolidated Financial Statements. At December 31, 2021, the amount available for advances under the ABL was $240 million (December 31, 2020 - $43 million), which includes the available borrowing base less outstanding letters of credit of $20 million (December 31, 2021 - $33 million), cash amounts drawn and outstanding under the revolving ABL of nil (December 31, 2020 - $29 million), non-revolving term loan of $84 million (December 31, 2020 - $99 million) and a minimum excess availability requirement of $30 million (December 31, 2020 - $30 million).

The weighted average finance rate for amounts drawn under the ABL for the year ended December 31, 2021 was 3.75% (December 31, 2020 - 4.36%) and the Company was in compliance with the financial covenants pursuant to the ABL agreement as at and during the years ended December 31, 2021 and 2020.

Amendments to the ABL agreement

In June 2021, Stelco entered into an amended and restated ABL agreement which included the following significant amendments:

i) an extended term for the ABL with an expiry date of June 18, 2026 (previously August 16, 2023);

ii) an amendment to the definition of CDOR and LIBOR within the ABL to include a reduced floor rate of 0.50% (previously 0.75%);

iii) a change in the unused line fee to 0.25% (previously 0.25% - 0.375%); and

iv) until the non-revolving term loan is repaid in full, Stelco is to maintain total minimum liquidity of $50 million consisting of excess availability under the ABL of at least $30 million and cash and cash equivalents of $20 million. Subsequent to the repayment in full of the term loan, Stelco is to maintain a total minimum liquidity of $40 million, consisting of excess availability under the ABL of at least $20 million and cash and cash equivalents of $20 million.

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

(millions of Canadian dollars) Years ended December 31,		**2021**		2020
Balance, beginning of year	**$**	**128**	$	98
Advances from (Repayment of) revolving ABL, net		**(27)**		28
Repayment of non-revolving term loan		**(15)**		—
Foreign exchange on revolving ABL		**(2)**		1
Amortization of deferred transaction costs		**—**		1
Balance, end of year	**$**	**84**	$	128

Pursuant to the terms of the ABL agreement, Stelco is restricted from making dividend payments or other distributions to its shareholder Stelco Holdings, unless the conditions specified in the ABL agreement are satisfied, including, among other conditions:

i) Stelco must not be in default under the ABL agreement; and

ii) Stelco must have excess availability of 20% or greater under the terms of the ABL agreement at all times during the 30 consecutive days immediately preceding the date of any such payment and after giving effect to any such payment.

Inventory Monetization Arrangement (IMA)

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

The weighted average finance rate for the IMA for the year ended December 31, 2021 was 3.93% (December 31, 2020 - 4.74%), and the finance costs of $15 million (December 31, 2020 - $14 million) are recorded on the consolidated statements of income (loss). The IMA is secured by inventory with a carrying value of $454 million (December 31, 2020 - $408 million) serving as collateral.

The following table summarizes the changes in the aggregate carrying value of the Company's inventory monetization arrangement:

Years ended December 31,		**2021**		2020
Balance, beginning of year	**$**	**389**	$	267
Proceeds, net of repayments		**25**		135
Foreign exchange loss		**—**		(13)
Balance, end of year	**$**	**414**	$	389

Amendment to the IMA

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

i) an extended 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 years ended December 31, 2021 and 2020.

Receivables Purchase Agreement

In June 2019, Stelco entered into an RPA with a Schedule II bank (the Purchaser), enabling Stelco from time to time, to sell certain customer trade receivables to the Purchaser on an uncommitted revolving basis. Under the terms of the RPA, Stelco administers and processes the collection of receivables and remits those collections to the Purchaser. The Company has derecognized the trade receivables sold under the RPA from the consolidated balance sheets as substantially all of the risks and rewards for such receivables have been transferred to the Purchaser.

During 2021, Stelco further amended the RPA with the Purchaser, which included an updated finance rate of CDOR/LIBOR plus a margin of 1.75% (previously LIBOR plus 2.75%); and an increase in the aggregate maximum purchase limit to $74 million (previously $66 million); other terms remained substantially similar to the original agreement. In addition, during December 2021, the Company further amended the RPA to transition the finance rate benchmark on an equivalent economic basis from LIBOR to the Secured Overnight Financing Rate (SOFR), effective January 4, 2022, plus a margin of 1.84%.

As at December 31, 2021, Stelco's available purchase limit remaining under the RPA was $1 million (December 31, 2020 - $19 million).

Share Capital

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

As at		**December 31, 2021**		December 31, 2020
Common shares				
Outstanding (in thousands)		**77,315**		88,713
Carrying amount	**$**	**446**	$	512

Refer to note 20 of the Consolidated Financial Statements for further details.

Repurchase and cancellation of common shares

LG Bedrock

During August 2021, the Company repurchased common shares from LG Bedrock for a total purchase price of $398 million, refer to the '*Business Overview – Repurchase and cancellation of common shares*' section in this MD&A for further details.

In connection with the Repurchase, the excess of the purchase price paid over the average carrying value of the common shares repurchased in the amount of $332 million was recognized as a share repurchase premium and reduction to retained earnings on the Consolidated Financial Statements. The Company also recorded transaction costs of $1 million in connection with the Repurchase, as a charge to retained earnings.

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, refer to the 'Business Overview – Repurchase and cancellation of common shares' section in this MD&A for further details.

Changes to Legal Stated Capital

During August 2021, the Company increased the stated legal capital account of the common shares of Stelco Holdings by $995 million to a total of $1,495 million. Previously, on June 4, 2019, at the annual general and special meeting of shareholders of Stelco Holdings, common shareholders approved a special resolution to reduce the stated capital account of the common shares of Stelco Holdings to $500 million and add $995 million to the contributed surplus account of Stelco for legal and tax purposes.

These changes to legal stated capital did not result in any change to equity as presented in the Company's Consolidated Financial Statements and therefore did not affect the Company's book value. These changes to the legal stated capital had no impact on the day-to-day operations of the Company and did not, on its own, alter the financial condition of the Company.

Dividend Policy

The Company’s primary objective is to deploy capital in a disciplined manner that creates value for our shareholders. We evaluate our capital allocation policies on an on-going basis to ensure that we are maximizing returns for our shareholders. Any determination to pay dividends in the future will be at the discretion of our Board of Directors and will depend on many factors, including, among others, our financial condition, current and anticipated cash requirements, contractual restrictions and financing agreement covenants, solvency tests imposed by applicable corporate law and other factors that our Board of Directors may deem relevant.

Accordingly, management and the Board of Directors regularly review the Company’s rate of dividends to ensure an appropriate level thereof.

Common Share Dividends

Common share dividends declared and paid in 2021 were as follows:

(millions of Canadian dollars, except per share amounts) Record date	Payment date		Cash dividend per common share		Total common share dividends
February 26, 2021	March 4, 2021	$	0.10	$	9
May 14, 2021	May 19, 2021		0.10		9
August 25, 2021	August 31, 2021		0.20		15
November 24, 2021	November 30, 2021		0.30		23

Subsequent to December 31, 2021, the Board of Directors declared a dividend of $0.30 per common share, payable on March 9, 2022, to shareholders of record as of March 4, 2022.

The dividends have been declared as "eligible dividends" for purposes of the *Income Tax Act (Canada)*.

Share-based compensation

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

For the year ended December 31, 2021, the Company recorded a share-based compensation expense of $8 million (December 31, 2020 - $4 million), in selling, general and administrative expenses on the consolidated statements of income (loss) 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

Under the terms of the LTIP, the Board of Directors may grant restricted share unit (RSU) awards, subject to a maximum three calendar year vesting period, to eligible participants. Each vested RSU entitles the participant to receive either (i) one common share of the Company (acquired by the Company as a treasury share prior to settlement with the participant); or (ii) at the election of the participant, a cash distribution equal to the fair market value of a common share of the Company determined on the vesting date, in each case, less applicable statutory withholdings. Dividends declared on the Company's common shares accrue to the RSU holder in the form of additional RSUs and vested RSUs are cash settled within thirty days of the vesting date.

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

(RSUs in total) Years ended December 31,	**2021**	2020
Balance, beginning of year	**77,181**	6,313
Granted	**62,579**	73,578
Vested and cash settled	**(27,062)**	(2,710)
Balance, end of year	**112,698**	77,181

On March 20, 2020, 73,529 RSUs were granted to a certain member of the Company’s Executive Leadership Team (ELT), with a grant date fair value of $4.08 per RSU, with one-third of the total grant amount vesting on each of the first three anniversaries of the grant date.

On February 22, 2021, 58,346 RSUs were granted to certain members of the Company’s ELT, with a grant date fair value of $22.81 per RSU, with one-third of the total grant amount vesting on January 1 of each of 2022, 2023 and 2024.

In addition, 4,233 RSUs were granted during the year ended December 31, 2021, with an average grant date fair value of $36.64 per RSU. Other than in respect of dividend equivalent units issued pursuant to the terms of the LTIP, one-third of the original grant amount of such RSUs vests on each of the first three anniversaries of the respective grant dates.

As at December 31, 2021, there were 112,698 outstanding and unvested RSUs (December 31, 2020 - 77,181 RSUs) under the Company's LTIP, for which the Company recorded a liability of $3.1 million (December 31, 2020 - $0.9 million) in other liabilities.

Stock appreciation rights (SARs)

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

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

(SARs in total) Years ended December 31,	**2021**	2020
Balance, beginning of year	**150,000**	—
Granted	**—**	150,000
Exercised and cash settled	**(49,999)**	—
Balance, end of year	**100,001**	150,000

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

The Black-Scholes option-pricing model assumptions used to estimate the fair value of the SARs at the respective dates are noted in the summary below:

SARs: Grant date	March 20, 2020	August 28, 2020
Granted (in total)	100,000	50,000
Base price (per SAR)	$ 4.08	$ 9.22
Expected risk-free interest rate	0.6%	0.4%
Expected dividend yield	9.8%	—%
Expected share price volatility	53.0%	52.0%
Expected SAR life (years)	6.00	6.00
Grant date fair value of SARs granted (per SAR)	$ 0.78	$ 4.44

As at December 31,	**2021**		2020	
SARs outstanding (in total)	**66,667**	**33,334**	100,000	50,000
Expected risk-free interest rate	**1.3%**	**1.3%**	0.4%	0.4%
Expected dividend yield	**3.2%**	**3.2%**	—%	—%
Expected share price volatility	**51.5%**	**51.5%**	52.0%	52.0%
Expected SAR life (years)	**4.50**	**5.00**	5.25	5.75
Fair value of SARs outstanding (per SAR)	**$ 31.93**	**$ 27.46**	$ 19.04	$ 15.81

As at December 31, 2021, there were 100,001 outstanding and unvested SARs (December 31, 2020 - 150,000 SARs), for which the Company recognized a liability of $2.2 million (December 31, 2020 - $1.1 million) in other liabilities.

Deferred share units

Stelco Holdings has a deferred share unit (DSU) plan for the independent members of its Board of Directors which provides that each independent director receives, on each date that director retainer fees are payable, an amount of DSUs which the director has elected relative to their respective fee entitlement. Each independent director can elect annually to receive a specified percentage of their respective direct retainer fee entitlement as DSUs. The number of DSUs granted to an independent director is based on the closing price of the common shares of Stelco Holdings on the Toronto Stock Exchange (TSX) on the day prior to the grant date. Dividends declared on common shares accrue to the DSU holder in the form of additional DSUs. At such time as an independent director ceases to be a director of the Company, Stelco Holdings will make a cash payment to the applicable director in respect of the total amount of the issued and outstanding DSUs held by such director based on the fair market value of the common shares of Stelco Holdings at such time.

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

(DSUs in total) Years ended December 31,	**2021**	2020
Balance, beginning of year	**104,538**	39,445
Granted	**30,929**	65,093
Balance, end of year	**135,467**	104,538

As at December 31, 2021, there were 135,467 outstanding and vested DSUs (December 31, 2020 - 104,538 DSUs) under the Company's LTIP, for which the Company recorded a liability of $5.6 million (December 31, 2020 - $2.4 million) in other liabilities.

Share options

For the year ended December 31, 2020, 333,333 share options were forfeited in connection with the resignation of certain former ELT members from Stelco Holdings. During December 2020, 666,667 vested share options were surrendered for cash in accordance with the Company's LTIP for approximately $2.3 million. There were no share options outstanding as of December 31, 2021.

Commitments and Contingencies

Employee Benefit Commitments

- On emergence from the CCAA on June 30, 2017, Stelco had funding commitments with certain pension and other post-employment benefit (OPEB) trusts. Stelco committed to pay up to a maximum of $400 million to fund five main defined benefit pension plans previously sponsored by Stelco (Main Pension Plans). On June 5, 2018, Stelco entered into the Amended OPEB Funding Agreement, replacing the Original OPEB Funding Agreement, and committed to fixed contributions of approximately $494.5 million over 25 years to the ELHTs created for receiving, holding and distributing funds on account of OPEBs for legacy employees of Stelco. In addition, Stelco agreed to pay a portion of its free cash flows (as defined) and certain estimated tax-related savings amounts to the ELHTs.
- Certain estimated components of the employee benefit commitments are tied to Stelco's future cash flow generation and certain tax-related savings amounts. The carrying value of the employee benefit funding commitment liability recognized by the Company on its consolidated balance sheet is determined based upon the present value of those future payments as estimated by management. Changes in the magnitude or timing of those estimated future cash payments may result in the employee benefit commitment liability balances being adjusted upward or downward in future periods. If such adjustments to the liability carrying value were to occur, the Company would also recognize a corresponding expense (or income) item in its consolidated statements of income as an element of finance cost. Management will assess estimates of future cash flows related to these employee benefit funding arrangements each period.
- Refer to note 18 to the Consolidated Financial Statements for estimated remaining payments under the employee benefit commitment at December 31, 2021.
- Bedrock has guaranteed certain minimum contributions to the Main Pension Plans up to a maximum amount of $160 million. The amount of such guarantee is reduced based upon, among other things, certain contributions being made to the Main Pension Plans over time. The guarantee will be discharged upon the earlier of the $160 million being reduced to zero or the aggregate amount of all payments made by Stelco and/or Bedrock reaching $300 million.

Other Commitments

- Stelco has entered into fixed price coal contracts with certain third party suppliers for a portion of its anticipated 2022 purchases, reducing Stelco's commodity price risk in connection with this raw material.
- On April 30, 2020, Stelco entered into a new eight-year pellet sale and purchase agreement (the Pellet Agreement) with United States Steel Corporation (U.S. Steel) which runs until January 31, 2028. The Pellet Agreement provides for the supply of substantially all of Stelco's anticipated requirements of iron ore pellets at Lake Erie Works over the term of the Pellet Agreement. The Pellet Agreement superseded and replaced the previous iron ore pellet supply agreement with U.S. Steel, which was set to expire on January 31, 2022.

- Union Agreements - Stelco has collective bargaining agreements with USW Local 8782, USW Local 8782(b) and USW Local 1005, each for a term of 5 years ending July 1, 2022.

Primobius licensing and option agreements

On December 30, 2021, the Company executed binding 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 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 December 31, 2021.

Hamilton Sports Group

On January 2, 2022, Stelco Holdings announced that it had executed agreements with the current owners of Hamilton Sports Group (HSG) for the purchase of a 40% equity interest in the entities that own the Hamilton Tiger-Cats and Hamilton's Forge FC, as well as the master lease of Tim Hortons Field, a modern 23,000 seat multipurpose stadium located centrally in Hamilton, Ontario. The transaction is subject to certain conditions and is expected to close in the first quarter of 2022.

Leases

Stelco has leases on certain machinery, equipment (which includes information technology related equipment and service contracts), and railcars, with lease terms ranging from one to ten years. As at December 31, 2021, the Company had lease obligations with a carrying amount of $44 million (December 31, 2020 - $48 million), associated with certain equipment on its consolidated balance sheet.

Energy Services Agreement

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 LEW 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 energy services agreement (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

During August 2020, Stelco entered into a separate arrangement with DTE, for the financing of refurbishment costs in connection with certain Stelco owned boiler assets and related boiler infrastructure required to support the Cogen Plant.

The boiler project financing arrangement contains a maximum advance limit of $37 million plus any interest in arrears, at a rate of 10% per annum payable monthly, until the refurbishment of the boiler assets and related boiler infrastructure is complete. The boiler financing arrangement is repayable to DTE over a 20-year term at an effective interest rate of 11.14% per annum, with monthly payments commencing upon the completion of the Cogen Plant. As at December 31, 2021, advances outstanding under the boiler financing arrangement was $12 million (December 31, 2020 - $7 million).

Claims and Litigation

The Company is involved in claims and litigation arising in the normal course of business. While the final outcome of such legal proceedings and actions cannot be predicted with certainty, it is the opinion of management that the resolution of such proceedings and actions will not have a material impact on the Company's consolidated balance sheets, statements of income, or statements of cash flows.

Contractual Obligations

The following table sets out a summary of our future contractual obligations as at December 31, 2021:

	Payments due by period				
(millions of Canadian dollars)	Total	2022	2023-2024	2025-2026	Thereafter
Trade payables	$ 293	$ 293	$ —	$ —	$ —
Inventory monetization arrangement	414	414	—	—	—
Lease obligations	53	10	16	11	16
Boiler project financing arrangement	30	1	2	3	24
Strategic Innovation Fund payable [1]	20	—	3	5	12
Purchase obligations - non-capital [2]	226	59	66	62	39
Purchase obligations - capital	95	86	9	—	—
Asset-based lending facility:					
Non-revolving - term loan [1]	92	18	34	40	—
Obligations to independent employee trusts [3]	977	221	181	70	505
Total contractual obligations	**$ 2,200**	**$ 1,102**	**$ 311**	**$ 191**	**$ 596**

1 Includes interest payable or accretion impact until maturity date.
2 Purchase obligations - non-capital includes contractual commitments for the purchase of raw materials, energy and material processing.
3 Represents estimated undiscounted cash flows related to obligations to independent employee trusts.

The Company's contractual obligations can be funded by existing cash on hand, cash flow from operations and the revolving portion of the ABL credit facility.

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, among other entities and persons.

Upon being acquired by Bedrock on June 30, 2017, Stelco became a related party of Bedrock. Stelco has executed a management services agreement with an affiliate of Bedrock under which Stelco 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. Fees for services are based upon actual costs incurred by Bedrock and/or its affiliates up to $5 million, and any services above $5 million are subject to a 2% charge back. The Company has incurred expenses of $13 million for the year ended December 31, 2021 (December 31, 2020 - $7 million), respectively, in management services provided by Bedrock and its affiliated entities. Refer to note 35 of the Consolidated Financial Statements for further details.

During August 2021, the Company repurchased common shares from LG Bedrock for a total purchase price of $398 million. For discussion of the common share repurchase, refer to the '*Business Overview – Repurchase and cancellation of common shares*' section in this MD&A.

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 this MD&A.

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	
	2021	2020	**2021**	2020
Management and director fees	**$ 1**	$ 1	**$ 13**	$ 7
Share-based compensation	**2**	1	**5**	3
Salaries and benefits	**—**	—	**4**	2
Total	**$ 3**	$ 2	**$ 22**	$ 12

Selected Quarterly Information

(millions of Canadian dollars, except where otherwise noted)	2021				2020			
As at and for the three months ended[1]	**Q4**	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Financial results								
Total revenue	**$1,186**	$1,354	$ 918	$ 665	$ 424	$ 237	$ 411	$ 445
Steel products	**1,155**	1,284	877	647	356	228	403	438
Non-steel products	**31**	70	41	18	68	9	8	7
Gross profit (loss)	**673**	783	404	181	57	(60)	28	16
Selling, general and administrative expenses	**20**	13	11	14	18	9	12	9
Net income (loss)	**513**	614	363	119	(47)	(88)	—	(24)
Adjusted Net Income (Loss) [2, 3, 4]	**525**	629	383	172	45	(81)	10	(26)
Adjusted EBITDA (Loss) [2, 4]	**673**	787	410	185	60	(39)	34	20
Per common share (diluted)								
Net income (loss)	**$ 6.64**	$ 7.42	$ 4.09	$ 1.34	$ (0.53)	$ (0.99)	$ —	$ (0.27)
Adjusted Net Income (Loss) [2, 4]	**$ 6.79**	$ 7.60	$ 4.32	$ 1.94	$ 0.51	$ (0.91)	$ 0.11	$ (0.29)
Common shareholder dividends declared and paid	**$ 0.30**	$ 0.20	$ 0.10	$ 0.10	$ —	$ —	$ —	$ 0.10
Financial position								
Total assets	**3,237**	2,618	2,136	1,774	1,779	1,603	1,605	1,493
Total non-current liabilities	**541**	521	566	755	651	629	656	657
Operating results								
Average Selling Price per nt (in dollars per nt) [2, 4]	**1,845**	1,808	1,292	959	728	683	700	705
Adjusted EBITDA (Loss) per nt (in dollars per nt) [2, 4]	**1,075**	1,108	604	274	123	(117)	59	32
Shipping Volume (in thousands of nt) [2]	**626**	710	679	675	489	334	576	621
Hot-rolled	**474**	542	490	467	373	211	423	447
Coated	**93**	123	142	140	64	76	109	112
Cold-rolled	**11**	11	9	32	15	16	15	35
Other	**48**	34	38	36	37	31	29	27

1 Period end date refers to the following: "Q4" - December 31, "Q3" - September 30, "Q2" - June 30, and "Q1" - March 31.

2 The definition and reconciliation of these non-IFRS measures are included in the "Non-IFRS Performance Measures" and "Review of Non-IFRS Measures" sections of this MD&A.

3 Adjusted Net Income for Q2 2021 and Q1 2021 has been amended to reflect the removal of deferred taxes as an adjusted item. In connection with Stelco recognizing a current tax expense in Q3 2021, the Company recorded the tax impact for reconciling items within Adjusted Net Income which included the impact of both current and deferred taxes on Adjusted Net Income for the respective periods.

4 Refer to each quarter's respective MD&A for the reconciliation of non-GAAP financial measures for the quarterly periods of 2021 and 2020.

Trend Analysis

The following discussion reflects the Company's trend analysis in a chronological order.

Revenue:

- decreased $34 million or 8% from Q1 2020 to $411 million in Q2 2020. The decrease in revenue reflects 45 thousand nt or 7% lower Shipping Volumes from Q1 2020 to 576 thousand nt in Q2 2020 and a 1% decrease in Average Selling Price per nt which decreased $5/nt from Q1 2020 to $700/nt in Q2 2020
- decreased $174 million or 42% from $411 million in Q2 2020 to $237 million in Q3 2020. The decrease in revenue reflects 242 thousand nt or 42% lower Shipping Volumes from Q2 2020 to 334 thousand nt in Q3 2020 and a 2% decrease in Average Selling Price per nt which decreased $17/nt from $700/nt in Q2 2020 to $683/nt in Q3 2020. In connection with our planned blast furnace upgrade project during Q3 2020, we experienced a significant decline in our Shipping Volumes for the period
- increased $187 million or 79% from $237 million in Q3 2020 to $424 million in Q4 2020. The increase in revenue reflects 155 thousand nt or 46% higher Shipping Volumes from Q3 2020 to 489 thousand nt in Q4 2020 and a 7% increase in Average Selling Price per nt which increased $45/nt from $683/nt in Q3 2020 to $728/nt in Q4 2020 and $59 million in higher non-steel sales mostly related to higher metallurgical coke sales. On October 13, 2020, the Company announced the successful completion of the LEW blast furnace upgrade and reline project and the commencement of hot metal production

- increased $241 million or 57% from $424 million in Q4 2020 to $665 million in Q1 2021. The increase in revenue reflects 186 thousand nt or 38% higher Shipping Volumes from Q4 2020 to 675 thousand nt in Q1 2021 and a 32% increase in Average Selling Price per nt which increased $231/nt from $728/nt in Q4 2020 to $959/nt in Q1 2021, partly offset by $50 million in lower non-steel sales mostly related to lower metallurgical coke sales
- increased $253 million or 38% from $665 million in Q1 2021 to $918 million in Q2 2021. The increase in revenue reflects a 35% increase in Average Selling Price per nt which increased $333/nt from $959/nt to $1,292/nt in Q2 2021, 4 thousand nt or 1% higher Shipping Volumes from Q1 2021 to 679 thousand nt in Q2 2021 and $23 million in higher non-steel sales mostly related to higher metallurgical coke and pellet fines sales
- increased $436 million or 47% from $918 million in Q2 2021 to $1,354 million in Q3 2021. The increase in revenue reflects a 40% increase in Average Selling Price per nt which increased $516/nt from $1,292/nt to $1,808/nt in Q3 2021, 31 thousand nt or 5% higher Shipping Volumes from Q2 2021 to 710 thousand nt in Q3 2021 and $29 million in higher non-steel sales mostly related to higher iron oxide sales, partly offset by lower metallurgical coke sales
- decreased $168 million or 12% from $1,354 million in Q3 2021 to $1,186 million in Q4 2021. The decrease in revenue reflects lower Shipping Volumes of 84 thousand nt or 12% from Q3 2021 to 626 thousand nt in Q4 2021 and $39 million decrease in non-steel sales mostly related to lower iron oxide sales, partly offset by an increase in Average Selling Price per nt of $37/nt or 2% from $1,808/nt to $1,845/nt in Q4 2021

Gross profit:

- for Q2 2020 increased compared to Q1 2020 mainly due to $15 million received in connection with the CEWS program and lower cost of goods sold associated with certain employee benefits, partly offset by lower Shipping Volumes and Average Selling Price per nt as described above
- for Q3 2020 decreased compared to Q2 2020 mainly due to lower Shipping Volumes and Average Selling Price per nt, and higher depreciation from the disposal and replacement of certain major components in connection with Stelco's blast furnace upgrade project completed in October 2020 as described above
- for Q4 2020 increased compared to Q3 2020 mainly due to higher Shipping Volumes, Average Selling Price per nt and non-steel sales of metallurgical coke as described above, and lower depreciation expense during the period
- for Q1 2021 increased compared to Q4 2020 mainly due to higher Average Selling Price per nt and Shipping Volumes, partly offset by lower non-steel sales of metallurgical coke, as described above, during the period
- for Q2 2021 increased compared to Q1 2021 mainly due to higher Average Selling Price per nt and Shipping Volumes, and higher non-steel sales, as described above, during the period
- for Q3 2021 increased compared to Q2 2021 mainly due to higher Average Selling Price per nt and Shipping Volumes, and higher non-steel sales, as described above, during the period
- for Q4 2021 decreased compared to Q3 2021 mainly due to lower Shipping Volumes, and lower non-steel sales, partly offset by higher Average Selling Price per nt, as described above, during the period

Since 2019, SG&A has primarily consisted of employee salary and benefit related costs, professional fees, management fees, and share-based compensation related costs.

Net income (loss):

- of nil for Q2 2020 improved compared to $(24) million for Q1 2020 primarily due to lower finance costs from the period over period impact of foreign exchange, and higher gross profit, partly offset by higher other costs which includes the write-down of certain strategic capital projects no longer under construction, and higher selling, general and administrative expenses and lower finance and other income
- of $(88) million for Q3 2020 decreased compared to nil in Q2 2020 primarily due to lower gross profit as described above, higher finance costs and lower finance and other income, partly offset by lower other costs
- of $(47) million for Q4 2020 improved compared to $(88) million in Q3 2020 primarily due to higher gross profit as described above and lower finance costs, partly offset by a loss on commodity-based swaps and higher selling, general and administrative expenses in connection with cyberattack-related costs incurred during the period
- of $119 million for Q1 2021 improved compared to $(47) million in Q4 2020 primarily due to higher gross profit as described above, lower selling, general and administrative expenses, reduced losses on commodity-based swaps and a deferred tax recovery, partly offset by higher finance costs during the period
- of $363 million for Q2 2021 improved compared to $119 million in Q1 2021 primarily due to higher gross profit as described above, lower selling, general and administrative expenses, reduced losses on commodity-based swaps and lower finance costs, partly offset by lower deferred tax recovery during the period
- of $614 million for Q3 2021 improved compared to $363 million in Q2 2021 primarily due to higher gross profit as described above and lower finance costs, partly offset by current income taxes recorded during the period, higher loss from the derivative asset and an increase in selling, general and administrative expenses

- of $513 million for Q4 2021 decreased compared to $614 million in Q3 2021 primarily due to lower gross profit as described above, higher finance costs, higher selling, general and administrative expenses, and higher current income taxes recorded during the period, partly offset by higher deferred income tax recovery and lower loss from the derivative asset

Unaudited Consolidated Statements of Income (Loss)

(millions of Canadian dollars) Three months ended December 31,		**2021**		2020
Revenue from sale of goods	**$**	**1,186**	$	424
Cost of goods sold		**513**		367
Gross profit		**673**		57
Selling, general and administrative expenses		**20**		18
Operating income		**653**		39
Other income (loss) and (expenses)				
Finance and other income (loss)		**—**		(89)
Finance (costs) recovery		**(33)**		10
Other costs		**(3)**		(7)
Income (loss) before income taxes		**617**		(47)
Current income tax expense		**127**		—
Deferred income tax (recovery)		**(23)**		—
Net income (loss)	**$**	**513**	$	(47)

Review of Fourth Quarter Financial Results

For the fourth quarter of 2021, Stelco realized net income of $513 million compared to a net loss of $47 million for the same period during 2020, representing an increase of $560 million which is primarily due to the net effect of the following:

- $616 million increase in gross profit, resulting from $762 million higher revenue from sale of goods partly offset by a $146 million increase in cost of goods sold;
- $89 million decrease in finance income and other losses;
- $23 million deferred tax recovery; and
- $4 million decrease in other costs; partly offset by
- $127 million current income tax expense;
- $43 million increase in finance costs; and
- $2 million increase in selling, general and administrative expenses.

Revenue

Revenue increased by $762 million or 180%, from $424 million for the three months ended December 31, 2020 (Q4 2020) to $1,186 million in Q4 2021, primarily due to an increase in the market price of steel and higher steel shipments. Average Selling Price per nt increased by 153% or $1,117 per nt, from $728 per nt in Q4 2020 to $1,845 per nt in Q4 2021. Our Shipping Volumes increased 28% to 626 thousand nt from 489 thousand nt in Q4 2020.

The sales product volume mix of our hot-rolled, coated, cold-rolled and other steel products represented approximately 76%, 15%, 2% and 7%, respectively, of the total Shipping Volumes in Q4 2021, whereas in Q4 2020 it was approximately 76%, 13%, 3% and 8%, respectively. Also impacting revenue were non-steel sales which decreased to $31 million in Q4 2021, from $68 million in Q4 2020, mostly due to lower metallurgical coke sales during the period.

Gross profit

Gross profit increased by $616 million, from $57 million in Q4 2020 to $673 million in Q4 2021 mainly due to higher revenue of $762 million for the period as discussed above, partly offset by higher cost of goods sold of $146 million. The increase in cost of goods sold was due to the following: $158 million increase from steel product sales in connection with higher steel shipments and certain higher raw material costs, in particular, scrap metal incurred during the period, $19 million related mostly to the impact of CEWS received by the Company during the fourth quarter of 2020, partly offset by a $31 million decrease in cost of non-steel product sales.

During Q4 2020, the Company received $14 million in connection with the CEWS program, which was recorded as a reduction to cost of goods sold. The Company did not receive any funds from the CEWS program during Q4 2021.

Selling, general and administrative expenses

(millions of Canadian dollars) Three months ended December 31,		2021		2020
Employee salary and benefits expense	**$**	**7**	$	3
Management fees		**6**		3
Professional, consulting and legal fees		**2**		8
Share-based compensation		**2**		2
Other		**3**		2
	$	**20**	$	18

SG&A increased by $2 million or 11%, from $18 million in Q4 2020 to $20 million in Q4 2021, primarily due to the following: $4 million increase in employee salary and benefits expenses and $3 million increase in management fees, partly offset by $6 million decrease in professional, consulting and legal fees mostly in connection with the 2020 cyber-attack related costs.

The aggregate increase in employee salaries and benefits, and management fees of $7 million as described above, is primarily due to a higher variable compensation expense in connection with the Company's short-term incentive plan.

Finance costs (recovery)

(millions of Canadian dollars) Three months ended December 31,		2021		2020
Remeasurement of employee benefit commitment	**$**	**12**	$	(11)
Accretion of employee benefit commitment		**11**		9
Interest on loans and borrowings		**7**		10
Foreign exchange loss (gain)		**1**		(19)
Accretion on financial lease obligation		**1**		1
Other		**1**		—
	$	**33**	$	(10)

Finance costs increased by $43 million, from a finance cost recovery of $10 million in Q4 2020 to finance costs of $33 million in Q4 2021, mainly due to the following: $23 million change related to the gross remeasurement impact from our employee benefit commitment, $20 million related to the period-over-period impact of foreign exchange translation on U.S. dollar denominated working capital, and $2 million increase in accretion of employee benefit commitment, partly offset by $3 million in lower interest on loans and borrowings.

Interest on loans and borrowings decreased by $3 million compared to Q4 2020, primarily due to lower average finance rates under Stelco's IMA and lower amounts advanced and outstanding under the ABL during the quarter. Refer to *'Credit Facility and Other Arrangements'* section in this MD&A for further details.

Finance and other income (loss)

(millions of Canadian dollars) Three months ended December 31,		2021		2020
Gain (Loss) on derivative asset	**$**	**(1)**	$	—
Finance income		**1**		—
Gain (Loss) on commodity-based swaps		**—**		(89)
	$	**—**	$	(89)

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 Q4 2020, the Company recorded an $89 million loss within finance and other income (loss) in connection with these swap contracts. Stelco did not enter into these contracts for trading or speculative purposes.

Other costs

(millions of Canadian dollars) Three months ended December 31,	**2021**	2020
Demolition costs [1]	**$ 2**	$ 6
Other	**1**	1
	$ 3	$ 7

[1] Represents demolition costs for certain buildings (and other assets) not connected to the Company's ongoing operations.

Review of Non-IFRS Measures Fourth Quarter Results

Adjusted Net Income

The following table provides a reconciliation of net income to Adjusted Net Income for periods indicated:

(millions of Canadian dollars) Three months ended December 31,	**2021**	2020
Net income (loss)	**$ 513**	$ (47)
Add back/(Deduct):		
Remeasurement of employee benefit commitment [1]	**12**	(11)
Other costs [2]	**3**	7
Transaction-based and other corporate-related costs [3]	**1**	8
Loss on derivative asset [4]	**1**	—
Loss from commodity-based swaps, net [5]	**—**	86
Other	**—**	2
Total adjusted items before tax	**17**	92
Tax impact of above items	**(5)**	—
Total adjusted items after tax	**12**	92
Adjusted Net Income	**$ 525**	$ 45

[1] Remeasurement of employee benefit commitment for change in the timing of estimated cash flows and future funding requirements.
[2] Other costs primarily includes demolition costs for certain buildings (and other assets) not connected to the Company's ongoing operations.
[3] Represents certain non-routine items that include, but are not limited to, professional and consulting fees in connection with the cyberattack during Q4 2020.
[4] Refer to note 9 on the Consolidated Financial Statements for further details.
[5] Includes a $3 million commodity-based swap gain in connection with a contract settling during May 2020, included as an adjustment during Q4 2020.

Adjusted Net Income for the quarter was $525 million compared to an Adjusted Net Income of $45 million for Q4 2020 representing a change of $480 million which is primarily due to the net effect of the following:

- $616 million increase in gross profit;
- $23 million in deferred tax recovery; and
- $4 million increase in finance and other income (adjusted for an $86 million loss from commodity-based swaps in Q4 2020 and $1 million loss on derivative asset in Q4 2021); partly offset by
- $127 million in current income taxes;
- $20 million increase in finance costs (adjusted for a gross decrease in remeasurement charge from the employee benefit commitment of $23 million);
- $11 million higher selling, general and administrative expenses (adjusted for $7 million lower transaction-based and other corporate-related costs and $2 million lower other expenses); and
- $5 million related to the tax impact of the adjusted items noted in the table above.

For discussion and analysis of our financial results, refer to *'Review of Fourth Quarter Financial Results'* section in this MD&A.

Adjusted EBITDA

The following table provides a reconciliation of net income to Adjusted EBITDA for the periods as indicated:

(millions of Canadian dollars) Three months ended December 31,		2021		2020
Net income (loss)	**$**	**513**	$	(47)
Add back/(Deduct):				
Income tax expense (recovery)				
Current		**127**		—
Deferred		**(23)**		—
Finance costs (recovery)		**33**		(10)
Depreciation		**19**		14
Other costs		**3**		7
Transaction-based and other corporate-related costs [1]		**1**		8
Loss on derivative asset [2]		**1**		—
Finance income		**(1)**		—
Loss from commodity-based swaps, net [3]		**—**		86
Other		**—**		2
Adjusted EBITDA	**$**	**673**	$	60
Adjusted EBITDA as a percentage of total revenue		**57 %**		14 %

[1] Represents certain non-routine items that include, but are not limited to, professional and consulting fees in connection with the cyberattack during Q4 2020.
[2] Refer to note 9 on the Consolidated Financial Statements for further details.
[3] Includes a $3 million commodity-based swap gain in connection with a contract settling during May 2020, included as an adjustment during Q4 2020.

Adjusted EBITDA

Adjusted EBITDA for the quarter was $673 million compared to $60 million for Q4 2020 representing an increase of $613 million which is primarily due to the following:

- $621 million increase in gross profit (adjusted for $5 million in higher depreciation expense); and
- $3 million increase in other income (adjusted for an $86 million loss from commodity-based swaps in Q4 2020 and $1 million loss on derivative asset); partly offset by
- $11 million increase in selling, general and administrative expenses (adjusted for $7 million lower transaction-based and other corporate-related costs and $2 million lower other expenses).

For discussion and analysis of our financial results, refer to *'Review of Fourth Quarter Financial Results'* section in this MD&A.

Significant Accounting Policies

Our significant accounting policies are described in note 3 of our Consolidated Financial Statements. The Company is required to make judgments, estimates and assumptions that affect the reported amounts of revenue, expenses, assets and liabilities, and the accompanying disclosures, and the disclosure of contingent liabilities. Uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of assets or liabilities affected in future periods.

Judgments

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

Estimations and Assumptions

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below. The Company based its assumptions and estimates on parameters available when the Consolidated Financial Statements were prepared. Existing circumstances and assumptions about future developments, however, may change due to market changes or circumstances arising that are beyond the control of the Company. Such changes are reflected in the assumptions when they occur.

Employee benefit commitment

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

Derivative asset

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

Pension and other post-employment benefits

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

Allowance for doubtful accounts

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

Impairment of non-financial assets

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

The Company evaluates each asset or CGU at each consolidated balance sheet date to determine if any indicators of impairment or impairment reversal exist. When completing an impairment test, the Company calculates the estimated recoverable amount of CGUs, which requires management to make estimates and assumptions with respect to items such as future production levels, operating and capital costs, long-term commodity prices, foreign exchange rates and discount rates. These estimates and assumptions are subject to risk and uncertainty. Therefore, there is a possibility that changes in circumstances will have an impact on these projections, which may impact the recoverable amount of assets or CGUs.

Income taxes

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

Disclosure Controls and Procedures (DCP)

The Chief Executive Officer (CEO) and the Chief Financial Officer (CFO) of the Company have designed or caused to be designed under their direct supervision the Company’s DCP to provide reasonable assurance that: (i) material information relating to the Company is made known to management by others, particularly during the period in which the annual and interim filings are being prepared; and (ii) information required to be disclosed by the Company in its annual and interim fillings or other reports filed or submitted under securities legislation is recorded, processed, summarized and reported within the time period specified in securities legislation. The CEO and CFO, together with certain other members of the Company's senior management team, have established DCPs so that any material information affecting the Company is made known to the Company's CEO and CFO on a timely basis to enable decisions regarding the required disclosure. It was determined, as at December 31, 2021, that the Company's DCP were adequate and effective.

Internal Controls over Financial Reporting (ICFR)

The Company has established adequate ICFR to provide reasonable assurance regarding the reliability of the Company’s financial reporting and the preparation of the financial statements for external purposes in accordance with IFRS. Management, including the Company's CEO and CFO, has assessed or caused an assessment under their direct supervision, of the design effectiveness of the Company's ICFR using the Committee of Sponsoring Organizations of the Treadway Commission (COSO) framework (2013).

Based on this evaluation, the CEO and CFO have determined that the Company’s ICFR was appropriately designed and were operating effectively as at December 31, 2021. There were no changes in the Company's ICFR during the year ended December 31, 2021 that have materially affected, or are reasonably likely to materially affect, the Company's ICFR.

Risk and Uncertainties

We believe our performance and future success depend on a number of factors that present significant opportunities for us. For a discussion of risk factors that have been identified by the Company refer to the 2021 AIF which is available through the Company's profile on the SEDAR website at www.sedar.com.

Corporate Information

Executive Management

Alan Kestenbaum
Chief Executive Officer

Paul D. Scherzer
Chief Financial Officer

Sujit Sanyal
Chief Operating Officer

Paul Simon
General Counsel & Corporate Secretary

Board of Directors

Alan Kestenbaum
Executive Chairman and
Chief Executive Officer, Stelco Holdings Inc.

Heather Ross [1,2,3]
Lead Director

Monty Baker [2,4,7]
Corporate Director

Michael W. Dees [3,7,8]
Partner, Lindsay Goldberg

Alan Goldberg
Co-Founder and Chief Executive Officer,
Lindsay Goldberg

Jacob Lew
Partner, Lindsay Goldberg

Michael Mueller [3,5,7,8]
Corporate Director

Indira Samarasekera [6]
Corporate Director

Daryl Wilson
Corporate Director [2,8]

[1] Chair of the Governance and Nominating Committee
[2] Member of the Audit Committee
[3] Member of the Compensation Committee
[4] Chair of the Compensation Committee
[5] Chair of the Audit Committee
[6] Chair of the Environmental, Health and Safety Committee
[7] Member of the Governance and Nominating Committee
[8] Member of the Environmental, Health and Safety Committee

Auditors

KPMG LLP
21 King Street West, Suite 700
Hamilton, Ontario L8P 4W7

Transfer Agent and Registrar

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Fax: (888) 453-0330
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Stock Exchange Listing

The Toronto Stock Exchange
Stelco Holdings Inc. trading symbol: STLC

Shareholder Information

Stelco Holdings Inc.
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Telephone: (905) 528-2511
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Email: investor.relations@stelco.com

Shareholder and Investor Contact

Paul D. Scherzer
Chief Financial Officer
Telephone: (905) 577-4432
Email: Paul.Scherzer@stelco.com

Consolidated Financial Statements

Stelco Holdings Inc.

December 31, 2021 and 2020

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

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

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

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

In addition, the Company has developed and maintained a system of disclosure controls in order to provide reasonable assurance that the financial information is relevant, reliable and accurate. The Company has evaluated its internal and disclosure controls as at December 31, 2021, and has disclosed the results of this evaluation in its MD&A.

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

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

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

Hamilton, Canada
February 23, 2022

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INDEPENDENT AUDITORS' REPORT

To the Shareholders of Stelco Holdings Inc.

Opinion

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

- the consolidated balance sheets as at December 31, 2021 and December 31, 2020
- the consolidated statements of income (loss) for the years ended December 31, 2021 and December 31, 2020
- the consolidated statements of comprehensive income (loss) for the years ended December 31, 2021 and December 31, 2020
- the consolidated statements of changes in equity for the years ended December 31, 2021 and December 31, 2020
- the consolidated statements of cash flows for the years ended December 31, 2021 and December 31, 2020
- and notes to the consolidated financial statements, including a summary of significant accounting policies

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

In our opinion, the accompanying financial statements present fairly, in all material respects, the consolidated financial position of the Entity as at December 31, 2021 and December 31, 2020, and its consolidated financial performance and its consolidated cash flows for the years ended December 31, 2021 and December 31, 2020 in accordance with International Financial Reporting Standards (IFRS).

Basis for Opinion

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

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

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

KPMG

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements for the year ended December 31, 2021. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Evaluation of the fair value of the derivative asset

Description of the matter

We draw attention to Notes 4 b), 9, and 31 to the financial statements. The Entity entered into an option agreement with United States Steel Corporation (“U.S. Steel”) on April 30, 2020 granting the Entity an option to purchase a 25% ownership interest (the “Option”) in a to-be-formed joint venture that would own a 100% interest in U.S. Steel’s Minntac iron ore mine. The Option is exercisable by the Entity at any time until January 31, 2027. The Option is a derivative instrument which is presented on the balance sheet as a derivative asset of $126 million (December 31, 2020 - $133 million) and carried at fair value through income or loss. The Entity has valued the Option using a Black-Scholes option pricing model which involves inputs including the estimated fair value of the underlying mine asset and expected mine asset price volatility. The estimated fair value of the underlying mine asset was based on a discounted cash flow model, including inputs such as iron ore prices and a discount rate.

Why the matter is a key audit matter

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

How the matter was addressed in the audit

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

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

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

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

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

Other Information

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

- the information included in Management's Discussion and Analysis filed with the relevant Canadian Securities Commissions.
- the information, other than the financial statements and the auditors' report thereon, included in a document likely to be entitled "Annual Report".

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

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

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

We have nothing to report in this regard.

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

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

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

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

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

Auditors' Responsibilities for the Audit of the Financial Statements

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

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

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

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

We also:

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

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

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

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

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

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

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

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

KPMG LLP

Chartered Professional Accountants, Licensed Public Accountants

Hamilton, Canada
February 23, 2022

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

As at	Note	**December 31, 2021**	December 31, 2020
Assets			
Current assets			
Cash		**$ 955**	$ 59
Restricted cash	*5*	**20**	8
Trade and other receivables	*6*	**412**	183
Inventories	*7*	**617**	509
Prepaid expenses and deposits	*8*	**11**	32
Total current assets		**$ 2,015**	$ 791
Non-current assets			
Derivative asset	*9*	**126**	133
Property, plant and equipment, net	*10*	**1,008**	845
Intangible assets	*11*	**8**	8
Investment in joint ventures	*12*	**2**	2
Deferred tax asset	*13*	**78**	—
Total non-current assets		**$ 1,222**	$ 988
Total assets		**$ 3,237**	$ 1,779
Liabilities			
Current liabilities			
Trade and other payables	*14*	**$ 717**	$ 668
Derivative liabilities	*15*	**—**	84
Other liabilities	*16*	**62**	44
Asset-based lending facility	*17*	**15**	15
Income taxes payable	*13*	**252**	—
Obligations to independent employee trusts	*18*	**212**	36
Total current liabilities		**$ 1,258**	$ 847
Non-current liabilities			
Provisions	*19*	**7**	6
Pension benefits	*28*	**11**	11
Other liabilities	*16*	**71**	59
Asset-based lending facility	*17*	**69**	113
Obligations to independent employee trusts	*18*	**383**	462
Total non-current liabilities		**$ 541**	$ 651
Total liabilities		**$ 1,799**	$ 1,498
Equity			
Common shares	*20*	**446**	512
Retained earnings (Accumulated deficit)		**992**	(231)
Total equity		**$ 1,438**	$ 281
Total liabilities and equity		**$ 3,237**	$ 1,779

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

On behalf of the Board of Directors

(signed) *Alan Kestenbaum*, Director (signed) *Michael Mueller,* Director

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

Years ended December 31,	Note		2021		2020
Revenue from sale of goods	22	$	4,123	$	1,517
Cost of goods sold	23		2,082		1,476
Gross profit		$	2,041	$	41
Selling, general and administrative expenses	24		58		48
Operating income (loss)		$	1,983	$	(7)
Other income (loss) and (expenses)					
Finance costs	26		(162)		(51)
Finance and other income (loss)	25		(32)		(87)
Other costs	27		(7)		(13)
Share of income (loss) from joint ventures	12		—		(1)
Income (Loss) before income taxes		$	1,782	$	(159)
Current income tax expense	13		252		—
Deferred income tax (recovery)	13		(79)		—
Net income (loss)		$	1,609	$	(159)
Net income (loss) per common share					
Basic	30	$	19.08	$	(1.79)
Diluted	30	$	19.08	$	(1.79)

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

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

Years ended December 31,	Note		2021		2020
Net income (loss)		**$**	**1,609**	$	(159)
Other comprehensive income (loss):					
Items that are not recycled or reclassified to loss:					
Remeasurement gain (loss) on pension benefit obligations, net of income tax	*28*		**3**		(1)
Other comprehensive income (loss)		**$**	**3**	$	(1)
Comprehensive income (loss)		**$**	**1,612**	$	(160)

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

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

	Note	Number of common shares (in thousands)	Common shares	Retained earnings (Accumulated deficit)	Total equity
Balance, December 31, 2019		88,713	$ 512	$ (62)	$ 450
Changes during the year:					
Net loss		—	—	(159)	(159)
Dividends to common shareholders	*20*	—	—	(9)	(9)
Other comprehensive loss	*28*	—	—	(1)	(1)
Balance, December 31, 2020		88,713	$ 512	$ (231)	$ 281
Changes during the year:					
Net income		**—**	**—**	**1,609**	**1,609**
Common shares repurchased and cancelled	*20*	**(11,398)**	**(66)**	**(333)**	**(399)**
Dividends to common shareholders	*20*	**—**	**—**	**(56)**	**(56)**
Other comprehensive income	*28*	**—**	**—**	**3**	**3**
Balance, December 31, 2021		**77,315**	**$ 446**	**$ 992**	**$ 1,438**

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

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

Years ended December 31,	Note	2021	2020
Operating activities			
Net income (loss)		**$ 1,609**	$ (159)
Items not affecting cash:			
Employee benefit commitment:			
Remeasurement cost (recovery)	26	**91**	(12)
Accretion expense	26	**41**	37
Deferred tax recovery	13	**(79)**	—
Depreciation	23	**69**	66
Loss on derivative asset	9	**7**	—
Write-down of construction in progress	27	**1**	5
Change in unrealized loss on commodity-based swaps	25	**—**	84
Equity-settled share-based compensation		**—**	1
Share of loss from joint ventures	12	**—**	1
Change in non-cash working capital and other operating items	29	**(132)**	(19)
Cash provided by operating activities		**$ 1,607**	$ 4
Investing activities			
Capital expenditures on property, plant and equipment, net of Strategic Innovation Fund contributions	29	**(236)**	(226)
Change in restricted cash	5	**(12)**	—
Acquisition of derivative asset	9	**—**	(133)
Cash used in investing activities		**$ (248)**	$ (359)
Financing activities			
Proceeds from the inventory monetization arrangement, net	14	**25**	135
Advances from (Repayment of) asset-based lending facility, net of transaction costs:			
Revolving, net	17	**(28)**	28
Non-revolving term loan	17	**(15)**	—
Proceeds from Strategic Innovation Fund loan	10	**14**	6
Lease obligation principal payments	16	**(9)**	(8)
Advances under boiler project financing arrangement	16	**4**	7
Repayment of mortgage principal	18	**(2)**	(2)
Common shares repurchased and cancelled	20	**(399)**	—
Dividends paid to common shareholders	20	**(56)**	(9)
Cash (used in) provided by financing activities		**$ (466)**	$ 157
Effect of foreign exchange rate changes on cash		3	—
Net increase (decrease) in cash		**896**	(198)
Cash, beginning of year		**59**	257
Cash, end of year		**$ 955**	$ 59
Supplemental cash flow information	29		

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

1. CORPORATE INFORMATION

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

On November 10, 2017, Stelco Holdings acquired all of the issued and outstanding shares of Stelco Inc. (Stelco). Stelco 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

a) Statement of compliance

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

These Consolidated Financial Statements were authorized for issue on February 23, 2022 in accordance with a resolution of the board of directors (Board of Directors) of Stelco Holdings.

b) Basis of preparation

These Consolidated Financial Statements were prepared on a going concern basis under the historical cost method, except for certain financial assets and liabilities, which are measured at fair value as described in note 31. The accounting policies set out below have been applied consistently in all material respects. Certain comparative information has been reclassified to conform to the current period's presentation.

c) Principles of consolidation

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

Subsidiaries

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

The Company’s principal subsidiary is Stelco Inc. Other subsidiaries, while included in the Consolidated Financial Statements, are not material and have not been disclosed above.

Joint ventures

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

d) COVID-19 Pandemic

In March 2020, the World Health Organization declared the coronavirus (COVID-19) a global pandemic. This contagious disease outbreak, has led to adverse impacts on the Canadian and global economies, disruptions of financial markets and has affected work forces, resulting in governments and central banks reacting with significant monetary and fiscal interventions designed to stabilize economic conditions.

The extent to which these events may impact the Company's business activities will depend on future developments, such as the duration of the outbreak, travel restrictions, business disruptions, and the effectiveness of actions taken in Canada and other countries to contain, prevent and treat the disease. The Company may incur further expenses or delays relating to such events outside of our control, which could have a material adverse impact on our business, operating results and financial condition.

Although the financial impact of COVID-19 to the Company has not been significant to date, Stelco continues to monitor the progression of COVID-19 and its potential impact to the Company's future financial performance.

3. SIGNIFICANT ACCOUNTING POLICIES

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

a) Revenue recognition

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

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

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

b) Foreign currency translation

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

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

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

c) Income taxes

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

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

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

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

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

d) Inventories

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

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

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

e) Property, plant and equipment

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

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

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

f) Impairment of non-financial assets

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

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

g) Financial instruments

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

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

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

Financial instruments carried at amortized cost

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

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

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

Impairment of financial assets carried at amortized cost

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

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

Financial instruments carried at fair value through income or loss

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

In particular, derivative financial instruments are recorded at their fair value at the Consolidated Balance Sheet date, with changes in fair value recognized in the Consolidated Statements of Income (Loss). Derivative instruments with either positive or negative fair values are reported as derivative assets or liabilities, respectively. Valuation adjustments are included in the fair value of derivative assets and liabilities. Transaction costs related to the acquisition of derivative financial instruments carried at fair value through profit or loss are expensed and recorded within the Consolidated Statements of Income (Loss).

h) Fair value measurement

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

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

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

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

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

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

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

i) Provisions

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

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

j) Pension and other employee benefits

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

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

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

k) Net income per share

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

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

l) Intangibles

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

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

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

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

m) Leases

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

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

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

n) Share-based compensation

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

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

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

o) Government grants

Government grants are recognized when there is reasonable assurance that the grant will be received and all conditions associated with the grant are met. Grants related to assets are recorded as a reduction to the asset’s carrying value and are depreciated over the useful life of the asset. Claims under government grant programs related to income are recorded within the Consolidated Statements of Income (Loss) as a reduction to the related item that the grant is intended to offset, in the period in which eligible expenses were incurred or when the services have been performed.

p) Segment reporting

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

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

q) Accounting standards amendments issued and adopted:

Offered Rate (IBOR) benchmark reform

In August 2020, the IASB issued Interest Rate Benchmark Reform - Phase 2, which amends IFRS 9, *Financial Instruments*, IAS 39, *Financial Instruments*, IFRS 7, *Financial Instruments*, and IFRS 16, *Leases*. The Phase 2 amendments include a practical expedient such that if a change in the contractual cash flows of a financial instrument measured at amortized cost is as a result of IBOR reform and occurs on an economically equivalent basis, the change is accounted by updating the effective interest rate with no immediate gain or loss recognized. Effective January 1, 2021, the Company adopted these amendments, which had no impact on the Consolidated Financial Statements. As the Company continues to monitor the reform and its related implications, the effects, if any, will be dependent on the facts and circumstances of any future changes in financial instruments and any future changes in interest rate benchmarks.

4. SIGNIFICANT JUDGMENTS, ESTIMATES AND ASSUMPTIONS

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

a) Employee benefit commitment

This financial liability was initially recorded at its fair value using a discounted cash flow analysis and subsequently accounted for at amortized cost using the effective interest method. The determination of fair value at initial recognition involved making various assumptions, including the determination of the expected cash flows and discount rate. Estimates of expected cash flows are revisited at the end of each Consolidated Balance Sheet date to determine amortized cost. Due to the nature of the underlying assumptions and its long-term nature, the employee benefit commitment is highly sensitive to changes in these assumptions. Further details about the assumptions used are provided in note 18.

b) Derivative asset

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

c) Pension and other post-employment benefits

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

d) Allowance for doubtful accounts

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

e) Impairment of non-financial assets

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

The Company evaluates each asset or CGU at each Consolidated Balance Sheet date to determine if any indicators of impairment or impairment reversal exist. When completing an impairment test, the Company calculates the estimated recoverable amount of CGUs, which requires management to make estimates and assumptions with respect to items such as future production levels, operating and capital costs, long-term commodity prices, foreign exchange rates and discount rates. These estimates and assumptions are subject to risk and uncertainty. Therefore, there is a possibility that changes in circumstances will have an impact on these projections, which may impact the recoverable amount of assets or CGUs.

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

f) Income taxes

The Company is subject to federal and provincial income taxes in Canada. Significant estimates are required in determining the provision for income taxes. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the current and deferred income tax assets and liabilities in the period in which such determination is made. Refer to note 13 for the carrying value of current and deferred income tax assets and liabilities.

5. RESTRICTED CASH

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

As at		**December 31, 2021**		December 31, 2020
Receivables purchase agreement [1]		**13**		2
Ontario Ministry of the Environment, Conservation and Parks [2]		**7**		6
Restricted cash	**$**	**20**	$	8

[1] Includes cash collected from customers in connection with trade receivables sold to a Schedule II bank under the receivables purchase agreement discussed further in note 6. Under the terms of the receivables purchase agreement, Stelco is required to administer and remit these deposits to the Schedule II bank.
[2] Represents deposits associated with the Company's environmental obligations recorded within provisions on the Consolidated Balance Sheets. Refer to note 19 for further details.

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

6. TRADE AND OTHER RECEIVABLES

As at		**December 31, 2021**		December 31, 2020
Trade receivables [1]	**$**	**402**	$	171
Other receivables		**10**		12
Total trade and other receivables	**$**	**412**	$	183

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

Trade and other receivables

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

As at December 31, 2021 and 2020, the aging of trade receivables and other receivables is as follows:

				Past due but not impaired			
As at		**Total**	**Current**	**< 31 days**	**31 - 60 days**	**61 - 90 days**	**>91 days**
December 31, 2021	**$**	**412**	**385**	**27**	**—**	**—**	**—**
December 31, 2020	$	183	182	1	—	—	—

Refer to note 32 for further details of the Company's credit risk management.

Receivables Purchase Agreement (RPA)

In June 2019, Stelco entered into an RPA with a Schedule II bank (the Purchaser), enabling Stelco, from time to time, to sell certain customer trade receivables to the Purchaser on an uncommitted revolving basis. Under the terms of the RPA, Stelco administers and processes the collection of receivables and remits those collections to the Purchaser. The Company has derecognized the trade receivables sold under the RPA from the Consolidated Balance Sheets as substantially all of the risks and rewards for such receivables have been transferred to the Purchaser.

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

During 2021, Stelco further amended the RPA with the Purchaser, which included an updated finance rate of CDOR/LIBOR plus a margin of 1.75% (previously LIBOR plus 2.75%); and an increase in the aggregate maximum purchase limit to $74 million (previously $66 million); other terms remained substantially similar to the original agreement. In addition, during December 2021, the Company further 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 December 31, 2021, Stelco's available purchase limit remaining under the RPA was $1 million (December 31, 2020 - $19 million).

Proceeds received by Stelco under the RPA are recorded within cash flows from operations on the Consolidated Statements of Cash Flows. For the year ended December 31, 2021, the Company recorded $1.3 million (December 31, 2020 - $0.9 million) in bank fees in connection with the RPA within finance costs on the Consolidated Statements of Income (Loss).

7. INVENTORIES

As at		**December 31, 2021**		December 31, 2020
Raw materials	**$**	**440**	$	409
Semi-finished products		**143**		80
Finished products [1]		**32**		18
Spare parts		**2**		2
Total inventories	**$**	**617**	$	509

[1] Includes a provision to reflect inventories at the lower of cost or net realizable value of nil as at December 31, 2021 (December 31, 2020 - nil).

Refer to note 23 for the cost of inventories recognized within cost of goods sold.

8. PREPAID EXPENSES AND DEPOSITS

As at		**December 31, 2021**		December 31, 2020
Prepaid insurance	**$**	**6**	$	4
Advance payments to vendors		**3**		7
Commodity-based swap margin deposits [1]		**—**		20
Other		**2**		1
Total prepaid expenses and deposits	**$**	**11**	$	32

[1] Represents cash deposits paid to a U.S.-based financial institution in connection with certain commodity-based swaps outstanding at December 31, 2020; refer to note 15 for further details. The margin deposits were based on the difference between the outstanding commodity-based swaps' fair values and specific credit requirements from the U.S.-based financial institution counterparty.

9. DERIVATIVE ASSET

On April 30, 2020, Stelco entered into an eight-year pellet sale and purchase agreement (the Pellet Agreement) with United States Steel Corporation (USS) ending January 31, 2028. The Pellet Agreement contained both an annual iron ore volume purchase limit and fixed pricing schedule for the duration of the agreement (subject to adjustments based on certain input cost indices).

Concurrently, on April 30, 2020, Stelco entered into an option agreement (the Option Agreement) with 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, in five US$20 million installments, with the first installment paid on closing of the Option Agreement and the remaining installments paid at two month intervals during the remainder of 2020. If and when the Option is exercised, Stelco would pay an exercise price of US$500 million.

The Option is recorded as a derivative instrument which is presented on the Consolidated Balance Sheets as a financial asset and carried at fair value through income or loss. At December 31, 2021, the Option's fair value of $126 million (December 31, 2020 - $133 million) was estimated using the Black-Scholes option pricing model. During the year ended December 31, 2021, the Company recognized a loss of $7 million (December 31, 2020 - nil), 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 Company's Black-Scholes option pricing model, included the following types of inputs and assumptions:

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

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

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

The inputs and assumptions used in the discounted cash flow model to estimate the fair value of the mine asset at each reporting date were updated with observable market and macroeconomic input considerations due to the Company not having access to the mine asset's financial information since the acquisition of the Option. Since the discounted cash flow model does not incorporate current mine asset specific financial information, there is an inherent estimation uncertainty in the Company's projection of the mine asset future cash flows.

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 remain unchanged:

		2021		2020	
As at December 31,	**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)**	3	(3)

The Company's valuation policies for Level 3 derivatives are an integral part of its internal control procedures and have been reviewed and approved according to the Company's principles for establishing such procedures. In particular, such procedures address the accuracy and reliability of input data, the valuation model and the knowledge of the staff performing the valuations. Refer to note 31 for a further discussion of valuation techniques and inputs used in estimating the Option's fair value at December 31, 2021 and 2020.

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

10. PROPERTY, PLANT AND EQUIPMENT

Cost	Land	Buildings	Machinery and equipment	Vehicles	Assets under leases	Construction in progress	Total
As at December 31, 2019	$ 110	$ 41	$ 427	$ 9	$ 54	$ 122	$ 763
Additions	1	1	10	—	9	234	255
Transfers	—	1	159	1	—	(161)	—
Disposals and other	—	—	(31)	—	—	2	(29)
Strategic Innovation Fund contributions	—	—	(7)	—	—	(1)	(8)
Write-down of construction in progress [1]	—	—	—	—	—	(5)	(5)
As at December 31, 2020	$ 111	$ 43	$ 558	$ 10	$ 63	$ 191	$ 976
Additions	**—**	**—**	**14**	**—**	**5**	**232**	**251**
Transfers	**—**	**7**	**123**	**5**	**(2)**	**(133)**	**—**
Strategic Innovation Fund contributions	**—**	**—**	**(13)**	**—**	**—**	**(5)**	**(18)**
Disposals and other	**—**	**—**	**(2)**	**—**	**(1)**	**—**	**(3)**
Write-down of construction in progress [1]	**—**	**—**	**—**	**—**	**—**	**(1)**	**(1)**
As at December 31, 2021	**$ 111**	**$ 50**	**$ 680**	**$ 15**	**$ 65**	**$ 284**	**$1,205**

[1] Includes certain capital projects that are no longer being pursued by the Company, representing aborted construction in progress costs without future benefit to Stelco. During the year ended December 31, 2021, the Company recognized a $1 million (December 31, 2020 - $5 million) write-down charge in connection with these construction in progress assets, recorded within other costs on the Consolidated Statements of Income (Loss).

Accumulated depreciation	Land	Buildings	Machinery and equipment	Vehicles	Assets under leases	Construction in progress	Total
As at December 31, 2019	$ —	$ 1	$ 81	$ 2	$ 9	$ —	$ 93
Depreciation [2]	—	1	57	1	7	—	66
Disposals and other	—	—	(28)	—	—	—	(28)
As at December 31, 2020	$ —	$ 2	$ 110	$ 3	$ 16	$ —	$ 131
Depreciation	**—**	**2**	**57**	**2**	**8**	**—**	**69**
Disposals and other	**—**	**—**	**(2)**	**—**	**(1)**	**—**	**(3)**
As at December 31, 2021	**$ —**	**$ 4**	**$ 165**	**$ 5**	**$ 23**	**$ —**	**$ 197**
Net book value							
As at December 31, 2021	**$ 111**	**$ 46**	**$ 515**	**$ 10**	**$ 42**	**$ 284**	**$1,008**
As at December 31, 2020	$ 111	$ 41	$ 448	$ 7	$ 47	$ 191	$ 845

[2] During the year ended December 31, 2020, the Company recorded a $16 million machinery and equipment depreciation charge resulting from the disposal and replacement of certain major components in connection with Stelco's blast furnace upgrade project completed in October 2020.

Assets under leases

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

Years ended December 31,	2021	2020
Balance, beginning of year	**$ 47**	$ 45
Additions	**5**	9
Depreciation	**(8)**	(7)
Disposals and other	**(2)**	—
Balance, end of year	**$ 42**	$ 47

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

Innovation, Science and Economic Development Canada funding commitment

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

During the year ended December 31, 2021, the Company received $28.7 million (December 31, 2020 - $12.1 million) in cash proceeds in connection with the Contribution, of which $17.8 million (December 31, 2020 - $7.8 million) was deducted from the carrying amount of the respective qualified capital expenditures within property, plant and equipment and $10.9 million (December 31, 2020 - $4.3 million) was recorded as a non-interest bearing loan within other liabilities on the Consolidated Balance Sheets.

The difference between the fair value of the non-interest bearing loan cash proceeds of $10.9 million (December 31, 2020 - $4.3 million) on recognition and fifty percent of the Contribution proceeds received of $14.4 million (December 31, 2020 - $6.0 million), represents a $3.5 million (December 31, 2020 - $1.7 million) present value benefit from the Company receiving a non-interest bearing loan, which was included within the aforementioned $17.8 million (December 31, 2020 - $7.8 million) deduction from property, plant and equipment.

As of December 31, 2021, the Company has received an aggregate of $40.8 million in cash proceeds in connection with the Contribution and the non-interest bearing loan was carried at amortized cost using an effective interest rate of 5.0%.

11. INTANGIBLE ASSETS

Intangible assets includes an indefinite life trademark with a carrying value of $7 million (December 31, 2020 - $7 million), recognized by the Company in connection with Bedrock's acquisition of Stelco Inc. on June 30, 2017.

12. INVESTMENT IN JOINT VENTURES

Stelco has 50% equity interests in Baycoat Limited Partnership (metal coating services) and D.C. Chrome Limited (chrome plating services), which are joint ventures accounted for using the equity method in the Consolidated Financial Statements. Summarized combined financial information of the joint ventures is set out below.

Assets and liabilities of the joint ventures

Assets and liabilities of the joint ventures (100% basis) consist of the following:

As at	**December 31, 2021**	December 31, 2020
Current assets	**$ 24**	$ 23
Non-current assets	**5**	6
Current liabilities	**(11)**	(10)
Non-current liabilities	**(20)**	(22)

Statement of income (loss) of the joint ventures

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

Years ended December 31,	**2021**	2020
Net revenue	**$ 83**	$ 77
Depreciation	**(1)**	(1)
Net loss	**(3)**	(9)

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

Equity investment in the joint ventures

Years ended December 31,		2021		2020
Balance, beginning of year	$	**2**	$	3
Share of loss from joint ventures		**—**		(1)
Balance, end of year [1]	$	**2**	$	2

[1] As at December 31, 2021, the carrying value for a certain joint venture was nil (December 31, 2020 - nil). The Company's share of loss from joint ventures is recognized on the Consolidated Statements of Income (Loss) until the carrying amount of Stelco's equity interest in the respective joint venture is reduced to nil. Total unrecognized share of loss from the certain joint venture for the year ended December 31, 2021 was $1.9 million and the cumulative unrecognized share of loss was $5.6 million. In addition, the total unrecognized share of other comprehensive income from the certain joint venture for the year ended December 31, 2021 was $2.3 million and the cumulative unrecognized share of other comprehensive income was $3.1 million.

13. INCOME TAXES

Reconciliation of Effective Tax Rate

Years ended December 31,		2021		2020
Income (Loss) before income taxes	$	**1,782**	$	(159)
Combined Canadian federal and provincial income tax rate		**25%**		25%
Income tax expense (recovery) based on statutory rate		**446**		(40)
Increase (Decrease) in income taxes resulting from non-taxable items or adjustments of prior period taxes:				
Previously unrecognized deferred tax assets		**(273)**		40
Permanent difference - other		**—**		—
Income tax expense	$	**173**	$	—
Current income tax expense		**252**		—
Deferred income tax (recovery)		**(79)**		—

For the year ended December 31, 2021, the Company recorded a deferred tax recovery of $79 million, and a net deferred tax asset of $78 million (December 31, 2020 - nil), which includes recognition of previously unrecorded deferred tax assets of $273 million.

Deferred tax

The Company recognized previously unrecorded deferred tax assets of $273 million for the year ended December 31, 2021, due to claiming a significant portion of its non-capital loss carry-forwards and other deductible amounts to reduce taxable income during the period. In addition, the Company expects to utilize the remaining previously unrecognized deferred tax assets 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 and input prices, and foreign exchange), considers future capital expenditure requirements, and includes other significant assumptions that are consistent with Stelco's future business plans.

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

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

As at	**December 31, 2021**	Movement	December 31, 2020	Movement	December 31, 2019
Employee benefit commitment	**$ 122**	$ 25	$ 97	$ (2)	$ 99
Lease obligations (right-of-use liabilities)	**11**	(1)	12	—	12
Non-capital and capital loss carry-forwards	**6**	(96)	102	4	98
Pension and other post-employment benefits	**6**	1	5	1	4
Investment in subsidiaries and land costs	**4**	1	3	1	2
Strategic Innovation Fund payable	**4**	3	1	1	—
Property, plant and equipment	**—**	(31)	31	16	15
Commodity-based swaps	**—**	(21)	21	21	—
Deductible SRED expenditures	**—**	(9)	9	—	9
Other	**6**	1	5	2	3
Deferred tax assets not recognized	**(8)**	266	(274)	(44)	(230)
Deferred tax asset	**$ 151**	$ 139	$ 12	$ —	$ 12
Property, plant and equipment	**(62)**	(62)	—		
Right-of-use assets	**(11)**	1	(12)	—	(12)
Deferred tax liability	**$ (73)**	$ (61)	$ (12)	$ —	$ (12)
Net deferred tax asset	**$ 78**	$ 78	$ —	$ —	$ —

Non-capital loss carry-forwards

Year of expiry, as at	**December 31, 2021**	December 31, 2020
2034	**$ —**	$ 136
2035	**—**	238
2037	**2**	2
2038	**4**	4
2039	**5**	14
2040	**12**	13
2041	**2**	—
Total	**$ 25**	$ 407

Other tax attributes

As at December 31, 2021, the Company has undepreciated capital cost (UCC) of $597 million (December 31, 2020 - $821 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 $62 million was recorded in connection with the carrying value of the Company's property, plant and equipment exceeding the UCC balance at December 31, 2021.

As at December 31, 2020, the Company had scientific research and experimental development available deductions of $36 million, which have been fully utilized against taxable income during the year ended December 31, 2021.

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 18 for further details.

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

14. TRADE AND OTHER PAYABLES

As at		December 31, 2021		December 31, 2020
Inventory monetization arrangement	**$**	**414**	$	389
Trade payables [1]		**293**		276
Payables to related parties [2]		**10**		3
Total trade and other payables	**$**	**717**	$	668

[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 35 for details.

Inventory monetization arrangement (IMA)

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

The weighted average finance rate for the IMA for the year ended December 31, 2021 was 3.93% (December 31, 2020 - 4.74%), and the finance costs of $15 million (December 31, 2020 - $14 million) are recorded on the Consolidated Statements of Income (Loss). The IMA is secured by inventory with a carrying value of $454 million (December 31, 2020 - $408 million) serving as collateral.

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

Years ended December 31,		2021		2020
Balance, beginning of year	**$**	**389**	$	267
Proceeds, net of repayments		**25**		135
Foreign exchange loss (gain)		**—**		(13)
Balance, end of year	**$**	**414**	$	389

Amendment to the IMA

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

i) an extended 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 years ended December 31, 2021 and 2020.

15. 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 December 31, 2021, Stelco's commodity-based swap liability was nil (December 31, 2020 - $84 million), as the Company did not have any outstanding commodity-based swap contracts at the reporting date.

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

During the year ended December 31, 2021, the Company paid $111 million in cash in connection with commodity-based swap contracts that matured during the period. Refer to note 25 for further details. Stelco did not enter into these contracts for trading or speculative purposes.

16. OTHER LIABILITIES

As at		**December 31, 2021**		December 31, 2020
Lease obligations	**$**	**44**	$	48
Salaries and benefits payable		**39**		26
Strategic Innovation Fund payable [1]		**16**		4
Boiler project financing arrangement		**12**		7
Share-based compensation [2]		**11**		4
Post-employment benefits [3]		**7**		8
Deferred income		**2**		4
Interest payable		**1**		1
Other liabilities		**1**		1
Total other liabilities	**$**	**133**	$	103
Total current other liabilities	**$**	**62**	$	44
Total non-current other liabilities	**$**	**71**	$	59

[1] Refer to note 10 for details.
[2] Refer to note 21 for details.
[3] Refer to note 28 for details.

Lease obligations

As at December 31, 2021, the Company had equipment lease obligations with a carrying value of $44 million (December 31, 2020 - $48 million). Refer to note 10 for details of the carrying value of the right-of-use assets related to these leases.

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

Years ended December 31,		**2021**		2020
Balance, beginning of year	**$**	**48**	$	47
Lease obligation payments		**(12)**		(11)
Additions		**5**		9
Accretion expense related to lease obligations		**3**		3
Balance, end of year	**$**	**44**	$	48

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

As at		**December 31, 2021**
2022	**$**	**10**
2023		**9**
2024		**7**
2025		**6**
2026		**5**
Thereafter		**16**
Total future lease obligations payments	**$**	**53**
Less: future interest costs		**(9)**
Present value of lease obligations	**$**	**44**

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

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.

The boiler project financing arrangement contains a maximum advance limit of $37 million plus any interest in arrears, at a rate of 10% per annum payable monthly, until the refurbishment of the boiler assets and related boiler infrastructure is complete. The boiler financing arrangement is repayable to DTE over a 20-year term at an effective interest rate of 11.14% per annum, with monthly payments commencing upon the completion of the Cogen Plant. During the year ended December 31, 2021, the Company recorded $1.3 million (December 31, 2020 - $0.1 million) in interest costs in connection with the boiler project financing arrangement within property, plant and equipment on the Consolidated Balance Sheets.

The following table summarizes the changes in the aggregate carrying value of the Company's boiler project financing arrangement:

Years ended December 31,		**2021**		2020
Balance, beginning of year	**$**	**7**	$	—
Advances received		**4**		7
Accretion finance costs		**1**		—
Balance, end of year	**$**	**12**	$	7

Future payments are estimated to be as follows:

As at		**December 31, 2021**
2022	**$**	**1**
2023		**1**
2024		**1**
2025		**2**
2026		**1**
Thereafter		**24**
Total future payments	**$**	**30**
Less: amounts representing future finance costs		**(18)**
Carrying amount of boiler financing arrangement	**$**	**12**

17. ASSET-BASED LENDING FACILITY (ABL)

As at		**December 31, 2021**		December 31, 2020
Revolving	**$**	**—**	$	29
Non-revolving term loan		**84**		99
Asset-based lending facility		**84**		128
Current		**15**		15
Non-current		**69**		113

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

In June 2017, Stelco entered into an ABL agreement with a syndicate of lenders for a maximum credit facility of $375 million. The amount available to be drawn under the ABL varies from time to time, based upon a borrowing base determined with reference to eligible trade receivables, 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 14. At December 31, 2021, the amount available for advances under the ABL was $240 million (December 31, 2020 - $43 million), which includes the available borrowing base less outstanding letters of credit of $20 million (December 31, 2020 - $33 million), cash amounts drawn and outstanding under the revolving ABL of nil (December 31, 2020 - $29 million), non-revolving term loan of $84 million (December 31, 2020 - $99 million) and a minimum excess availability requirement of $30 million (December 31, 2020 - $30 million).

The weighted average finance rate for amounts drawn under the ABL for the year ended December 31, 2021 was 3.75% (December 31, 2020 - 4.36%) and the Company was in compliance with the financial covenants pursuant to the ABL agreement as at and during the years ended December 31, 2021 and 2020.

Amendment to the ABL agreement

In June 2021, Stelco entered into an amended ABL agreement which included the following significant amendments:

i) an extended term for the ABL with an expiry date of June 18, 2026 (previously August 16, 2023);

ii) an amendment to the definition of CDOR and LIBOR within the ABL to include a reduced floor rate of 0.50% (previously 0.75%);

iii) a change in the unused line fee to 0.25% (previously 0.25% - 0.375%); and

iv) until the non-revolving term loan is repaid in full, Stelco is to maintain a total minimum liquidity of $50 million consisting of excess availability under the ABL of at least $30 million and cash and cash equivalents of $20 million. Subsequent to the repayment in full of the term loan, Stelco is to maintain a total minimum liquidity of $40 million, consisting of excess availability under the ABL of at least $20 million and cash and cash equivalents of $20 million.

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

Years ended December 31,		**2021**		2020
Balance, beginning of year	**$**	**128**	$	98
Advances from (Repayments of) revolving ABL, net		**(27)**		28
Repayment of non-revolving term loan		**(15)**		—
Foreign exchange on revolving ABL		**(2)**		1
Amortization of deferred transaction costs		**—**		1
Balance, end of year	**$**	**84**	$	128

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

As at		**December 31, 2021**
2022	**$**	**15**
2023		**15**
2024		**15**
2025		**15**
2026		**25**
Total minimum future ABL non-revolving term loan principal payments	**$**	**85**
Less: deferred transaction costs subject to amortization		**(1)**
Carrying amount of ABL non-revolving term loan	**$**	**84**

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

18. OBLIGATIONS TO INDEPENDENT EMPLOYEE TRUSTS

As at		**December 31, 2021**		December 31, 2020
Employee benefit commitment	**$**	**487**	$	388
Mortgage payable		**108**		110
Obligations to independent employee trusts		**595**		498
Current		**212**		36
Non-current	**$**	**383**	$	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, described further below.

Employee benefit commitment

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

The amended EBC was initially recorded at its estimated fair value of $491 million based on a discounted cash flow analysis of expected cash flows to be paid in future periods to the pension and OPEB trusts applying certain unobservable Level 3 inputs. These cash flows consist of contractually fixed payments as well as estimated payments that have been determined using management estimates of Stelco's future operating performance. The amended EBC has been subsequently accounted for at amortized cost using the effective interest rate of 9.72%.

Due to the nature of the underlying assumptions and long-term estimates, the employee benefit commitment is highly sensitive to changes in these assumptions. Estimates of expected cash flows are revisited at the end of each Consolidated Balance Sheet date to determine amortized cost. Refer also to note 26 for remeasurements of the employee benefit commitment recorded in finance costs on the Consolidated Statements of Income (Loss), as a result of changes in estimates and assumptions related to this obligation.

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

Years ended December 31,		**2021**		2020
Balance, beginning of year	**$**	**388**	$	395
Accretion expense		**41**		37
Remeasurement cost (recovery)		**91**		(12)
Cash payments		**(33)**		(32)
Balance, end of year	**$**	**487**	$	388

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

Future employee benefit commitment payments are estimated as follows:

As at		December 31, 2021
2022	$	210
2023		119
2024		40
2025		24
2026		24
Thereafter		333
Total estimated employee benefit commitment payments	$	750
Less: amounts representing future finance costs		(263)
Present value of employee benefit commitment	$	487

Mortgage payable

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

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

Years ended December 31,		2021		2020
Balance, beginning of year	$	110	$	112
Interest costs		9		9
Cash payments		(11)		(11)
Balance, end of year	$	108	$	110

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

As at		December 31, 2021
2022	$	11
2023		11
2024		11
2025		11
2026		11
Thereafter		172
Total future mortgage payments	$	227
Less: amounts representing future finance costs		(119)
Carrying amount of mortgage payable	$	108

19. PROVISIONS

Provisions include an environmental remediation provision with a carrying value of $7 million (December 31, 2020 - $6 million), in connection with waste generated from steel making operations subsequent to June 30, 2017. Stelco is required to remediate the sites where this waste is held pursuant to requirements of the Ontario Ministry of Environment, Conservation and Parks (MECP). For the year ended December 31, 2021, the Company recorded $0.7 million (December 31, 2020 - $0.6 million) in net income on the Consolidated Statement of Income (Loss) in connection with this provision.

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

20. SHARE CAPITAL

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

As at		**December 31, 2021**		December 31, 2020
Common shares				
Outstanding (in thousands)		**77,315**		88,713
Carrying amount	**$**	**446**	$	512

Dividends to common shareholders

Common share dividends declared and paid in 2021 were as follows:

(millions of Canadian dollars, except per share amounts) Record date	Payment date		Cash dividend per common share		Total common share dividends
February 26, 2021	March 4, 2021	$	0.10	$	9
May 14, 2021	May 19, 2021		0.10		9
August 25, 2021	August 31, 2021		0.20		15
November 24, 2021	November 30, 2021		0.30		23

During March 2020, Stelco Holdings paid an ordinary dividend to common shareholders in the aggregate amount of $9 million, or $0.10 per common share. No further dividends were declared or paid during 2020.

Subsequent to December 31 2021, the Board of Directors declared a dividend of $0.30 per common share, payable on March 9, 2022, to shareholders of record as of March 4, 2022.

Repurchase and cancellation of common shares

During August 2021, the Company repurchased and cancelled 11,398,024 common shares at a price of $34.93 per share (the Repurchase) from LG Bedrock Holdings LP (LG Bedrock) for a total purchase price of $398 million. The excess of the purchase price paid over the average carrying value of the shares repurchased in the amount of $332 million, was recognized as a share repurchase premium and reduction to retained earnings. The Company also recorded transaction costs of $1 million in connection with the Repurchase, as a charge to retained earnings.

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 January 26, 2022, the SIB expired with fewer shares tendered than were required to enable the Company to purchase the maximum amount. In February 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 $164.3 million.

Normal Course Issuer Bid (NCIB)

Subsequent to December 31, 2021, the Company received approval from the TSX to commence a normal course issuer bid (NCIB). Stelco Holdings is entitled to purchase up to 4,353,418 common shares pursuant to this NCIB. The NCIB will commence on February 28, 2022 and end 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.

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

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.

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

For the year ended December 31, 2021, the Company recorded a share-based compensation expense of $8 million (December 31, 2020 - $4 million) in selling, general and administrative expenses on the Consolidated Statements of Income (Loss) 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

Under the terms of the LTIP, the Board of Directors may grant restricted share unit (RSU) awards, subject to a maximum three calendar year vesting period, to eligible participants. Each vested RSU entitles the participant to receive either (i) one common share of the Company (acquired by the Company as a treasury share prior to settlement with the participant); or (ii) at the election of the participant, a cash distribution equal to the fair market value of a common share of the Company determined on the vesting date, in each case, less applicable statutory withholdings. Dividends declared on the Company's common shares accrue to the RSU holder in the form of additional RSUs and vested RSUs are cash settled within thirty days of the vesting date.

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

(RSUs in total) Years ended December 31,	**2021**	2020
Balance, beginning of year	**77,181**	6,313
Granted	**62,579**	73,578
Vested and cash settled	**(27,062)**	(2,710)
Balance, end of year	**112,698**	77,181

On March 20, 2020, 73,529 RSUs were granted to a certain member of the Company's Executive Leadership Team (ELT), with a grant date fair value of $4.08 per RSU, with one-third of the total grant amount vesting on each of the first three anniversaries of the grant date.

On February 22, 2021, 58,346 RSUs were granted to certain members of the Company's ELT, with a grant date fair value of $22.81 per RSU, with one-third of the total grant amount vesting on January 1 of each of 2022, 2023 and 2024.

In addition, 4,233 RSUs were granted during the year ended December 31, 2021, with an average grant date fair value of $36.64 per RSU. Other than in respect of dividend equivalent units issued pursuant to the terms of the LTIP, one-third of the original grant amount of such RSUs vests on each of the first three anniversaries of the respective grant dates.

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

As at December 31, 2021, there were 112,698 outstanding and unvested RSUs (December 31, 2020 - 77,181) under the Company's LTIP, for which the Company recorded a liability of $3.1 million (December 31, 2020 - $0.9 million) in other liabilities.

Stock appreciation rights

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

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

(SARs in total) Years ended December 31,	**2021**	2020
Balance, beginning of year	**150,000**	—
Granted	**—**	150,000
Exercised and cash settled	**(49,999)**	—
Balance, end of year	**100,001**	150,000

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

The Black-Scholes option-pricing model assumptions used to estimate the fair value of the SARs at the respective dates are noted in the summary below:

SARs: Grant date	March 20, 2020	August 28, 2020
Granted (in total)	100,000	50,000
Base price (per SAR)	$ 4.08	$ 9.22
Expected risk-free interest rate	0.6%	0.4%
Expected dividend yield	9.8%	—%
Expected share price volatility	53.0%	52.0%
Expected SAR life (years)	6.00	6.00
Grant date fair value of SARs granted (per SAR)	$ 0.78	$ 4.44

As at December 31,	**2021**		2020	
SARs outstanding (in total)	**66,667**	**33,334**	100,000	50,000
Expected risk-free interest rate	**1.3%**	**1.3%**	0.4%	0.4%
Expected dividend yield	**3.2%**	**3.2%**	—%	—%
Expected share price volatility	**51.5%**	**51.5%**	52.0%	52.0%
Expected SAR life (years)	**4.50**	**5.00**	5.25	5.75
Fair value of SARs outstanding (per SAR)	**$ 31.93**	**$ 27.46**	$ 19.04	$ 15.81

As at December 31, 2021, there were 100,001 outstanding and unvested SARs (December 31, 2020 - 150,000 SARs), for which the Company recognized a liability of $2.2 million (December 31, 2020 - $1.1 million) in other liabilities.

Deferred share units

Stelco Holdings has a deferred share unit (DSU) plan for the independent members of its Board of Directors which provides that each independent director receives, on each date that director retainer fees are payable, an amount of DSUs which the director has elected relative to their respective fee entitlement. Each independent director can elect annually to receive a specified percentage of their respective direct retainer fee entitlement as DSUs. The number of DSUs granted to an independent director is based on the closing price of the common shares of Stelco Holdings on the Toronto Stock Exchange (TSX) on the day prior to the grant date. Dividends declared on common shares accrue to the DSU holder in the form of additional DSUs. At such time as an independent director ceases to be a director of the Company, Stelco Holdings will make a cash payment to the applicable director in respect of the total amount of the issued and outstanding DSUs held by such director based on the fair market value of the common shares of Stelco Holdings at such time.

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

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

(DSUs in total)

Years ended December 31,	2021	2020
Balance, beginning of year	**104,538**	39,445
Granted	**30,929**	65,093
Balance, end of year	**135,467**	104,538

As at December 31, 2021, there were 135,467 vested and outstanding DSUs (December 31, 2020 - 104,538), for which the Company recognized a liability of approximately $5.6 million (December 31, 2020 - $2.4 million) in other liabilities.

Share options

For the year ended December 31, 2020, 333,333 share options were forfeited in connection with the resignation of certain former ELT members from Stelco Holdings. During December 2020, 666,667 vested share options were surrendered for cash in accordance with the Company's LTIP for approximately $2.3 million.

22. REVENUE FROM SALE OF GOODS

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

Years ended December 31,		2021		2020
Steel products	**$**	**3,963**	$	1,425
Non-steel products		**160**		92
Total	**$**	**4,123**	$	1,517

Revenue by geographical location is comprised of:

Years ended December 31,		2021		2020
Canada	**$**	**2,682**	$	1,134
United States and other		**1,441**		383
Total	**$**	**4,123**	$	1,517

23. COST OF GOODS SOLD

Cost of goods sold is comprised of:

Years ended December 31,		2021		2020
Cost of inventories:				
Steel products [1]		**1,894**		1,356
Non-steel products		**95**		69
Other [2]		**93**		51
Total	**$**	**2,082**	$	1,476

[1] Includes depreciation expense of $69 million (December 31, 2021 - $66 million).
[2] Includes freight, certain employee variable compensation expenses and other non-inventory related costs.

The Government of Canada implemented the CEWS as part of its COVID-19 response. For the year ended December 31, 2021, the Company recorded a $1 million reduction within other cost of goods sold in connection with the CEWS (December 31, 2020 - $46 million).

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

24. SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

Selling, general and administrative expenses is comprised of:

Years ended December 31,		2021		2020
Employee salary and benefits expense	**$**	**21**	$	14
Management fees [1]		**13**		7
Share-based compensation expense [2]		**8**		4
Professional, consulting and legal fees		**6**		15
Other [3]		**10**		8
Total	**$**	**58**	$	48

1 Refer to note 35 for details.
2 Refer to note 21 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.

25. FINANCE AND OTHER INCOME (LOSS)

Finance and other income (loss) comprised of:

Years ended December 31,		2021		2020
Gain (Loss) on commodity-based swaps	**$**	**(27)**	$	(90)
Gain (Loss) on derivative asset [1]		**(7)**		—
Finance income		**1**		2
Other income		**1**		1
Total	**$**	**(32)**	$	(87)

1 Refer to note 9 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 year ended December 31, 2021, the Company recorded a loss of $27 million (December 31, 2020 - $90 million) on the Consolidated Statements of Income (Loss) in connection with these swap contracts.

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

Years ended December 31,		2021		2020
Realized loss on settled swap contracts	**$**	**(111)**	$	(6)
Reversal of opening derivative liabilities in connection with settled swaps contracts [1]		**84**		—
Change in unrealized loss during the year on unsettled swap contracts		**—**		(84)
Total	**$**	**(27)**	$	(90)

1 Refer to note 29 for changes in non-cash working capital and other operating activities.

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

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

26. FINANCE COSTS

Finance costs are comprised of:

Years ended December 31,		**2021**		2020
Remeasurement of employee benefit commitment [1]	**$**	**91**	$	(12)
Accretion of employee benefit commitment		**41**		37
Interest on loans and borrowings		**31**		32
Foreign exchange loss (gain)		**(5)**		(9)
Accretion expense related to lease obligations		**3**		3
Other		**1**		—
Total	**$**	**162**	$	51

[1] Remeasurement of employee benefit commitment for change in the timing and magnitude of estimated cash flows and future funding requirements. Refer to note 18 for further details.

Foreign exchange forward contracts

In connection with the US$100 million aggregate cash consideration (Initial Consideration) for the Option (discussed further in note 9), Stelco entered into a series of foreign exchange forward contracts with a U.S.-based financial institution, as part of a strategy to mitigate the Company's foreign exchange risk associated with the Initial Consideration payment. Under the terms of the foreign exchange forward contracts, the Company agreed to sell an aggregate of $112 million and purchase US$80 million, in four specified equivalent tranches with settlement dates between June 30, 2020 and December 31, 2020.

For the year ended December 31, 2020, the Company recorded a $6 million foreign exchange loss within finance costs in connection with these contracts. Stelco did not enter into these contracts for trading or speculative purposes.

27. OTHER COSTS

Years ended December 31,		**2021**		2020
Demolition costs [1]	**$**	**5**	$	7
Write-down of construction in progress [2]		**1**		5
Other		**1**		1
Total	**$**	**7**	$	13

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

28. PENSION AND OTHER POST-EMPLOYMENT BENEFITS

Net liabilities for employee defined benefit, pension and other post-employment benefit plans:

As at		**December 31, 2021**		December 31, 2020
Defined benefit pension plans	**$**	**11**	$	11
Other post-employment benefit plans [1]		**7**		8
Total	**$**	**18**	$	19

[1] The other post-employment benefits is recorded within other liabilities, refer to note 16.

Defined benefit pension plans

On January 1, 2018, defined benefit pension plans were established for certain active hourly employees of Stelco Inc. on substantially the same terms as those contained in the main pension plans for the Hamilton Bargaining Unit Plan, the Lake Erie Bargaining Unit Plan and the Pickle Line Plan that were settled as part of the CCAA reorganization. Under the special regulation under the *Pension Benefits Act* (Ontario), Stelco Inc. is required to make annual contributions to the new pension plans for the years 2018 to 2027 inclusive. Required contributions for years 2018 through 2023 are approximately $4 million annually and decline to approximately $3 million annually for years 2024 through 2027. After 2027, these plans are subject to the *Pension Benefits Act* (Ontario) including, applicable solvency funding requirements. Actuarial valuation reports were prepared for each plan as at December 31, 2021.

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

Other post-employment benefit plans

Stelco sponsors an unfunded compensated absences plan that provides non-pension benefits and is the administrator of the plan. Funded Status and other post-employment benefit reports for the compensated absences plan (Hamilton and Lake Erie) are prepared based on projections of employees' compensation levels to the time of retirement and future health care costs based on management's best estimate. Expected contributions to the compensated absences plan during 2022 are approximately $1 million.

Net benefit expense

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

Years ended December 31,	2021	2020
Service and finance costs:		
Defined benefit pension plans	$ 7	$ 7
Other post employment benefit plans	—	1
Net benefit expense	**$ 7**	$ 8

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

Years ended December 31,	2021	2020
Defined benefit pension plans:		
Change in financial assumptions	$ 3	$ (2)
Return on plan assets	1	1
Change in demographic assumptions	(1)	—
	$ 3	$ (1)
Other non-pension employee benefit plans:		
Change in financial assumptions	1	—
Remeasurement effects recognized in OCI before income taxes	**$ 4**	$ (1)
Income tax expense on remeasurement effects recognized in OCI	1	—
Remeasurement effects recognized in OCI after income taxes	**$ 3**	$ (1)

Reconciliation of defined benefit obligations

	Defined benefit pension plans		Other post-employment benefit plans	
Years ended December 31,	2021	2020	2021	2020
Balance, beginning of year	$ 23	$ 15	$ 8	$ 8
Net benefit expense	7	7	—	1
Benefits paid	—	(1)	—	(1)
Actuarial loss (gain)	(2)	2	(1)	—
Balance, end of year	$ 28	$ 23	$ 7	$ 8

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

Reconciliation of fair value of plan assets

	Defined benefit pension plans		Other post-employment benefit plans	
Years ended December 31,	**2021**	2020	**2021**	2020
Balance, beginning of year	**$ 12**	$ 8	**$ —**	$ —
Employer contributions	**4**	4	**—**	1
Actuarial gain	**1**	1	**—**	—
Benefits paid	**—**	(1)	**—**	(1)
Balance, end of year	**$ 17**	$ 12	**$ —**	$ —
Defined benefit obligation, net	**$ 11**	$ 11	**$ 7**	$ 8

Categories of plan assets:

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

	Defined benefit pension plans	
As at December 31,	**2021**	2020
Securities:		
Equity	**56 %**	55 %
Debt	**43 %**	42 %
Cash	**1 %**	3 %
	100 %	100 %

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

Actuarial assumptions

The following key assumptions were used to determine the benefit obligations at December 31, 2021 and 2020:

	Defined benefit pension plans		Other post-employment benefit plans	
As at December 31,	**2021**	2020	**2021**	2020
Discount rate	**3.2 %**	2.8 %	**3.1 %**	2.5 %
Future salary growth	**3.0 %**	3.0 %	**3.0 %**	3.0 %
Mortality	**CPM2014 Private table, Scale CPM-B with size adjustments**	CPM2014 Private table, Scale CPM-B with size adjustments	**CPM2014 Private table, Scale CPM-B with size adjustments**	CPM2014 Private table, Scale CPM-B with size adjustments
Average duration of the obligation	**20 years**	20 years	**8 years**	8 years

Sensitivity analysis

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

	2021		2020	
As at December 31,	**Increase**	**Decrease**	Increase	Decrease
Discount rate (0.25% movement)	**$ (1.1)**	**$ 1.2**	$ (1.3)	$ 1.4
Future salary growth (0.5% movement)	**0.4**	**(0.4)**	0.5	(0.4)

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

29. SUPPLEMENTAL CASH FLOW INFORMATION

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

Years ended December 31,		2021		2020
Changes in non-cash operating working capital:				
Trade and other receivables	**$**	**(231)**	$	(25)
Inventories		**(108)**		(26)
Prepaid expenses and deposits		**22**		(24)
Trade and other payables		**30**		89
Derivative liabilities [1]		**(84)**		—
Income tax payable		**252**		—
Other liabilities		**18**		8
	$	**(101)**	$	22
Changes in other operating items:				
Employee benefit commitment	**$**	**(33)**	$	(32)
Pension benefits		**3**		3
Provisions		**1**		—
Foreign exchange and other		**(2)**		(12)
	$	**(31)**	$	(41)
Change in non-cash operating working capital and other operating items	**$**	**(132)**	$	(19)

[1] Refer to note 25 for details.

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

Years ended December 31,		2021		2020
Capital expenditures and additions:				
Machinery, equipment, assets under leases and construction in progress	**$**	**251**	$	253
Land and buildings		**—**		2
Total capital expenditures and additions		**251**		255
Strategic Innovation Fund contributions		**(14)**		(6)
Capital expenditures and additions not affecting cash:				
Finance leases - machinery and equipment		**(5)**		(9)
Construction in progress and other capital additions included in trade and other payables		**4**		(14)
Capital expenditures on property, plant and equipment	**$**	**236**	$	226

Other supplemental cash flow information includes:

Years ended December 31,		2021		2020
Interest paid	**$**	**32**	$	30
Interest received		**1**		2

30. NET INCOME (LOSS) PER SHARE

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

Years ended December 31,		**2021**		2020
Weighted average common shares outstanding (in thousands):				
Basic		**84,341**		88,713
Dilutive effect of outstanding common share options[1]		**—**		—
Diluted		**84,341**		88,713
Net income (loss) per common share:				
Basic	**$**	**19.08**	$	(1.79)
Diluted	**$**	**19.08**	$	(1.79)

[1] The dilutive effect of the Company's share option awards were calculated using the treasury stock method. For the year ended December 31, 2020, the calculation of diluted weighted average common shares outstanding excluded all outstanding share options, as they were anti-dilutive for the period.

31. FAIR VALUE OF FINANCIAL INSTRUMENTS

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

	December 31, 2021				December 31, 2020			
As at		**Carrying Value**		**Fair Value**		Carrying Value		Fair Value
Financial assets:								
Cash	**$**	**955**	**$**	**955**	$	59	$	59
Restricted cash		**20**		**20**		8		8
Trade and other receivables		**412**		**412**		183		183
Derivative asset		**126**		**126**		133		133
Financial liabilities:								
Trade and other payables	**$**	**717**	**$**	**717**	$	668	$	668
Derivative liabilities		**—**		**—**		84		84
Income taxes payable		**252**		**252**		—		—
Other liabilities		**133**		**142**		103		103
Asset-based lending facility		**84**		**84**		128		128
Obligations to independent employee trusts:								
Employee benefit commitment		**487**		**532**		388		383
Mortgage payable		**108**		**113**		110		103

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 cost of borrowing to the Company.

The fair values of the Company's derivative asset and liabilities, such as the Option 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 the 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 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.

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

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 Consolidated Balance Sheets is as follows:

	2021			2020		
As at December 31,	**Level 1**	**Level 2**	**Level 3**	Level 1	Level 2	Level 3
Derivative asset [1]	**$ —**	**$ —**	**$ 126**	$ —	$ —	$ 133
Derivative liabilities [2]	**—**	**—**	**—**	—	84	—

[1] Refer to note 9 for details.
[2] Refer to note 15 for details.

There were no transfers between Level 1, Level 2 or Level 3 during the years ended December 31, 2021 and 2020.

32. RISK MANAGEMENT

The Company's activities expose it to a variety of financial risks including price risk, foreign currency risk, interest rate risk, credit risk, liquidity risk and risks related to pensions. For a discussion of other risks the Company is exposed to, refer to the heading '*Risk Factors*' in the Annual Information Form of Stelco Holdings dated February 23, 2022, and filed under the Company's SEDAR profile at www.sedar.com. The Company’s senior management oversees the management of these risks, as summarized below.

Price risk

The Company is exposed to price risk related to purchases of certain commodities used as raw materials, including iron ore and metallurgical coal. The Company may use fixed price contracts with suppliers to mitigate commodity price risk. Specifically, Stelco has entered into an agreement with U.S. Steel to purchase all of its anticipated iron ore requirements at fixed prices up to a specified amount through January 31, 2028. Refer to note 9 for further details. In addition, Stelco entered into fixed price coal contracts with third party suppliers for a portion of its anticipated 2022 purchases, reducing Stelco's commodity price risk in connection with this raw material.

In addition, the Company may use derivative instruments, such as non-exchange traded over-the-counter swaps, to manage its exposure to hot-rolled coil steel market price volatility in connection with existing and future sales orders from customers. For the year ended December 31, 2021, the Company did not enter into any new commodity-based swap contracts. As at December 31, 2020, the Company had commodity-based swap contracts with an aggregate notional quantity of 180 thousand net tons outstanding.

Foreign currency risk

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

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

The Company has the following U.S. dollar denominated monetary items:

As at	**December 31, 2021**	December 31, 2020
Cash	**$ 325**	$ 10
Trade and other receivables	**163**	40
Trade and other payables	**(402)**	(408)
Other liabilities	**(5)**	(2)
Net U.S. dollar denominated monetary assets (liabilities)	**$ 81**	$ (360)

As at December 31, 2021, a 1% strengthening in the Canadian dollar would have resulted in a $1 million decrease in net income (December 31, 2020 - $5 million increase) from translating foreign currency denominated monetary assets and liabilities balances, assuming all other variables remain unchanged, and a 1% weakening in the Canadian dollar would have resulted in a $1 million increase in net income (December 31, 2020 - $5 million decrease).

Interest rate risk

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

The Company's financial instruments subject to interest rate risk primarily included the ABL and inventory monetization arrangement, as both arrangements contain finance costs based on variable interest rates. As at December 31, 2021, the aggregate carrying value of the Company's ABL and inventory monetization arrangement, and amounts outstanding under the RPA totaled $571 million (December 31, 2020 - $564 million), and a 1% increase in market interest rates would result in approximately $4 million decrease in the Company's net income (December 31, 2020 - $6 million decrease).

Credit risk

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

Trade receivables

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

As at December 31, 2021, five of the Company’s customers made up 60% of the total trade accounts receivable. The Company’s credit exposure to these customers was $282 million (December 31, 2020 - five customers at $121 million or 71% of total trade accounts receivable).

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

Concentration of credit

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

Liquidity risk

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

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

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

The following table includes the Company's gross contractual obligations as at December 31, 2021, which are expected to be payable in the following respective periods:

	Total	2022	2023-2024	2025-2026	Thereafter
Trade and other payables [1]	$ 720	$ 720	$ —	$ —	$ —
Other liabilities	164	64	23	19	58
Asset-based lending facility [1]	92	18	34	40	—
Obligations to independent employee trusts:					
Employee benefit commitment	750	210	159	48	333
Mortgage payable	227	11	22	22	172
	$ 1,953	$ 1,023	$ 238	$ 129	$ 563

1 Includes interest payable on the IMA and non-revolving term loan until maturity date.

Pensions - defined benefit plans

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

33. CAPITAL MANAGEMENT

The Company's objectives when managing capital are: (i) to maintain a flexible capital structure, which optimizes the cost of capital at acceptable risk; and (ii) to maintain investor, creditor and market confidence to sustain the future development of the business.

The Company manages its capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of its underlying assets. To maintain or adjust the capital structure, the Company may from time to time adjust its capital spending to manage its current and projected debt levels.

The Company monitors capital by preparing annual budgets, which are updated depending on 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	**December 31, 2021**	December 31, 2020
Amounts drawn and outstanding under the:		
ABL	**$ 85**	$ 129
IMA	**414**	389
Total	**$ 499**	$ 518
Total equity	**1,438**	281
Total capital	**$ 1,937**	$ 799

34. COMMITMENTS AND CONTINGENCIES

Claims and litigation

The Company is involved in claims and litigation arising in the normal course of business. While the final outcome of such legal proceedings and actions cannot be predicted with certainty, it is the opinion of management that the resolution of such proceedings and actions will not have a material impact on the Company's Consolidated Balance Sheets, Consolidated Statements of Income (Loss), or Statements of Cash Flows.

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

Purchase commitments

At December 31, 2021, the Company had future commitments of approximately $95 million for capital expenditures, with the majority expected to be paid within 2022.

Secondary waste materials

In connection with the acquisition of the Lands as disclosed in note 18, Stelco Inc. assumed approximately 1.8 million metric tons of secondary waste materials. Stelco is assessing the future use requirements in respect of the Lands and will accrue a liability in the event that the future use of the Lands requires the Company to incur costs in connection with these waste materials.

Primobius 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 December 31, 2021.

35. RELATED PARTY TRANSACTIONS

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

Years ended December 31,	**2021**	2020
Purchases of services		
Joint ventures	**$ 17**	$ 12
Bedrock and its affiliates - management fees [1]	**13**	7

As at	**December 31, 2021**	December 31, 2020
Amounts payable to related parties		
Bedrock and its affiliates [1]	**$ 9**	$ 2
Joint ventures	**1**	1

[1] During 2017, Stelco Inc. executed a management services agreement with an affiliate of Bedrock Industries L.P. (Bedrock), under which Stelco Inc. will receive 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.

During August 2021, the Company repurchased common shares from LG Bedrock for a total purchase price of $398 million. Refer to note 20 for further details.

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.

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

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

	Board of Directors		ELT	
	2021	2020	**2021**	2020
Management and director fees	**$ 1**	$ 1	**$ 13**	$ 7
Share-based compensation	**2**	1	**5**	3
Salaries and benefits	**—**	—	**4**	2
Total	**$ 3**	$ 2	**$ 22**	$ 12

36. EVENTS AFTER THE REPORTING PERIOD

On January 2, 2022, Stelco Holdings announced that it had executed agreements with the current owners of Hamilton Sports Group (HSG) for the purchase of a 40% equity interest in the entities that own the Hamilton Tiger-Cats and Hamilton's Forge FC, as well as the master lease of Tim Hortons Field, a modern 23,000 seat multipurpose stadium located centrally in Hamilton, Ontario. The transaction is subject to certain conditions and is expected to close in the first quarter of 2022.

STELCO

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