Unaudited Interim Condensed Consolidated Financial Statements

Stelco Holdings Inc.

Three months ended March 31, 2023 and 2022

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

As at	Note		March 31, 2023		December 31, 2022
Assets					
Current assets					
Cash		**$**	**809**	$	809
Restricted cash			**9**		9
Trade and other receivables	*3*		**217**		147
Inventories			**599**		789
Prepaid expenses and deposits	*4*		**38**		42
Total current assets		**$**	**1,672**	$	1,796
Non-current assets					
Derivative asset	*5*		**98**		108
Property, plant and equipment, net	*6*		**1,211**		1,199
Intangible assets			**8**		8
Investment in joint ventures			**16**		18
Deferred tax asset	*7*		**3**		2
Total non-current assets		**$**	**1,336**	$	1,335
Total assets		**$**	**3,008**	$	3,131
Liabilities					
Current liabilities					
Trade and other payables	*8*	**$**	**587**	$	663
Other liabilities	*9*		**70**		83
Asset-based lending facility	*10*		**15**		15
Income taxes payable			**1**		2
Obligations to independent employee trusts	*11*		**146**		143
Total current liabilities		**$**	**819**	$	906
Non-current liabilities					
Provisions			**19**		18
Pension benefits			**11**		11
Other liabilities	*9*		**410**		404
Asset-based lending facility	*10*		**50**		54
Deferred tax liability	*7*		**12**		18
Obligations to independent employee trusts	*11*		**316**		315
Total non-current liabilities		**$**	**818**	$	820
Total liabilities		**$**	**1,637**	$	1,726
Equity					
Common shares	*12*		**318**		318
Retained earnings			**1,053**		1,087
Total equity		**$**	**1,371**	$	1,405
Total liabilities and equity		**$**	**3,008**	$	3,131

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

STELCO HOLDINGS INC.

UNAUDITED INTERIM CONDENSED CONSOLIDATED STATEMENTS OF INCOME (LOSS) AND COMPREHENSIVE INCOME (LOSS)

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

Three months ended March 31,	Note		**2023**		2022
Revenue from sale of goods	*13*	**$**	**687**	$	906
Cost of goods sold	*14*		**644**		505
Gross profit		**$**	**43**	$	401
Selling, general and administrative expenses	*15*		**25**		20
Operating income		**$**	**18**	$	381
Finance costs	*16*		**(29)**		(27)
Finance and other income	*17*		**—**		3
Other costs	*18*		**(2)**		(6)
Share of loss from joint ventures			**(1)**		—
Income (Loss) before income taxes		**$**	**(14)**	$	351
Current income tax expense	*7*		**4**		84
Deferred income tax expense (recovery)	*7*		**(7)**		5
Net income (loss) and comprehensive income (loss)		**$**	**(11)**	$	262
Net income (loss) per common share - basic and diluted	*19*	**$**	**(0.20)**	$	3.52

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

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

	Note	Number of common shares (in thousands)	Common shares	Retained earnings	Total equity
Balance, December 31, 2021		77,315	$ 446	$ 992	$ 1,438
Changes during the period:					
Net income		—	—	262	262
Common shares purchased and cancelled	*12*	(5,101)	(30)	(163)	(193)
Dividends to common shareholders	*12*	—	—	(22)	(22)
Balance, March 31, 2022		72,214	$ 416	$ 1,069	$ 1,485
Balance, December 31, 2022		55,129	$ 318	$ 1,087	$ 1,405
Changes during the period:					
Net loss		**—**	**—**	**(11)**	**(11)**
Dividends to common shareholders	*12*	**—**	**—**	**(23)**	**(23)**
Balance, March 31, 2023		**55,129**	**$ 318**	**$ 1,053**	**$ 1,371**

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

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

Three months ended March 31,	Note	**2023**	2022
Operating activities			
Net income (loss)		**$ (11)**	$ 262
Items not affecting cash:			
Depreciation	*14*	**32**	19
Deferred tax expense (recovery)	*7*	**(7)**	5
Employee benefit commitment:			
Accretion expense	*16*	**8**	11
Remeasurement cost	*16*	**—**	2
Loss (Gain) on derivative asset	*5*	**10**	(2)
Write-down of construction in progress	*18*	**1**	4
Share of loss from joint ventures		**1**	—
Change in non-cash working capital and other operating items	*20*	**105**	(87)
Cash provided by operating activities		**$ 139**	$ 214
Investing activities			
Capital expenditures on property, plant and equipment	*20*	**(48)**	(52)
Investment in joint venture		**—**	(15)
Dividend from joint venture		**2**	—
Change in restricted cash		**—**	11
Cash used in investing activities		**$ (46)**	$ (56)
Financing activities			
Repayment of inventory monetization arrangement, net	*8*	**(61)**	(86)
Repayment of non-revolving term loan	*10*	**(4)**	(4)
Lease and other related obligations principal payments	*9*	**(4)**	(3)
Repayment of mortgage principal	*11*	**(1)**	—
Common shares purchased	*12*	**—**	(193)
Dividends paid to common shareholders	*12*	**(23)**	(22)
Cash used in financing activities		**$ (93)**	$ (308)
Effect of foreign exchange rate changes on cash		**—**	(9)
Net increase (decrease) in cash		**—**	(159)
Cash, beginning of period		**809**	955
Cash, end of period		**$ 809**	$ 796
Supplemental cash flow information	*20*		

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

NOTES TO UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

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

1. CORPORATE INFORMATION

Stelco Holdings Inc. (Stelco Holdings) is a corporation incorporated under the *Canada Business Corporations Act* (CBCA) pursuant to articles of incorporation dated September 25, 2017 (as amended from time-to-time). Its registered and head office is located at 386 Wilcox Street, Hamilton, Ontario, L8L 8K5. The common shares in the capital of Stelco Holdings are listed for trading on the Toronto Stock Exchange (TSX) under the stock symbol 'STLC' and are currently included in the S&P/TSX Composite Index.

Stelco Inc. (Stelco), one of Canada's leading steel producers, is a material wholly-owned subsidiary of Stelco Holdings, and is a corporation incorporated under the CBCA. Stelco is principally engaged in the production and sale of steel products and 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.

2. STATEMENT OF COMPLIANCE AND BASIS OF PREPARATION

Stelco Holdings' unaudited interim condensed consolidated financial statements (Consolidated Financial Statements) have been prepared by management in accordance with International Accounting Standard (IAS) 34, *Interim Financial Reporting*, as issued by the International Accounting Standards Board (IASB). The Consolidated Financial Statements comprise the financial statements of Stelco Holdings and its subsidiaries (collectively, the Company). Under International Financial Reporting Standards (IFRS), additional disclosures are required in the annual financial statements and, therefore, these Consolidated Financial Statements and accompanying notes should be read in conjunction with the notes to the Company's audited consolidated financial statements for the year ended December 31, 2022 (2022 Annual Financial Statements).

These Consolidated Financial Statements have been prepared using accounting policies and methods consistent with those used in the preparation of the Company's 2022 Annual Financial Statements, and were authorized for issue on May 10, 2023 in accordance with a resolution of the board of directors (Board of Directors) of Stelco Holdings.

3. TRADE AND OTHER RECEIVABLES

As at		**March 31, 2023**		December 31, 2022
Trade receivables [1]	**$**	**209**	$	134
Other receivables		**8**		13
Total trade and other receivables	**$**	**217**	$	147

[1] Net of allowance for doubtful accounts of nil (December 31, 2022 - nil).

Receivables Purchase Agreement (RPA)

In June 2019, Stelco entered into an RPA with a Schedule II bank (the Purchaser) enabling Stelco, from time to time, to sell certain customer trade receivables to the Purchaser on an uncommitted revolving basis. Under the terms of the RPA, Stelco administers and processes the collection of receivables and remits those collections to the Purchaser. The Company has derecognized the trade receivables sold under the RPA from the Interim Condensed Consolidated Balance Sheets as substantially all of the risks and rewards for such receivables have been transferred to the Purchaser. As at March 31, 2023, Stelco's available purchase limit remaining under the RPA was $8 million (December 31, 2022 - $14 million).

Proceeds received by Stelco under the RPA are recorded within cash flows from operations on the Interim Condensed Consolidated Statements of Cash Flows. For the three months ended March 31, 2023, the Company recorded $1 million (three months ended March 31, 2022 - nil), in bank fees in connection with the RPA within finance costs on the Interim Condensed Consolidated Statements of Income (Loss).

4. PREPAID EXPENSES AND DEPOSITS

As at		**March 31, 2023**		December 31, 2022
Income tax installment with Canada Revenue Agency	**$**	**26**	$	27
Advance payments to vendors		**7**		6
Prepaid insurance		**4**		8
Other		**1**		1
Total prepaid expenses and deposits	**$**	**38**	$	42

5. DERIVATIVE ASSET

On April 30, 2020, Stelco entered into an option agreement with United States Steel Corporation (USS) granting Stelco an option to purchase a 25% ownership interest (the Option) in a to-be-formed joint venture that would own a 100% beneficial interest in USS's Minntac iron ore mine located in Mt. Iron, Minnesota and related infrastructure including the pellet plant. The Option is exercisable by Stelco at any time until January 31, 2027.

During 2020, Stelco paid US$100 million in aggregate cash consideration for the Option. If and when the Option is exercised, Stelco would pay an exercise price of US$500 million.

The Option is recorded as a derivative instrument which is presented on the Interim Condensed Consolidated Balance Sheets as a financial asset and carried at fair value through income or loss. At March 31, 2023, the Option's fair value of $98 million (December 31, 2022 - $108 million) was estimated using the Black-Scholes option pricing model. During the three months ended March 31, 2023, the Company recognized a loss of $10 million (three months ended March 31, 2022 - gain of $2 million), in connection with the change in fair value of the Option, due to changes in certain assumptions such as expected mine asset value volatility and risk-free interest rates that are based on observable market inputs, as well as current foreign exchange rates. The expected option life is fixed and based on the maximum contractual term of the Option.

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

As at	**March 31, 2023**	December 31, 2022
Estimated fair value of mine asset (in millions) [1]	**US$333**	US$335
Exercise price (in millions)	**US$500**	US$500
Expected mine asset value volatility [2]	**40.0%**	40.0%
Expected risk-free interest rate [3]	**3.7%**	4.1%
Expected option life (in years) [4]	**3.8**	4.1

1 Based on a 25% ownership interest in the Minntac iron ore mine.
2 Based on historical equity volatility of selected publicly traded companies combined with factors such as debt to equity ratios to estimate asset volatility.
3 Based on three to five year U.S. Treasury bond interest rate.
4 Based on maximum contractual term of the Option remaining.

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

		March 31, 2023		December 31, 2022	
As at	**Change**	**Increase**	**Decrease**	Increase	Decrease
Estimated fair value of mine asset	**1%**	**$ 2**	**$ (2)**	$ 2	$ (2)
Expected mine asset value volatility	**1%**	**3**	**(3)**	4	(4)
Expected risk-free interest rate	**25 bps**	**1**	**(1)**	1	(1)

Refer to note 22 for a further discussion of valuation techniques and inputs used in estimating the Option's fair value at March 31, 2023 and December 31, 2022.

6. PROPERTY, PLANT AND EQUIPMENT

Cost	**Land**	**Buildings and land improvements**	**Machinery and equipment**	**Vehicles**	**Assets under leases**	**Construction in progress**	**Total**
As at December 31, 2022	$ 50	$ 49	$ 1,033	$ 26	$ 239	$ 77	$1,474
Additions	—	—	5	—	—	40	45
Transfers	—	1	29	—	—	(30)	—
Disposals and other	—	—	(1)	—	—	—	(1)
Write-down of construction in progress [1]	—	—	—	—	—	(1)	(1)
As at March 31, 2023	**$ 50**	**$ 50**	**$ 1,066**	**$ 26**	**$ 239**	**$ 86**	**$1,517**

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 three months ended March 31, 2023, the Company recognized a $1 million write-down charge in connection with these construction in progress assets, recorded within other costs on the Consolidated Statements of Income (Loss).

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

Accumulated depreciation	**Land**	**Buildings and land improvements**	**Machinery and equipment**	**Vehicles**	**Assets under leases**	**Construction in progress**	**Total**
As at December 31, 2022	$ —	$ 5	$ 227	$ 10	$ 33	$ —	$ 275
Depreciation	—	—	26	1	5	—	32
Disposals and other	—	—	(1)	—	—	—	(1)
As at March 31, 2023	**$ —**	**$ 5**	**$ 252**	**$ 11**	**$ 38**	**$ —**	**$ 306**

Net book value	**Land**	**Buildings and land improvements**	**Machinery and equipment**	**Vehicles**	**Assets under leases**	**Construction in progress**	**Total**
As at December 31, 2022	$ 50	$ 44	$ 806	$ 16	$ 206	$ 77	$1,199
As at March 31, 2023	**$ 50**	**$ 45**	**$ 814**	**$ 15**	**$ 201**	**$ 86**	**$1,211**

Assets under leases

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

		Machinery and equipment					
	Land and buildings	**Manufacturing equipment**	**Power generation**	**Railcars**	**Information technology**	**Vehicles**	**Total**
As at December 31, 2022	$ 16	$ 26	$ 144	$ 11	$ 2	$ 7	$ 206
Additions	—	—	—	—	—	—	—
Depreciation	(1)	—	(2)	(1)	—	(1)	(5)
As at March 31, 2023	**$ 15**	**$ 26**	**$ 142**	**$ 10**	**$ 2**	**$ 6**	**$ 201**

7. INCOME TAXES

Reconciliation of effective tax rate

Three months ended March 31,	**2023**	2022
Income (Loss) before income taxes	**$ (14)**	$ 351
Combined Canadian federal and provincial income tax rate	**25%**	25%
Income tax expense (recovery) based on statutory rate	**(3)**	88
Increase (Decrease) in income taxes resulting from:		
Origination and reversal of temporary differences	**—**	1
Income tax expense (recovery)	**$ (3)**	$ 89
Current income tax expense	**4**	84
Deferred income tax expense (recovery)	**(7)**	5

For the three months ended March 31, 2023, the Company recorded a deferred tax recovery of $7 million (three months ended March 31, 2022 - a deferred tax expense of $5 million). As at March 31, 2023, the Company has recorded a deferred tax asset of $3 million (December 31, 2022 - $2 million) and deferred tax liability of $12 million (December 31, 2022 - $18 million).

Other tax attributes

As at March 31, 2023, the Company has undepreciated capital cost (UCC) of $275 million (December 31, 2022 - $262 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 $164 million was recorded in connection with the carrying value of the Company's property, plant and equipment exceeding the UCC balance at March 31, 2023 (December 31, 2022 - $163 million).

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

8. TRADE AND OTHER PAYABLES

As at		**March 31, 2023**		December 31, 2022
Inventory monetization arrangement	**$**	**348**	$	409
Trade payables [1]		**235**		243
Payables to related parties [2]		**4**		11
Total trade and other payables	**$**	**587**	$	663

[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 25 for details.

Inventory monetization arrangement (IMA)

The weighted average finance rate for the IMA for the three months ended March 31, 2023 was 7.67% (three months ended March 31, 2022 - 3.61%) and the finance costs of $7 million (three months ended March 31, 2022 - $4 million) are recorded on the Interim Condensed Consolidated Statements of Income (Loss). This financing arrangement is secured by inventory with a carrying value of $439 million (December 31, 2022 - $577 million) serving as collateral.

Amendment to the IMA

During January 2023, Stelco entered into an amended IMA which included the following significant terms:

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

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

iii) finance rate of SOFR plus a margin of 3.000% (previously SOFR plus a margin of 3.125%); and

iv) an option for Stelco to terminate the arrangement early on November 30, 2023.

Unless otherwise amended, extended or renewed, amounts advanced under the amended IMA are required to be repaid when the facility expires on December 31, 2023. The Company was in compliance with the financial covenants pursuant to the IMA as at and for the three months ended March 31, 2023.

9. OTHER LIABILITIES

As at		**March 31, 2023**		December 31, 2022
Lease and other related obligations	**$**	**365**	$	369
Share-based compensation [1]		**39**		30
Salaries and benefits payable		**29**		43
Strategic Innovation Fund loan		**18**		18
Boiler project financing arrangement		**12**		12
Deferred income		**8**		7
Post-employment benefits		**7**		7
Interest payable		**1**		1
Other		**1**		—
Total other liabilities	**$**	**480**	$	487
Total current other liabilities	**$**	**70**	$	83
Total non-current other liabilities	**$**	**410**	$	404

[1] Refer to note 21 for details.

Lease and other related obligations

As at March 31, 2023, the Company had power generation equipment, real estate property, equipment lease and other related obligations with a carrying value of $365 million (December 31, 2022 - $369 million). Refer to note 6 for the carrying value of the right-of-use assets related to the respective lease obligations.

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

10. ASSET-BASED LENDING FACILITY (ABL)

As at		March 31, 2023		December 31, 2022
Revolving	**$**	**—**	$	—
Non-revolving term loan [1]		**65**		69
Asset-based lending facility		**65**		69
Current		**15**		15
Non-current		**50**		54

[1] Net of deferred transaction costs subject to amortization of $1 million (December 31, 2022 - $1 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, certain 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 8. At March 31, 2023, the amount available for advances under the ABL was $239 million (December 31, 2022 - $199 million), which includes the available borrowing base less: outstanding letters of credit of $21 million (December 31, 2022 - $21 million), cash amounts drawn and outstanding under the revolving ABL of nil (December 31, 2022 - nil), non-revolving term loan principal outstanding of $66 million (December 31, 2022 - $70 million) and a minimum excess availability requirement of $30 million (December 31, 2022 - $30 million).

The weighted average finance rate for amounts drawn under the ABL for the three months ended March 31, 2023 was 7.16% (three months ended March 31, 2022 - 3.00%) and the Company was in compliance with the financial covenants pursuant to the ABL agreement as at and during the three months ended March 31, 2023.

11. OBLIGATIONS TO INDEPENDENT EMPLOYEE TRUSTS

As at		March 31, 2023		December 31, 2022
Employee benefit commitment	**$**	**357**	$	352
Mortgage payable		**105**		106
Obligations to independent employee trusts		**462**		458
Current		**146**		143
Non-current		**316**		315

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's operating performance, which is estimated for purposes of determining the future obligations presented herein, and the utilization of specific tax attributes. The obligations to independent employee trusts include both the employee benefit commitment, entered into as part of Stelco's CCAA reorganization on June 30, 2017, as amended, and a mortgage assumed in connection with the acquisition of land and buildings located in Hamilton and Nanticoke, Ontario on June 5, 2018.

Employee benefit commitment

This financial liability was initially recorded at its estimated fair value using a discounted cash flow analysis and subsequently accounted for at amortized cost using the effective interest method. The determination of fair value at initial recognition involved making various assumptions, including the determination of the expected cash flows and discount rate. Estimates of expected cash flows are revisited at each Consolidated Balance Sheet date to determine amortized cost.

During the three months ended March 31, 2023, the Company recorded remeasurement of nil (three months ended March 31, 2022 - $2 million remeasurement charge), in connection with changes of estimates related to the timing and magnitude of estimated cash flows and future funding requirements of the employee benefit commitment. Due to the long-term nature of the underlying assumptions, the employee benefit commitment is highly sensitive to changes in these assumptions.

Future employee benefit commitment payments are estimated as follows:

As at		**March 31, 2023**
2023 [1]	**$**	**137**
2024		**56**
2025		**24**
2026		**24**
2027		**26**
Thereafter		**309**
Total estimated employee benefit commitment payments	**$**	**576**
Less: amounts representing future finance costs		**(219)**
Present value of employee benefit commitment	**$**	**357**

1 Represents remaining nine months of 2023.

12. SHARE CAPITAL

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

As at		**March 31, 2023**		December 31, 2022
Common shares				
Outstanding (in thousands)		**55,129**		55,129
Carrying amount	**$**	**318**	$	318

Dividends to common shareholders

Common share dividends declared and paid in 2023 were as follows:

(millions of Canadian dollars, except per share amounts) Record date	Payment date		Cash dividend per common share		Total common share dividends
March 3, 2023	March 9, 2023	$	0.42	$	23

During March 2022, Stelco Holdings paid ordinary dividends to common shareholders in the aggregate amount of $22 million, or $0.30 per common share.

Subsequent to March 31, 2023, the Board of Directors approved and declared a dividend of $0.42 per common share payable on May 23, 2023, to shareholders of record as of May 18, 2023.

During 2023

Normal course issuer bid (NCIB)

On February 22, 2023, the Company received approval from the TSX to commence an NCIB (the 2023 NCIB). Stelco Holdings is entitled to purchase up to 3,344,284 common shares pursuant to the 2023 NCIB, which commenced on February 28, 2023 and expires on February 27, 2024, 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 2023 NCIB represents approximately 10% of the Company's public float as of February 21, 2023, as calculated in accordance with the rules of the TSX. As of February 21, 2023, the Company had 55,128,694 common shares issued and outstanding. The average daily trading volume (ADTV) for the six months ended January 31, 2023, calculated in accordance with the rules of the TSX for purposes of the 2023 NCIB, was 392,905 common shares. Under the rules of the TSX, Stelco is entitled to repurchase, during each trading day, up to 25% of the ADTV or 98,226 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)

Any 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 any 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. Any common shares repurchased under the NCIB will be cancelled. The actual number of common shares and timing of any repurchases under the 2023 NCIB will be determined by Stelco.

During 2022

Substantial issuer bid (SIB)

On February 2, 2022, the Company completed an SIB by repurchasing and cancelling all shares validly tendered thereunder, representing 4,441,023 common shares in total, at the maximum price of $37.00 per share for an aggregate purchase price of approximately $164 million. The excess of the purchase price paid over the average carrying value of the shares purchased in the amount of approximately $138 million was recognized as a share repurchase premium and reduction to retained earnings.

NCIB

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

13. REVENUE FROM SALE OF GOODS

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

Three months ended March 31,		**2023**		2022
Steel products	**$**	**667**	$	887
Non-steel products		**20**		19
Total	**$**	**687**	$	906

Revenue by geographical location is comprised of:

Three months ended March 31,		**2023**		2022
Canada	**$**	**481**	$	505
United States and other		**206**		401
Total	**$**	**687**	$	906

14. COST OF GOODS SOLD

Cost of goods sold is comprised of:

Three months ended March 31,		**2023**		2022
Cost of inventories sold:				
Steel products [1]	**$**	**613**	$	467
Non-steel products		**13**		13
Other [2]		**18**		25
Total	**$**	**644**	$	505

[1] Includes depreciation expense of $32 million (March 31, 2022 - $19 million).
[2] Includes freight, certain employee variable compensation expenses and other non-inventory related costs.

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

15. SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

Selling, general and administrative expenses is comprised of:

Three months ended March 31,		**2023**		2022
Share-based compensation expense [1]	**$**	**16**	$	6
Employee salary and benefits expense		**4**		5
Professional, consulting and legal fees		**2**		2
Management fees [2]		**1**		4
Other [3]		**2**		3
Total	**$**	**25**	$	20

[1] Refer to note 21 for details.
[2] Refer to note 25 for details.
[3] Includes corporate, public company, travel and certain office maintenance and protective equipment costs.

16. FINANCE COSTS

Finance costs are comprised of:

Three months ended March 31,		**2023**		2022
Interest on loans and borrowings	**$**	**12**	$	7
Accretion of employee benefit commitment		**8**		11
Accretion expense related to lease and other related obligations		**8**		1
Foreign exchange loss (gain)		**—**		6
Remeasurement of employee benefit commitment [1]		**—**		2
Other		**1**		—
Total	**$**	**29**	$	27

[1] Remeasurement of employee benefit commitment for change in the timing and magnitude of estimated cash flows and future funding requirements. Refer to note 11 for further details.

17. FINANCE AND OTHER INCOME

Finance and other income is comprised of:

Three months ended March 31,		**2023**		2022
Finance income	**$**	**10**	$	1
Gain (Loss) on derivative asset [1]		**(10)**		2
Total	**$**	**—**	$	3

[1] Refer to note 5 for details.

18. OTHER COSTS

Three months ended March 31,		**2023**		2022
Demolition costs [1]	**$**	**1**	$	2
Write-down of construction in progress [2]		**1**		4
Total	**$**	**2**	$	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.

19. NET INCOME (LOSS) PER SHARE

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

Three months ended March 31,		**2023**		2022
Weighted average common shares outstanding - basic and diluted (in thousands)		**55,129**		74,338
Net income (loss) per common share - basic and diluted	**$**	**(0.20)**	$	3.52

20. SUPPLEMENTAL CASH FLOW INFORMATION

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

Three months ended March 31,		**2023**		2022
Changes in non-cash operating working capital:				
Trade and other receivables	**$**	**(71)**	$	77
Inventories		**190**		112
Prepaid expenses and deposits		**4**		1
Trade and other payables		**(12)**		(81)
Income taxes payable		**(1)**		(194)
Other liabilities		**(3)**		(2)
	$	**107**	$	(87)
Changes in other operating items:				
Employee benefit commitment	**$**	**(3)**	$	(7)
Pension benefits		**—**		1
Provisions		**1**		—
Foreign exchange and other		**—**		6
	$	**(2)**	$	—
Change in non-cash operating working capital and other operating items	**$**	**105**	$	(87)

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

Three months ended March 31,		**2023**		2022
Capital expenditures and additions:				
Machinery, equipment, assets under leases and construction in progress	**$**	**45**	$	59
Capital expenditures and additions not affecting cash:				
Assets under leases		**—**		(8)
Construction in progress and other capital additions included in trade and other payables		**3**		1
Capital expenditures on property, plant and equipment	**$**	**48**	$	52

Other supplemental cash flow information includes:

Three months ended March 31,		**2023**		2022
Income taxes paid	**$**	**4**	$	278
Interest paid		**14**		7
Interest received		**9**		1

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

21. SHARE-BASED COMPENSATION

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

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

On March 2, 2023, the first TSR specified target threshold of 50% was exceeded by the 90-calendar day volume weighted TSR, resulting in 1,000,179 RSUs being granted and issued to the TSR Incentive Program participants, with a grant date of March 3, 2023 and fair value of $48.92 per RSU. RSUs granted in connection with the TSR Incentive Program carry similar terms and conditions to those granted directly under the LTIP and cliff vest on the earlier of: i) 36 months following the date upon the RSUs being granted and ii) December 31, 2025.

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

As at	**March 31, 2023**	December 31, 2022
Common share price	**$ 52.34**	$ 44.29
Term (in years)	**2.75**	3.00
Common share expected volatility	**46.8%**	56.6%
Expected risk-free interest rate	**3.6%**	3.8%
Indicated dividend yield	**3.2%**	3.8%

The following table summarizes the changes in the Company's outstanding RSUs granted in connection with the TSR Incentive Program:

Three months ended March 31, 2023	
Balance, beginning of period	**—**
Granted	**1,000,179**
Dividend equivalents	**7,085**
Balance, end of period	**1,007,264**

During the three months ended March 31, 2023, the Company recorded a share-based compensation expense of $12 million (three months ended March 31, 2022 - $2 million) in selling, general and administrative expenses on the Interim Condensed Consolidated Statements of Income (Loss) and as at March 31, 2023, a liability of $25 million (December 31, 2022 - $13 million) in other liabilities in connection with the TSR Incentive Program.

Long-term incentive plan

Stelco Holdings' LTIP is designed to promote the alignment of senior management, employees and consultants of the Company with shareholder interests and the creation of sustainable shareholder value, and facilitate recruitment, motivation and retention of executives and key talent.

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

For the three months ended March 31, 2023, the Company recorded a share-based compensation expense of $4 million (three months ended March 31, 2022 - $4 million) in selling, general and administrative expenses on the Interim Condensed Consolidated Statements of Income (Loss) related to the vesting, service and periodic fair value remeasurements, of awards granted under the LTIP and deferred share unit plan.

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

Restricted share units (RSUs)

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

Three months ended March 31, 2023	
Balance, beginning of period	**215,387**
Granted	**97,706**
Dividend equivalents	**1,650**
Vested and cash settled	**(107,205)**
Balance, end of period	**207,538**

On February 27, 2023, 97,706 RSUs were granted under the LTIP to certain employees, including members of the Company's Executive Leadership Team (ELT), with a grant date fair value of $51.70 per RSU, with one-third of the total grant amount vesting on January 1 of each of 2024, 2025 and 2026.

As at March 31, 2023, there were 207,538 outstanding and unvested RSUs (December 31, 2022 - 215,387 RSUs) under the Company's LTIP, for which the Company recorded a liability of $3 million (December 31, 2022 - $7 million) in other liabilities.

Stock appreciation rights (SARs)

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

Three months ended March 31, 2023	
Balance, beginning of period	**53,335**
Exercised and cash settled	**(36,667)**
Balance, end of period	**16,668**

As at March 31, 2023, there were 16,668 outstanding and unvested SARs (December 31, 2022 - 50,001 unvested and 3,334 vested outstanding SARS, respectively), for which the Company recorded a liability of $1 million (December 31, 2022 - $2 million) in other liabilities.

Deferred share unit plan (DSUs)

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

Three months ended March 31, 2023	
Balance, beginning of period	**186,119**
Granted	**9,260**
Balance, end of period	**195,379**

As at March 31, 2023, there were 195,379 vested and outstanding DSUs (December 31, 2022 - 186,119 DSUs), for which the Company recorded a liability of $10 million (December 31, 2022 - $8 million) in other liabilities.

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

22. FAIR VALUE OF FINANCIAL INSTRUMENTS

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

	March 31, 2023		December 31, 2022	
As at	**Carrying Value**	**Fair Value**	Carrying Value	Fair Value
Financial assets:				
Cash	**$ 809**	**$ 809**	$ 809	$ 809
Restricted cash	**9**	**9**	9	9
Trade and other receivables	**217**	**217**	147	147
Derivative asset	**98**	**98**	108	108
Financial liabilities:				
Trade and other payables	**$ 587**	**$ 587**	$ 663	$ 663
Income taxes payable	**1**	**1**	2	2
Other liabilities	**233**	**235**	246	247
Asset-based lending facility	**65**	**65**	69	69
Obligations to independent employee trusts:				
Employee benefit commitment	**357**	**402**	352	393
Mortgage payable	**105**	**107**	106	107

The fair values of cash, restricted cash, trade and other receivables, trade and other payables, certain other liabilities and income taxes payable approximate their carrying amounts largely due to the short-term nature of these instruments.

The fair value of the Company's derivative asset is determined using a discounted cash flow method and Black-Scholes option model, which incorporates observable or unobservable inputs for interest and foreign exchange rates, equity and commodity prices (including indices), corresponding market volatility levels, and other market-based pricing factors. A derivative instrument is classified as Level 2 in the hierarchy if observable market inputs are available or the unobservable inputs are not significant to the fair value. Otherwise, it is classified as Level 3 in the hierarchy.

The fair values of other liabilities (Strategic Innovation Fund loan, Cold Mill Lease, boiler project financial arrangement), mortgage payable and ABL are estimates based on a discounted cash flow model applying current rates offered to the Company for similar financial instruments subject to similar risk and maturities. Fair value measurements of these instruments were estimated using Level 2 inputs. The carrying value of variable rate debt generally approximates its fair value.

The fair value of the employee benefit commitment is estimated based on a discounted cash flow analysis of expected fixed and variable payments to be paid in future periods to the pension and OPEB trusts. The contractually fixed payments are discounted using a rate that is reflective of the Company's cost of borrowing and similar senior unsecured debt for companies in the same sector that are of a similar size. The estimated variable payments are discounted using a rate consistent with a market rate of return of the Company. Fair value measurements of these instruments were estimated using Level 2 inputs.

The fair value hierarchy of assets and liabilities measured at fair value on a recurring basis in the Interim Condensed Consolidated Balance Sheets is as follows:

	March 31, 2023			December 31, 2022		
	Level 1	**Level 2**	**Level 3**	Level 1	Level 2	Level 3
Derivative asset [1]	**$ —**	**$ —**	**$ 98**	$ —	$ —	$ 108

[1] Refer to note 5 for details.

There were no transfers between Level 1, Level 2 or Level 3 during the three months ended March 31, 2023 and 2022.

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

23. CAPITAL MANAGEMENT

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

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

The Company monitors capital by preparing annual budgets, which are updated depending on various factors such as general market conditions and successful capital deployment. The Company's share capital is not subject to externally imposed restrictions.

The Company defines its capital to include amounts drawn under existing financing arrangements including the ABL and IMA, as well as all components of equity, and is comprised as follows:

As at		**March 31, 2023**		December 31, 2022
Amounts drawn and outstanding under the:				
ABL	**$**	**66**	$	70
IMA		**348**		409
Total	**$**	**414**	$	479
Total equity		**1,371**		1,405
Total capital	**$**	**1,785**	$	1,884

24. 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 Financial Statements.

Purchase commitments

At March 31, 2023, the Company had future commitments of approximately $113 million in capital expenditures.

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 right to acquire between 25% and 50% equity in a wholly-owned subsidiary of Stelco that would perform these activities (the EV Option). 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.

During January 2023, the EV Option and licensing agreement were renewed to include an extended term with an expiry date of December 31, 2023. The licensing agreement requires that Stelco complete an engineering and commercial study that is subject to certain minimum internal rates of return targets and acceptance by Primobius. The fair value of the purchase consideration for the license intangible asset, as defined in the licensing and option agreements, is immaterial as at March 31, 2023 and December 31, 2022.

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

25. 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 (including liability accruals) with related parties for the relevant financial periods:

Three months ended March 31,		**2023**		2022
Purchases of services				
Joint ventures	**$**	**5**	$	5
Bedrock Management [1]		**1**		4
Dividend from joint venture	**$**	**2**	$	—

As at		**March 31, 2023**		December 31, 2022
Related party liabilities				
Bedrock Management [1]	**$**	**2**	$	10
Joint ventures		**2**		1

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

Subsidiaries

Transactions between Stelco Holdings and its subsidiaries meet the definition of related party transactions. These transactions are eliminated on consolidation and are not disclosed in these Consolidated Financial Statements.

Key management personnel

The Company's key management personnel, and persons connected with them, are also considered to be related parties for disclosure purposes. Key management personnel are defined as those individuals having authority and responsibility for planning, directing and controlling the activities of the Company and include the ELT and the Board of Directors. The ELT is comprised of the Chief Executive Officer, Chief Financial Officer, Chief Operating Officer and General Counsel & Corporate Secretary of the Company.

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

	Board of Directors				**ELT**			
Three months ended March 31,		**2023**		2022		**2023**		2022
Share-based compensation expense	**$**	**2**	$	2	**$**	**11**	$	4
Management and director fees		**—**		—		**1**		4
Salaries and benefits		**—**		—		**—**		2
Total	**$**	**2**	$	2	**$**	**12**	$	10