Condensed Interim Consolidated Financial Statements

ALGOMA STEEL INC.

(Unaudited)

As at June 30, 2021 and March 31, 2021

and for the three month periods ended

June 30, 2021 and 2020

Algoma Steel Inc.

Condensed Interim Consolidated Statements of Net Income (Loss)

(Unaudited)

Three month periods ended		June 30, 2021		June 30, 2020
expressed in millions of Canadian dollars				
Revenue (Note 4)	**$**	**789.1**	$	349.4
Operating expenses				
Cost of sales (Note 5)	**$**	**510.2**	$	339.7
Administrative and selling expenses		**18.2**		12.5
Income (loss) from operations	**$**	**260.7**	$	(2.8)
Other (income) and expenses				
Finance income	**$**	**-**	$	(0.6)
Finance costs (Note 6)		**15.1**		18.8
Interest on pension and other post-employment benefit obligations		**2.9**		4.3
Foreign exchange loss		**10.0**		17.4
	$	**28.0**	$	39.9
Income (loss) before income taxes	**$**	**232.7**	$	(42.7)
Income tax expense		**18.5**		-
Net income (loss)	**$**	**214.2**	$	(42.7)

See accompanying notes to the condensed interim consolidated financial statements

Algoma Steel Inc.

Condensed Interim Consolidated Statements of Comprehensive Income (Loss)

(Unaudited)

Three month periods ended	**June 30, 2021**	June 30, 2020
expressed in millions of Canadian dollars		
Net income (loss)	**$ 214.2**	$ (42.7)
Other comprehensive loss, net of income tax, that will be reclassifed subsequently to profit or loss		
Net unrealized loss on cash flow hedges, net of tax recovery $18.5 million (Note 17)	**$ (26.7)**	$ -
Other comprehensive loss, net of income tax, that will not be reclassified subsequently to profit or loss		
Foreign exchange loss on translation to presentation currency	**$ (1.8)**	$ (10.1)
Remeasurement of pension and other post-employment benefit obligations, net of tax nil (Note 18, 19)	**$ 12.9**	$ (132.0)
	$ (15.6)	$ (142.1)
Total comprehensive income (loss)	**$ 198.6**	$ (184.8)

See accompanying notes to the condensed interim consolidated financial statements

Algoma Steel Inc.
Condensed Interim Consolidated Statements of Financial Position
(Unaudited)

As at,	June 30, 2021	March 31, 2021
expressed in millions of Canadian dollars		
Assets		
Current		
Cash (Note 7)	$ 21.9	$ 21.2
Restricted cash (Note 7)	3.9	3.9
Taxes receivable	-	-
Accounts receivable, net (Note 8)	333.2	274.6
Inventories, net (Note 9)	469.5	415.3
Prepaid expenses and deposits	72.2	74.6
Margin payments (Note 17)	95.8	49.4
Other assets	3.1	3.8
Total current assets	$ 999.6	$ 842.8
Non-current		
Property, plant and equipment, net (Note 10)	$ 687.4	$ 699.9
Intangible assets, net (Note 11)	1.4	1.5
Parent company promissory note receivable (Note 23)	2.1	2.2
Other assets	6.7	7.5
Total non-current assets	$ 697.6	$ 711.1
Total assets	$ 1,697.2	$ 1,553.9
Liabilities and Shareholder's Equity		
Current		
Bank indebtedness (Note 12)	$ -	$ 90.1
Accounts payable and accrued liabilities (Note 13)	174.0	153.8
Taxes payable and accrued taxes (Note 14)	19.9	27.2
Current portion of long-term debt (Note 15)	14.0	13.6
Current portion of governmental loans (Note 16)	2.5	-
Current portion of environmental liabilities	4.2	4.5
Derivative financial instruments (Note 17)	97.7	49.4
Total current liabilities	$ 312.3	$ 338.6
Non-current		
Long-term debt (Note 15)	$ 429.2	$ 439.3
Long-term governmental loans (Note 16)	85.9	86.4
Accrued pension liability	143.8	170.1
Accrued other post-employment benefit obligation	305.3	297.8
Other long-term liabilities	2.5	2.5
Environmental liabilities	35.8	35.4
Total non-current liabilities	$ 1,002.5	$ 1,031.5
Total liabilities	$ 1,314.8	$ 1,370.1
Shareholder's equity		
Capital stock	$ 409.5	$ 409.5
Accumulated other comprehensive income (loss)	(6.1)	9.5
Retained deficit	(21.0)	(235.2)
Total shareholder's equity	$ 382.4	$ 183.8
Total liabilities and shareholder's equity	$ 1,697.2	$ 1,553.9

See accompanying notes to the condensed interim consolidated financial statements

Algoma Steel Inc.

Condensed Interim Consolidated Statements of Changes in Shareholder's Equity

(Unaudited)

expressed in millions of Canadian dollars	**Capital stock**	Foreign exchange loss on translation to presentation currency	Actuarial gain (loss) on pension and other post-employment benefit obligation, net of tax	Cash flow hedge reserve - unrealized loss (Note 17)	**Accumulated other compre-hensive income (loss)**	**Retained deficit**	**Total Shareholder's equity**
Balance at March 31, 2021	**$ 409.5**	$ (0.9)	$ 75.2	$ (64.8)	**$ 9.5**	**$ (235.2)**	**$ 183.8**
Net Income	**-**	-	-	-	**-**	**214.2**	**214.2**
Other comprehensive (loss) income	**-**	(1.8)	12.9	(26.7)	**(15.6)**	**-**	**(15.6)**
Balance at June 30, 2021	**$ 409.5**	$ (2.7)	$ 88.1	$ (91.5)	**$ (6.1)**	**$ (21.0)**	**$ 382.4**
Balance at March 31, 2020	$ 409.5	$ 11.4	$ 52.2	$ -	$ 63.6	$ (173.2)	$ 299.9
Net loss	-	-	-	-	-	(42.7)	(42.7)
Other comprehensive (loss) income	-	(10.1)	(132.0)	-	(142.1)	-	(142.1)
Balance at June 30, 2020	$ 409.5	$ 1.3	$ (79.8)	$ -	$ (78.5)	$ (215.9)	$ 115.1

See accompanying notes to the condensed interim consolidated financial statements

Algoma Steel Inc.
Condensed Interim Consolidated Statements of Cash Flows
(Unaudited)

Three month periods ended		**June 30, 2021**		June 30, 2020
expressed in millions of Canadian dollars				
Operating activities				
Net income (loss)	**$**	**214.2**	$	(42.7)
Items not affecting cash:				
Amortization of property, plant and equipment and intangible assets		**20.7**		19.2
Deferred income tax expense (Note 20)		**18.5**		-
Pension funding in excess of expense		**(7.3)**		(7.7)
Post-employment benefit funding in excess of expense		**(1.6)**		(1.5)
Unrealized foreign exchange gain on accrued pension liability		**3.0**		8.4
Unrealized foreign exchange gain on accrued post-employment benefit obligations		**4.3**		9.3
Finance costs (Note 6)		**15.1**		18.8
Interest on pension and other post-employment benefit obligations		**2.9**		4.3
Accretion of governmental loans and environmental liabilities		**3.0**		2.6
Unrealized foreign exchange gain on government loan facilities		**1.2**		2.7
Other		**0.8**		1.1
	$	**274.8**	$	14.5
Net change in non-cash operating working capital (Note 22)		**(153.2)**		(34.9)
Environmental liabilities paid		**(0.5)**		(0.3)
Cash generated by (used in) operating activities	**$**	**121.1**	$	(20.7)
Investing activities				
Acquisition of property, plant and equipment (Note 10)	**$**	**(19.1)**	$	(12.0)
Cash used in investing activities	**$**	**(19.1)**	$	(12.0)
Financing activities				
Bank indebtedness repaid, net (Note 12)	**$**	**(86.9)**	$	(9.0)
Repayment of Secured Term Loan (Note 15)		**(0.9)**		(1.0)
Repayment of Algoma Docks Term Loan Facility (Note 15)		**(2.5)**		(1.9)
Governmental loans issued, net of benefit (Note 16)		**-**		5.1
Interest paid		**(10.7)**		(1.7)
Cash used in financing activities	**$**	**(101.0)**	$	(8.5)
Effect of exchange rate changes on cash	**$**	**(0.3)**	$	(9.0)
Cash				
Change		**0.7**		(50.2)
Opening balance		**21.2**		265.0
Ending balance (Note 7)	**$**	**21.9**	$	214.8

See accompanying notes to the condensed interim consolidated financial statements

1. GENERAL INFORMATION

Algoma Steel Inc. (the "Company") was incorporated on May 19, 2016 under the Business Corporations Act of British Columbia. The Company was incorporated solely for the purpose of purchasing substantially all of the operating assets and liabilities of Essar Steel Algoma Inc. (“Old Steelco Inc.”). The purchase transaction was completed November 30, 2018. Prior to November 30, 2018, the Company had no operations, and was capitalized with 1 common share with a nominal value. The Company is an integrated steel producer with its active operations located entirely in Sault Ste. Marie, Ontario and Canada. The Company produces sheet and plate products that are sold primarily in Canada and the United States. The Company’s ultimate parent company is Algoma Steel Parent S.C.A. The address of the Company's registered office is 1055 West Hastings Street, Vancouver, British Columbia, Canada. The condensed interim consolidated financial statements of the Company for the three month period ended June 30, 2021, are comprised of the Company and its subsidiaries.

The Company’s subsidiaries are:

- Algoma Steel USA Inc. (100% owned)
- Algoma Docks GP Inc. (100% owned)
- Algoma Docks Limited Partnership (100% owned)

On May 24, 2021, parent company Algoma Steel Group Inc., formerly known as 1295908 B.C. Ltd., announced it entered into a definitive merger agreement with Legato Merger Corp. that will result in the Company becoming publicly listed. The transaction is expected to close in the third quarter of 2021, subject to the approval of Legato stockholders and the satisfaction or waiver of certain other customary closing conditions, including approvals from Nasdaq and the Toronto Stock Exchange.

2. BASIS OF PRESENTATION

Statement of compliance

These condensed interim consolidated financial statements, including comparatives, have been prepared in accordance with International Accounting Standard ("IAS") 34 *Interim Financial Reporting* as issued by the International Accounting Standards Board..

Certain information and footnote disclosure normally included in annual financial statements prepared in accordance with International Financial Reporting Standards ("IFRS"), as issued by the International Accounting Standards Board ("IASB"), have been omitted or condensed. The preparation of financial statements in accordance with IAS 34 requires the use of certain critical accounting estimates. It also requires management to exercise judgment in applying the Company's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements have been set out in Note 4 of the Company's annual consolidated financial statements for the years ended March 31, 2021. The accounting policies and accounting judgements used in the preparation of these condensed interim consolidated financial statements are consistent with those used in the Company’s annual consolidated financial statements, except for adoption of new or amended accounting standards as disclosed in Note 3.

These condensed interim consolidated financial statements should be read in conjunction with the Company's annual consolidated financial statements for the years ended March 31, 2021 and March 31, 2020.

2. BASIS OF PRESENTATION *(continued)*

These condensed interim consolidated financial statements have been approved by the Board of Directors, and authorized for issuance on August 18, 2021.

Basis of presentation

The condensed interim consolidated financial statements have been prepared on a going concern assumption using historical cost basis, except for certain financial instruments that are measured at fair value, as explained in the accounting policies disclosed in Note 3 to the Company's annual consolidated financial statements for the years ended March 31, 2021 and March 31, 2020 and Note 24 of the condensed interim consolidated financial statements. Historical cost is generally based on the fair value of the consideration given in exchange for assets. The going concern assumption assumes the realization of assets and the discharge of liabilities in the normal course of business.

COVID-19 Pandemic

On March 11, 2020, the coronavirus (COVID-19) was declared a pandemic by the World Health Organization. Many countries have implemented measures to control the spread of the virus. Concerns about the spread of the virus, and measures taken to control the spread of the virus have negatively affected economies globally, and upset normal commercial patterns, causing the slowdown and/or closure of companies around the world.

The Government of Ontario, Canada, announced on March 23, 2020, that steel manufacturers, such as the Company, and their suppliers, were deemed essential businesses due to their importance to the Ontario economy and their support of critical infrastructure projects. Accordingly, the Company has implemented many measures designed to protect the health and safety of our employees, and the health and safety of our customers and suppliers.

At the onset of the pandemic, slowdowns and disruptions in the operations of our customers led to a reduction in demand. In response, during the six month period ended September 30, 2020 the Company adjusted production to match demand and to control costs. During the six month period ended March 31, 2021 and for the three month period ended June 30, 2021, production and shipment volumes improved, returning normal levels.

The Government of Canada passed the CEWS (Canada Emergency Wage Subsidy) in response to the COVID-19 pandemic. For the three month period ended June 30, 2021, the Company did not receive CEWS funding. For the three month period ended June 30, 2020, the Company recorded a $29.4 million reduction to personnel expenses in connection with the receipt of funding under the CEWS program.

Functional and presentation currency

The Company's functional currency is the United States dollar ("US dollar" and "US $"). The US dollar is the currency of the primary economic environment in which the Company and its subsidiaries operate. The items included in the condensed interim consolidated financial statements are measured using the US dollar.

The condensed interim consolidated financial statements are presented in millions of Canadian dollars ("$").

3. FUTURE ACCOUNTING CHANGES

Standards and Interpretations issued and not yet adopted

Proceeds before Intended Use

IAS 16 “Property, Plant and Equipment (PPE)” sets out an amendment prohibiting an entity from deducting from the cost of an item of PP&E any proceeds received from selling items produced while the entity is preparing the asset for its intended use. The application of this amendment is not expected to have a significant impact on the financial position and performance of the Company, or on the Company’s financial reporting. The amendment is effective for annual reporting periods beginning on or after January 1, 2022.

Cost of Fulfilling a Contract

IAS 37 “Provisions, contingent liabilities and contingent assets - Onerous Contracts” sets out an amendment clarifying the meaning of “costs to fulfil a contract”. The amendment clarifies that, before a separate provision for an onerous contract is established, an entity recognizes any impairment loss that has occurred on assets used in fulfilling the contract, rather than on assets dedicated to that contract. The application of this amendment is not expected to have a significant impact on the financial position and performance of the Company, or on the Company’s financial reporting. The amendment is effective for annual reporting periods beginning on or after January 1, 2022.

Amended Disclosure for Accounting Policies

IAS 1 “Presentation of Financial Statements” sets out amendments that are intended to help preparers in deciding which accounting policies to disclose in their financial statements. The application of this amendment is not expected to have a significant impact on the financial position and performance of the Company, or on the Company’s financial reporting. The amendments are effective for annual reporting periods beginning on or after January 1, 2023.

Amended Scope of Recognition

IAS 12 “Income Taxes” sets out amendments that narrow the scope of recognition exemption in paragraphs 15 and 24 (recognition exemption) so that it no longer applies to transactions that, on initial recognition, give rise to equal taxable and deductible temporary differences. The application of this amendment is not expected to have a significant impact on the financial position and performance of the Company, or on the Company’s financial reporting. The amendments are effective for annual reporting periods beginning on or after January 1, 2023. Early adoption is permitted.

4. REVENUE

The Company is viewed as a single business segment involving steel production for purposes of internal performance measurement and resource allocation.

Tabular amounts expressed in millions of Canadian dollars

4. REVENUE *(continued)*

Three month periods ended		**June 30, 2021**		June 30, 2020
Total revenue is comprised of:				
Sheet & Strip	**$**	**637.2**	$	236.5
Plate		**85.7**		73.9
Freight		**41.8**		31.6
Non-steel revenue		**24.4**		7.4
	$	**789.1**	$	349.4
The geographical distribution of total revenue is as follows:				
Sales to customers in Canada	**$**	**293.0**	$	165.2
Sales to customers in the United States		**478.9**		180.3
Sales to customers in the rest of the world		**17.2**		3.9
	$	**789.1**	$	349.4

For the three month period ended June 30, 2021, sales of $81.5 million to one customer represented greater than 10% of total revenue. For the three month period ended June 30, 2020, sales to any one customer did not represent greater than 10% of total revenue.

5. COST OF SALES

Three month periods ended		**June 30, 2021**		June 30, 2020
Total cost of sales is comprised of:				
Cost of steel revenue	**$**	**444.0**	$	300.7
Cost of freight revenue		**41.8**		31.6
Cost of non-steel revenue		**24.4**		7.4
	$	**510.2**	$	339.7
Inventories recognized as cost of sales:	**$**	**468.4**	$	308.1
Net inventory write-downs as a result of net realizable value lower than cost included in cost of sales:	**$**	**0.8**	$	2.5

Amortization included in cost of steel revenue for the three month period ended June 30, 2021 was $20.6 million (June 30, 2020 - $19.1 million).

Government Grant (Canada Emergency Wage Subsidy)

The Government of Canada passed the CEWS (Canada Emergency Wage Subsidy) in response to the COVID-19 pandemic. For the three month period ended June 30, 2021, the Company did not receive CEWS funding. For the three month period ended June 30, 2020, the Company recorded in cost of steel revenue, a $27.0 million reduction to personnel expenses in connection with the CEWS program.

Federal Greenhouse Gas Pollution Pricing Act

Tabular amounts expressed in millions of Canadian dollars

5. COST OF SALES *(continued)*

On June 28, 2019, the Company became subject to the Federal Greenhouse Gas Pollution Pricing Act (the "Carbon Tax Act"). The Carbon Tax Act was enacted with retroactive effect to January 1, 2019. During the three month ended June 30, 2021, total carbon tax recognized as a recovery in cost of sales was $0.6 million (June 30, 2020 – expense of $1.5 million).

6. FINANCE COSTS

Three month periods ended	**June 30, 2021**	June 30, 2020
Finance costs are comprised of:		
Interest on the Revolving Credit Facility (Note 12)	**$ 0.5**	$ 1.4
Interest on the Secured Term Loan Facility (Note 15)	**9.4**	12.0
Interest on the Algoma Docks Term Loan Facility (Note 15)	**1.0**	1.4
Other interest expense	**0.3**	0.4
Revolving Credit Facility fees	**0.3**	0.3
Unwinding of issuance costs of debt facilities (Note 12 and Note 15) and accretion of governmental loan benefits and discounts on environmental liabilities	**3.6**	3.3
	$ 15.1	$ 18.8

As disclosed in Note 15, on April 1, 2020 management elected to pay the interest due on the Secured Term Loan Facility in kind for interest accrued during the period January to March 2020. The interest expense on the Secured Term Loan Facility in respect of this 1% premium was $2.0 million (US $1.5 million) during the three month period ended June 30, 2020.

7. CASH AND RESTRICTED CASH

At June 30, 2021, the Company had $21.9 million of cash (March 31, 2021 – $21.2 million) and restricted cash of $3.9 million (March 31, 2021 – $3.9 million). Restricted cash was held to provide collateral for letters of credit and other obligations of the Company at both June 30, 2021 and March 31, 2021.

Tabular amounts expressed in millions of Canadian dollars

8. ACCOUNTS RECEIVABLE, NET

As at,		June 30, 2021		March 31, 2021
The carrying amount of:				
Trade accounts receivable	$	312.9	$	259.3
Allowance for doubtful accounts		(1.8)		(1.8)
Governmental loan claims receivable				
Federal Advanced Manufacturing Fund ("Federal AMF") Loan		6.0		6.0
Federal Ministry of Industry, Strategic Innovation Fund ("Federal SIF") Agreement		3.0		3.0
Canada Emergency Wage Subsidy receivable		0.5		0.5
Northern Industrial Electricity Rate program rebate receivable		2.3		2.6
Ontario Workplace Safety and Insurance Board New Experimental Experience Rating rebate receivable		1.5		1.5
Other accounts receivable		8.8		3.5
	$	333.2	$	274.6

At June 30, 2021 and March 31, 2021, other accounts receivable comprise non-trade accounts receivable.

9. INVENTORIES, NET

As at,		June 30, 2021		March 31, 2021
The carrying amount of:				
Raw materials and consumables	$	295.7	$	278.3
Work in progress		140.9		109.2
Finished goods		32.9		27.8
	$	469.5	$	415.3

10. PROPERTY PLANT AND EQUIPMENT, NET

As at,		June 30, 2021		March 31, 2021
The carrying amount of:				
Freehold land	$	6.0	$	6.2
Buildings		42.4		44.5
Machinery and equipment		596.3		614.7
Computer hardware		0.6		0.5
Right-of-use assets		1.5		1.6
Property under construction		40.6		32.4
	$	687.4	$	699.9

Amortization of property, plant and equipment

Amortization of property, plant and equipment for the three month period ended June 30, 2021, was

Tabular amounts expressed in millions of Canadian dollars

10. PROPERTY PLANT AND EQUIPMENT, NET *(continued)*

$21.1 million (June 30, 2020 – $22.1 million). Amortization included in inventories at June 30, 2021, amounted to $6.2 million (March 31, 2021 - $5.6 million).

Acquisitions and disposals

During the three month period ended June 30, 2021, property, plant and equipment were acquired at an aggregate net cost of $19.1 million (June 30, 2020 – $12.0 million); comprised of property, plant and equipment acquired with a total cost of $20.4 million (June 30, 2020 - $18.5 million), against which the Company recognized benefits totalling $1.3 million (June 30, 2020 - $6.5 million) in respect of the governmental loans and the governmental grant discussed in Note 16.

During the three month period ended June 30, 2021, the Company disposed of property, plant and equipment with a cost of $0.3 million (June 30, 2020 – nil). The disposal of property, plant and equipment during the three month period ended June 30, 2021 resulted in a net gain of $0.3 million.

11. INTANGIBLE ASSETS, NET

As at,	**June 30, 2021**	March 31, 2021
The carrying amount of:		
Software	**$ 1.4**	$ 1.5

Amortization of intangible assets

Amortization of intangible assets for the three month period ended June 30, 2021, was $0.1 million (June 30, 2020 - $0.1 million).

Acquisitions and disposals

During the three month periods ended June 30, 2021 and June 30, 2020, the Company did not acquire any intangible assets.

12. BANK INDEBTEDNESS

On November 30, 2018, the Company obtained US $250.0 million in the form of a traditional asset-based revolving credit facility (the “Revolving Credit Facility”). The Revolving Credit Facility is secured by substantially all of the Company’s assets. Under the General Security Agreement, the Revolving Credit Facility has a priority claim on the accounts receivable and the inventories of the Company and a secondary claim on the rest of the Company’s assets. The Revolving Credit Facility bears interest at a rate of London Inter-Bank Overnight Rate (“LIBOR”) plus an applicable margin of 1.5%.

During the three month period ended June 30, 2021, the Company repaid the entire Revolving Credit Facility balance and there is no balance drawn on this facility. There was $292.1 million (US $228.8 million) of unused availability after taking into account $26.2 million (US $21.2 million) of outstanding letters of credit, and borrowing base reserves. At March 31, 2021, the Company had drawn $90.1 million (US $71.7 million), and there was $200.8 million (US $156.5 million) of unused availability after taking into account $27.4 million (US $21.8 million) of outstanding letters of credit and borrowing base reserves.

Transaction costs related to the Revolving Credit Facility amounted to $7.0 million, and are disclosed as other non-current assets in the condensed interim consolidated statements of financial position,

Tabular amounts expressed in millions of Canadian dollars

12. BANK INDEBTEDNESS *(continued)*

and have been amortized on a straight-line basis over the life of this facility, which has an initial maturity date of November 30, 2023. At June 30, 2021, the unamortized transaction costs related to the Revolving Credit Facility were to $3.1 million (March 31, 2021 - $3.5 million).

Reconciliation of liabilities arising from financing activities

The changes in the Company's bank indebtedness for the three month period ended June 30, 2021 arising from financing activities are presented below:

Balance at March 31, 2021	$	90.1
Revolving Credit Facility drawn		16.2
Repayment of Revolving Credit Facility		(103.2)
Foreign exchange		(3.1)
Balance at June 30, 2021	**$**	**-**

13. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

As at,		**June 30, 2021**		March 31, 2021
The carrying amount of:				
Accounts payable	**$**	**48.0**	$	43.3
Accrued liabilities		**71.0**		58.3
Wages and accrued vacation payable		**55.0**		52.2
	$	**174.0**	$	153.8

14. TAXES PAYABLE AND ACCRUED TAXES

As at,		**June 30, 2021**		March 31, 2021
The carrying amount of:				
Payroll taxes payable	**$**	**3.8**	$	3.5
Sales taxes payable		**2.3**		3.5
Carbon tax accrual		**13.8**		20.2
	$	**19.9**	$	27.2

Tabular amounts expressed in millions of Canadian dollars

15. LONG-TERM DEBT

As at,		June 30, 2021		March 31, 2021
The carrying amount of:				
Secured Term Loan Facility due November 30, 2025				
Current portion	**$**	**3.6**	$	3.6
Long-term portion		**372.1**		378.3
	$	**375.7**	$	381.9
Algoma Docks Term Loan Facility due May 31, 2025				
Current portion	**$**	**11.5**	$	11.1
Long-term portion		**60.7**		64.9
	$	**72.2**	$	76.0
Less: unamortized financing costs				
Current portion	**$**	**1.1**	$	1.1
Long-term portion		**3.6**		3.9
	$	**4.7**	$	5.0
	$	**443.2**	$	452.9
Current portion of long-term debt	**$**	**14.0**	$	13.6
Long-term portion of long-term debt		**429.2**		439.3
	$	**443.2**	$	452.9

During the three month period ended June 30, 2021, the Company paid, in cash, interest of $9.4 million on the Secured Term Loan Facility. On April 1, 2020, management elected to pay the interest due on the Secured Term Loan Facility in kind which resulted in a 1% premium. The April 1, 2020 payment in kind was $11.3 million (US $8.0 million) and resulted in a corresponding increase in the principal amount of the Secured Term Loan Facility of $11.3 million (US $8.0 million) for the three month period ended June 30, 2020.

Reconciliation of liabilities arising from financing activities

The changes in the Company's long-term debt facilities arising from financing activities are presented below:

		Secured Term Loan Facility		Algoma Docks Term Loan Facility
Balance at March 31, 2021	$	377.0	$	76.0
Interest payment in kind		-		-
Facility repayment		(0.9)		(2.6)
Unwinding of issuance costs of debt facility		0.3		-
Foreign exchange		(5.4)		(1.2)
Balance at June 30, 2021	**$**	**371.0**	**$**	**72.2**

Tabular amounts expressed in millions of Canadian dollars

15. LONG-TERM DEBT *(continued)*

Secured Term Loan Facility

On November 30, 2018, the Company secured $378.8 million (US $285.0 million) in the form of a Secured Term Loan Facility (the “Secured Term Loan Facility”). The Secured Term Loan Facility is secured by substantially all of the Company’s assets. Under the General Security Agreement, the Secured Term Loan Facility has a second claim on the accounts receivable and the inventories of the Company and a priority claim on the rest of the Company’s assets. The facility bears interest at LIBOR plus 8.5%. The Term Loan Facility has an initial maturity date of November 30, 2025, and is repayable in quarterly payments of US $0.7 million with the remaining balance due at maturity.

Algoma Docks Term Loan Facility

On November 30, 2018, the Company secured $97.0 million (US $73.0 million) in the form of a Term Loan Facility (the “Algoma Docks Term Loan Facility”). The Algoma Docks Term Loan Facility is secured by certain of the Company’s port assets. Under the General Security Agreement, the Term Loan Facility has a first priority claim over all present and future property of certain of the Company’s subsidiaries. The facility bears interest at LIBOR plus 5%. The Algoma Docks Term Loan Facility has a maturity date of May 30, 2025. In accordance with this agreement, the Company is required to make quarterly payments to the lender, comprising interest and principal, as follows:

Quarterly, commencing February 2021, ending November 30, 2021	US $2.9 million
Quarterly, commencing February 2022, ending with maturity	US $3.3 million

16. LONG-TERM GOVERNMENTAL LOANS

As at,		**June 30, 2021**		March 31, 2021
The carrying amount of:				
Long-term portion				
Federal AMF Loan, denominated in Canadian dollars, due March 1, 2028	**$**	**38.2**	$	39.7
Provincial MENDM Loan, denominated in Canadian dollars, due November 30, 2028		**39.5**		38.7
Federal SIF Agreement loan, denominated in Canadian dollars, due April 30, 2031		**8.2**		8.0
	$	**85.9**	$	86.4
Current portion				
Federal AMF Loan, denominated in Canadian dollars	**$**	**2.5**	$	-
	$	**88.4**	$	86.4

The changes in the Company’s Long-term governmental loan facilities arising from financing activities are presented below:

Tabular amounts expressed in millions of Canadian dollars

16. LONG-TERM GOVERNMENTAL LOANS *(continued)*

	Governmental Loan Issued	Governmental loan benefit recognized immediately	Acretion of governmental loan benefit	Carrying value
Federal AMF Loan				
Balance at March 31, 2021	$ 60.2	$ (26.5)	$ 6.0	$ 39.7
	-	-	**1.0**	**1.0**
Balance at June 30, 2021	**$ 60.2**	**$ (26.5)**	**$ 7.0**	**$ 40.7**
Provincial MENDM Loan				
Balance at March 31, 2021	$ 59.9	$ (26.4)	$ 5.2	$ 38.7
	-	-	**0.8**	**0.8**
Balance at June 30, 2021	**$ 59.9**	**$ (26.4)**	**$ 6.0**	**$ 39.5**
Federal SIF Loan				
Balance at March 31, 2021	$ 15.0	$ (7.8)	$ 0.8	$ 8.0
	-	-	**0.2**	**0.2**
Balance at June 30, 2021	**$ 15.0**	**$ (7.8)**	**$ 1.0**	**$ 8.2**
Total, Governmental Loans				
Balance at March 31, 2021	$ 135.1	$ (60.7)	$ 12.0	$ 86.4
	-	-	2.0	2.0
Balance at June 30, 2021	**$ 135.1**	**$ (60.7)**	**$ 14.0**	**$ 88.4**

17. DERIVATIVE FINANCIAL INSTRUMENTS

The Company is party to an International Swaps and Derivatives Association, Inc. (ISDA) 2002 master agreement with an investment and financial services company to hedge the commodity price risk associated with various commodities. At June 30, 2021, the Company entered into agreements to hedge the revenue on the sale of steel. The credit support annex to the master agreement requires the Company to make margin payments to satisfy collateral requirements based on Market to Market (MTM) exposure of the commodity contracts in excess of US $0.25 million. At June 30, 2021, the Company made margin payments totaling $95.8 million as a cash collateral, which does not meet the offsetting criteria in IAS 32.

The commodity contracts to hedge the NYMEX price of the Hot rolled coil price of steel is a derivative which is designated as a cash flow hedge for which hedge effectiveness is measured for the duration of the agreements and therefore carried at fair value through other comprehensive income (loss). The steel derivative contracts as at June 30, 2021 terminate over the course of the year from July 2021 to December 2022. During the three month period ended June 30, 2021, the Company entered into agreements to hedge the price of steel for 39,000 tons. During the three month period ended June 30, 2021, steel hedge agreements for 39,000 tons expired.

The fair value and notional amounts of these derivatives are as follows:

17. DERIVATIVE FINANCIAL INSTRUMENTS *(continued)*

	Fair Value Liability (in millions)		Notional Amounts (tons, in thousands)		Average Price (USD) (per ton)	
	June 30, 2021	March 31, 2021	June 30, 2021	March 31, 2021	June 30, 2021	March 31, 2021
Cash flow hedges - commodity price risk						
Steel swaps	97.7	49.4	117.0	117.0	$ 856.5	728.7
	$ 97.7	$ 49.4				

The cumulative amount of gains and losses on cash flow hedging instruments assessed as effective are presented in the cash flow hedge reserve through other comprehensive income (loss) and is recognized in profit or loss only when the hedged transaction impacts the profit or loss, or is included directly in the initial cost or other carrying amount of the hedged non-financial items (basis adjustment).

During the year ended March 31, 2021, the Company entered into an agreement to hedge the cost of natural gas that was consumed between January 1, 2021 and March 31, 2021. Management designated this hedge as a cash flow hedge, and accordingly measured the effectiveness of the hedge on a monthly basis throughout the life of the agreement. The loss resulting from this agreement of $1.7 million was initially recorded in the cash flow hedge reserve in other comprehensive income (loss), and was subsequently recognized in the cost of sales.

During the three month period ended June 30, 2021, the unrealized loss resulting from the steel hedges of $91.5 million, net of tax of $18.5 million (March 31, 2021 – $64.8 million), was recognized in the cash flow hedge reserve in other comprehensive income (loss). In this period of time, the realized loss resulting from the steel hedges of $24.6 million, was subsequently reclassified from other comprehensive income (loss) and recognized in revenue for the steel hedges (March 31, 2021 - $4.2 million).

The movements in the cash flow hedge reserve for the period as a component of accumulated other comprehensive income (loss) is as follows:

	June 30, 2021	March 31, 2021
Opening balance	**$ 64.8**	$ -
Loss arising on changes in fair value of cash flow hedges, net of tax of $18.5 million	**51.3**	70.7
Loss reclassified to profit	**(24.6)**	(5.9)
Ending balance	**$ 91.5**	$ 64.8

18. PENSION BENEFITS

Defined benefit plans

The components of amounts recognized in the condensed interim consolidated statements of net income (loss) in respect of these defined benefit plans are presented below:

Tabular amounts expressed in millions of Canadian dollars

18. PENSION BENEFITS *(continued)*

Three month periods ended		**June 30, 2021**		June 30, 2020
Amounts recognized in net loss were as follows:				
Current service cost	**$**	**5.2**	$	5.0
Net interest cost		**0.9**		1.9
	$	**6.1**	$	6.9
Defined benefit costs recognized in:				
Cost of sales	**$**	**4.7**	$	4.5
Administrative and selling expenses		**0.5**		0.5
Interest on pension liability		**0.9**		1.9
	$	**6.1**	$	6.9

The amounts recognized in the condensed interim consolidated statements of other comprehensive income (loss) in respect of these defined benefit plans are presented below:

Three month periods ended		**June 30, 2021**		June 30, 2020
Amounts recognized in other comprehensive loss, were as follows:				
Actuarial (gain) loss on accrued pension liability		**(20.0)**	$	78.3
Less tax effect		**-**		-
	$	**(20.0)**	$	78.3

On June 20, 2019, the legislation in respect of the closed plan for pensioners who retired prior to January 1, 2002 was enacted into law. Further, the funds held in escrow ($2.5 million), and accrued interest thereon, in respect of the arrangement described above were transferred from Old Steelco Inc.'s Monitor to the trustee for this plan on June 20, 2019.

19. OTHER POST-EMPLOYMENT BENEFITS

The components of amounts recognized in the condensed interim consolidated statements of net income (loss) in respect of these other post-employment benefit plans are presented below:

Three month periods ended		**June 30, 2021**		June 30, 2020
Amounts recognized in net loss were as follows:				
Current service cost	**$**	**1.0**	$	0.8
Net interest cost		**2.0**		2.4
	$	**3.0**	$	3.2
Post employment benefit costs recognized in:				
Cost of sales	**$**	**0.9**	$	0.7
Administrative and selling expenses		**0.1**		0.1
Interest on pension liability		**2.0**		2.4
	$	**3.0**	$	3.2

Tabular amounts expressed in millions of Canadian dollars

19. OTHER POST-EMPLOYMENT BENEFITS *(continued)*

The amounts recognized in the condensed interim consolidated statements of other comprehensive income (loss) in respect of these other post-employment benefit plans are presented below.

Three month periods ended	**June 30, 2021**	June 30, 2020
Amounts recognized in other comprehensive loss, were as follows:		
Actuarial loss on accrued post employment benefit liability	**$ 7.1**	$ 53.7
Less tax effect	**-**	-
	$ 7.1	$ 53.7

20. TAX MATTERS

For the three month periods ended June 30, 2021 and June 30, 2020, the Company's current income tax expense was nil. For the three month period ended June 30, 2021, the Company's deferred tax expense was $18.5 million (June 30, 2020 – nil).

The Company has non-capital tax losses available of $306.4 million; $109.5 million expire in 2038, $111.5 million expire in 2039 and $85.4 million expire in 2040.

21. COMMITMENTS AND CONTINGENCIES

Property, plant and equipment

In the normal course of business operations the Company has certain commitments for capital expenditures related to the maintenance and acquisition of property, plant and equipment.

Key inputs to production

The Company requires large quantities of iron ore, coal, oxygen, electricity and natural gas in order to satisfy the demands of the steel manufacturing operation. The Company makes most of its purchases of these principal raw materials at negotiated prices under annual and multi-year agreements. These agreements provide the Company with comfort that an adequate supply of these key raw materials will be available to the Company at a price acceptable to the Company.

Legal matters

Additionally, from time to time, in the ordinary course of business, the Company is a defendant or party to a number of pending or threatened legal actions and proceedings. Although such matters cannot be predicted with certainty, management currently considers the Company's exposure to such ordinary course claims and litigation, to the extent not covered by the Company's insurance policies or otherwise provided for, not to have a material adverse effect on these consolidated financial statements. In addition, the Company is involved in and potentially subject to regular audits from federal and provincial tax authorities relating to income, capital and commodity taxes and, as a result of these audits, may receive assessments and reassessments.

22. NET CHANGE IN NON-CASH OPERATING WORKING CAPITAL

The changes in non-cash operating working capital are comprised of:

Tabular amounts expressed in millions of Canadian dollars

22. NET CHANGE IN NON-CASH OPERATING WORKING CAPITAL *(continued)*

Three month periods ended		**June 30, 2021**		June 30, 2020
Accounts receivable	**$**	**(61.9)**	$	65.9
Taxes payable and accrued taxes		**(7.0)**		-
Inventories		**(59.0)**		(66.0)
Prepaid expenses and other current assets		**(45.3)**		(10.9)
Accounts payable and accrued liabilities		**18.5**		(35.2)
Derivative financial instruments (net)		**1.5**		-
Secured term loan interest payment in kind		**-**		11.3
	$	**(153.2)**	$	(34.9)

23. PARENT COMPANY PROMISSORY NOTE RECEIVABLE

The Company's shareholder, Algoma Steel Parent S.C.A., and its commonly controlled affiliates are related parties.

During the three month period ended June 30, 2021, there were no advances to the Company's shareholder. During the year ended March 31, 2020, the Company entered into a promissory note with its shareholder in the amount of $1.3 million (US $0.9 million). During the year ended March 31, 2021, the Company advanced $1.1 million (US $0.8 million) to its shareholder. The Company's shareholder used the proceeds of this note to pay reasonable expenses, liabilities and other obligations. The promissory note is unsecured and is non-interest-bearing.

At June 30, 2021, the balance of the parent company promissory note receivable was $2.1 million (US $1.7 million) (March 31, 2021 - $2.2 million (US $1.7 million)).

24. FINANCIAL INSTRUMENTS

Financial risk management

The Company's activities expose it to a variety of financial risks including credit risk, liquidity risk, interest rate risk and market risk. The Company may use derivative financial instruments to hedge certain of these risk exposures. The use of derivatives is based on established practices and parameters, which are subject to the oversight of the Board of Directors. The Company does not utilize derivative financial instruments for trading or speculative purposes.

Fair value of financial instruments

Fair value is the price that would be received when selling an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. In assessing the fair value of a particular contract, the market participant would consider the credit risk of the counterparty to the contract. Consequently, when it is appropriate to do so, the Company adjusts the valuation models to incorporate a measure of credit risk. Fair value represents management's estimates of the current market value at a given point in time.

The Company has certain financial assets and liabilities that are held at fair value. The fair value hierarchy establishes three levels to classify the inputs to valuation techniques used to measure fair value. Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities. Level 2 inputs are quoted prices in markets that are not active, quoted prices for similar assets or liabilities in active markets, inputs other than quoted prices that are observable for the asset or liability

24. FINANCIAL INSTRUMENTS *(continued)*

(for example, interest rate and yield curves observable at commonly quoted intervals, forward pricing curves used to value currency and commodity contracts), or inputs that are derived principally from or corroborated by observable market data or other means. Level 3 inputs are 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. There were no transfers among Levels 1, 2 and 3 during the three month period ended June 30, 2021. The Company's policy is to recognize transfers into and transfers out of fair value hierarchy levels as of the date of the event or change in circumstances that caused the transfer.
The fair value of cash, restricted cash, accounts receivable, margin payments, bank indebtedness and accounts payable and accrued liabilities approximates their carrying value due to the short-term nature of these instruments. The fair value of the Revolving Credit Facility, disclosed in Note 12, the Secured Term Loan Facility, the Algoma Docks Term Loan Facility, disclosed in Note 15, and the Parent Company Promissory Note Receivable, disclosed in Note 23, approximate the respective carrying values.

The fair values of natural gas and steel commodity swaps are classified as Level 2 and is calculated using the mark-to-market forward prices of NYMEX natural gas and Hot rolled coil steel based on the applicable settlement dates of the outstanding swap contracts.

Credit risk

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises primarily from the Company's receivables from customers. The Company has an established credit policy under which each new customer is analyzed individually for creditworthiness before the Company's standard payment and delivery terms and conditions are offered. The Company's review includes a review of the potential customer's financial information, external credit ratings and bank and supplier references. Credit limits are established for each new customer and customers that fail to meet the Company's credit requirements may transact with the Company only on a prepayment basis.

The maximum credit exposure at June 30, 2021 is the carrying amount of accounts receivable of $333.2 million (March 31, 2021 - $274.6 million) and cash of $21.9 (March 31, 2021 - $21.2 million) held with highly rated Canadian banks. At June 30, 2021, sales to one customer represented greater than 10% of total revenue. At March 31, 2021, no one customer account was greater than 10% of the carrying amount of accounts receivable. As at June 30, 2021, $2.5 million, or 0.8%, of accounts receivable were more than 90 days old (March 31, 2021, $2.3 million, or 0.9%).

The Company establishes an allowance for doubtful accounts that represents its estimate of expected losses in respect of accounts receivable. The main components of this allowance are a specific provision that relates to individual exposures and a provision for expected losses that have been incurred but not yet identified. The allowance for doubtful accounts at June 30, 2021 was $1.8 million (March 31, 2021 - $1.8 million).

The Company may be exposed to certain losses in the event of non-performance by counterparties to derivative financial instruments such as commodity price contracts and foreign exchange contracts. The Company mitigates this risk by entering into transactions with highly rated major financial institutions.

Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they come due. The Company manages liquidity risk by maintaining adequate cash balances. The

Tabular amounts expressed in millions of Canadian dollars

24. FINANCIAL INSTRUMENTS *(continued)*

Company continuously monitors and reviews actual and forecasted cash flows to ensure adequate liquidity and anticipate liquidity requirements. The Company's objectives and processes for capital management, including the management of long-term debt, are described in Note 5 to the March 31, 2021 consolidated financial statements.

Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and commodity prices, will affect the Company's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimizing the return on risk. As disclosed in Note 17, during the three month period ended June 30, 2021, the Company was a party to agreements to hedge the commodity price risk associated with the revenue on the sale of steel. These activities are carried out under the oversight of the Company's Board of Directors.

Currency risk

The Company is exposed to currency risk on purchases, labour costs and pension and other post retirement employment benefits liabilities that are denominated in Canadian dollars. The prices for steel products sold in Canada are derived mainly from price levels in the US market in US dollars converted into Canadian dollars at the prevailing exchange rates. As a result, a stronger US dollar relative to the Canadian dollar increases the Company's Canadian dollar selling prices for sales within Canada.

The Company's Canadian dollar denominated financial instruments as at June 30, 2021 and March 31, 2021, were as follows:

As at,	**June 30, 2021**	March 31, 2021
Cash	**$ 8.2**	$ 5.6
Restricted cash	**3.9**	3.9
Accounts receivable	**127.5**	111.2
Bank indebtedness	**-**	(42.1)
Accounts payable and accrued liabilities	**(129.8)**	(121.6)
Long-term governmental loans	**(87.3)**	(87.8)
Net Canadian dollar denominated financial instruments	**$ (77.5)**	$ (130.8)

A $0.01 decrease (or increase) in the US dollar relative to the Canadian dollar for the three months ended June 30, 2021 would have decreased (or increased) income from operations by $0.5 million, respectively (June 30, 2020 - $0.1 million).

Interest rate risk

Interest rate risk is the risk that the value of the Company's assets and liabilities will be affected by a change in interest rates. The Company's interest rate risk mainly arises from the interest rate impact on its banking facilities and debt. The Company may manage interest rate risk through the periodic use of interest rate swaps.

Tabular amounts expressed in millions of Canadian dollars

24. FINANCIAL INSTRUMENTS *(continued)*

For the three month period ended June 30, 2021, a one percent increase (or decrease) in interest rates would have decreased (or increased) net income by approximately $1.3 million (June 30, 2020 – $1.7 million).

The Company is exposed to interest rate benchmark, LIBOR, which is subject to interest rate benchmark reform. The exposure arises on financial liabilities bearing interest at LIBOR plus basis points including the Company's Revolving Credit Facility, Secured Term Loan Facility and Algoma

Docks Term Loan Facility, as disclosed in Notes 12 and 15. The Company is closely monitoring the market and the output from the various industry working groups managing the transition to new benchmark interest rates including announcements made by Interbank Offered Rate (IBOR).

The referenced benchmark rates applicable to Algoma are expected to be published until at least June of 2023 and prior to their expiry Algoma will work with the administrative agent of its various LIBOR exposed credit agreements to replace LIBOR with a fall back reference rate at similar commercial terms to today's rates.

Commodity price risk

The Company is subject to price risk from fluctuations in the market prices of commodities, including natural gas, steel, iron ore and coal. The Company enters into supply agreements for certain of these commodities as disclosed in Note 21. To manage risks associated with future variability in cash flows attributable to certain commodity purchases, the Company may use derivative instruments with maturities of 12 months or less as disclosed in Note 17 to hedge the commodity price risk associated with the cost of natural gas and the revenue on the sale of steel.

25. 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 executive leadership team (ELT) and the Board of Directors. The ELT is comprised of the President & Chief Executive Officer, Chief Financial Officer, Chief Commercial Officer, Vice-President – Strategy & General Counsel, Vice-President – Production, Vice-President – Maintenance & Operating Services and Vice-President – Human Resources.

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

Years ended,	**June 30, 2021**	June 30, 2020
Salaries and benefits	**$ 2.6**	$ 1.7
Director fees	**0.1**	0.1
	$ 2.7	$ 1.8