

RUSSEL METALS INC.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS FOR THE SIX MONTHS ENDED JUNE 30, 2017

This Management's Discussion and Analysis of Financial Condition and Results of Operations ("MD&A") of Russel Metals Inc. and its subsidiaries provides information to assist readers of, and should be read in conjunction with, the condensed consolidated financial statements for the six months ended June 30, 2017, including the notes thereto, and the MD&A and the audited consolidated financial statements for the year ended December 31, 2016, including the notes thereto. In the opinion of management, such condensed consolidated financial statements contain all adjustments necessary for a fair presentation of the results for such periods. The results of operations for the periods shown are not necessarily indicative of what our results will be for the full year. All dollar references in our financial statements and in this report are in Canadian dollars unless otherwise stated.

Additional information related to Russel Metals Inc., including our Annual Information Form, may be obtained from SEDAR at www.sedar.com or on our website at www.russelmetals.com.

Unless otherwise stated, the discussion and analysis contained in this MD&A are as of August 2, 2017.

FORWARD-LOOKING STATEMENTS

Certain statements contained in this MD&A constitute forward-looking statements or information within the meaning of applicable securities laws, including statements as to our future capital expenditures, our outlook, the availability of future financing and our ability to pay dividends. Forward-looking statements relate to future events or our future performance. All statements, other than statements of historical fact, are forward-looking statements. Forward-looking statements are often, but not always, identified by the use of words such as "seek", "anticipate", "plan", "continue", "estimate", "expect", "may", "will", "project", "predict", "potential", "targeting", "intend", "could", "might", "should", "believe" and similar expressions. Forward-looking statements are necessarily based on estimates and assumptions that, while considered reasonable by us, inherently involve known and unknown risks, uncertainties and other factors that may cause actual results or events to differ materially from those anticipated in such forward-looking statements, including the factors described below.

We are subject to a number of risks and uncertainties which could have a material adverse effect on our future profitability and financial position, including the risks and uncertainties listed below, which are important factors in our business and the metals distribution industry. Such risks and uncertainties include, but are not limited to: the volatility in metal prices; volatility in oil and natural gas prices; cyclical nature of the metals industry and the industries that purchase our products; decreased capital and other expenditures in the energy industry; product claims from customers; significant competition that could reduce our market share; the interruption in sources of metals supply; manufacturers selling directly to our customer base; material substitution; credit risk of our customers; lack of credit availability; change in our credit ratings; currency exchange risk; restrictive debt covenants; non-cash asset impairments; the unexpected loss of key individuals; decentralized operating structure; the availability of future acquisitions and their integration; the failure of our key computer-based systems, including our enterprise resource and planning systems; failure to renegotiate any of our collective agreements and work stoppages; litigious business environment; environmental liabilities; environmental concerns or changes in government regulations; legislation on carbon emissions; workplace health and safety laws and regulations; significant changes in laws and governmental regulations; fluctuation of our common share price; dilution; and variability of dividends.

While we believe that the expectations reflected in our forward-looking statements are reasonable, no assurance can be given that these expectations will prove to be correct, and our forward-looking statements included in this MD&A should not be unduly relied upon. These statements speak only as of the date of this MD&A and, except as required by law, we do not assume any obligation to update our forward-looking statements. Our actual results could differ materially from those anticipated in our forward-looking statements including as a result of the risk factors described above and under the heading "Risk" later in this MD&A, and under the heading "Risk Management and Risks Affecting Our Business" in our most recent Annual Information Form and as otherwise disclosed in our filings with securities regulatory authorities which are available on SEDAR at www.sedar.com.

NON-GAAP MEASURES

This MD&A includes a number of measures that are not prescribed by Canadian generally accepted accounting principles ("GAAP") and as such may not be comparable to similar measures presented by other companies. We believe these measures are commonly employed to measure performance in our industry and are used by analysts, investors, lenders and other interested parties to evaluate financial performance and our ability to incur and service debt to support our business activities. The measures we use are specifically defined where they are first used in this report.

While we believe that non-GAAP measures are helpful supplemental information, they should not be considered in isolation as an alternative to net income, cash flows generated by operating, investing or financing activities, or other financial statement data presented in accordance with GAAP.

OVERVIEW

We are one of the largest metals distribution companies in North America. We conduct business primarily in three metals distribution segments: metals service centers, energy products and steel distributors.

Our basic earnings per share were \$0.52 for the quarter ended June 30, 2017 compared to \$0.48 for the first quarter of 2017 and \$0.27 for the 2016 second quarter.

All of our business segments experienced stronger operating results than the comparable second quarter of 2016 driven by higher selling prices in all of our segments and higher volumes in energy products and steel distributors.

For the six months ended June 30, 2017, our basic earnings per share were \$1.00 compared to \$0.39 for the same period in 2016.

RESULTS OF OPERATIONS

The following table provides operating profits before interest, finance expense or income and income taxes. The corporate expenses included are not allocated to specific operating segments. Gross margins (revenue minus cost of sales) as a percentage of revenues for the operating segments are also shown below. The table shows the segments as they are reported to management and are consistent with the segment reporting in our condensed consolidated financial statements.

<i>(in millions, except percentages)</i>	Quarters Ended June 30			Six Months Ended June 30		
	2017	2016	change as a % of 2016	2017	2016	change as a % of 2016
Segment Revenues						
Metals service centers	\$ 415.5	\$ 364.0	14%	\$ 801.9	\$ 705.1	14%
Energy products	296.0	175.8	68%	635.1	424.2	50%
Steel distributors	100.9	81.0	25%	178.5	153.5	16%
Other	4.1	2.9		4.5	3.0	
	\$ 816.5	\$ 623.7	31%	\$ 1,620.0	\$ 1,285.8	26%
Segment Operating Profits						
Metals service centers	\$ 24.4	\$ 23.9	2%	\$ 46.2	\$ 33.5	38%
Energy products	21.6	0.7		45.2	7.5	
Steel distributors	10.2	9.0	13%	18.6	16.1	16%
Corporate expenses	(4.9)	(5.1)	4%	(10.0)	(11.0)	9%
Other	2.8	1.5		2.0	0.5	
Operating profits	\$ 54.1	\$ 30.0	80%	\$ 102.0	\$ 46.6	119%
Segment Gross Margin as a % of Revenues						
Metals service centers	21.6%	22.9%		22.0%	21.8%	
Energy products	18.7%	16.4%		17.9%	16.5%	
Steel distributors	19.0%	18.5%		20.2%	19.5%	
Total operations	20.6%	20.9%		20.4%	20.0%	
Segment Operating Profit as a % of Revenues						
Metals service centers	5.9%	6.6%		5.8%	4.8%	
Energy products	7.3%	0.4%		7.1%	1.8%	
Steel distributors	10.1%	11.1%		10.4%	10.5%	
Total operations	6.6%	4.8%		6.3%	3.6%	

Results of our U.S. operations reported for the six months ended June 30, 2017 were converted at \$1.3340 per US\$1 compared to \$1.3317 per US\$1 for the six months ended June 30, 2016. Our U.S. operations represented approximately 32% of our total revenues. The exchange rate used to translate the balance sheet at June 30, 2017 was \$1.2977 per US\$1 versus \$1.3427 per US\$1 at December 31, 2016.

QUARTERLY FINANCIAL HIGHLIGHTS

<i>(for the quarters ended)</i>	Jun 30 2017	Mar 31 2017	Dec 31 2016	Sep 30 2016	Jun 30 2016	Mar 31 2016	Dec 31 2015	Sep 30 2015
Revenues (\$ millions)	\$ 817	\$ 804	\$ 654	\$ 639	\$ 624	\$ 662	\$ 673	\$ 773
Operating profits (\$ millions)	54	48	17	28	30	17	(29)	19
Net earnings (\$ millions)	32	30	23	16	16	8	(135)	13
Basic earnings per share (\$)	0.52	0.48	0.37	0.26	0.27	0.13	(2.19)	0.21

METALS SERVICE CENTERS

a) Description of operations

We provide processing and distribution services to a broad base of approximately 43,000 end users through a network of 50 Canadian locations and 14 U.S. locations. Our metals service centers carry a broad line of products in a wide range of sizes, shapes and specifications, including carbon hot rolled and cold finished steel, pipe and tubular products, stainless steel and aluminum. We purchase these products primarily from steel producers in North America and process and package them in accordance with end user specifications. We service all major geographic regions of Canada and the Southeastern and Midwestern regions in the United States. Within Canada, our service centers operate under the names Russel Metals, Métaux Russel, A.J. Forsyth, Acier Leroux, Acier Loubier, Alberta Industrial Metals, B&T Steel, Leroux Steel, Mégantic Métal, Russel Metals Processing, Russel Metals Specialty Products, Métaux Russel Produits Spécialisés, McCabe Steel and York-Ennis. Our U.S. service centers operate under the names Russel Metals Williams Bahcall, JMS Russel Metals, Norton Metals and Baldwin International.

b) Factors affecting results

The following is a general discussion of the significant factors affecting our metals service centers results. More specific information on how these factors impacted the second quarter of 2017 and 2016 is found in the sections that follow.

Steel prices fluctuate significantly throughout the steel cycle. Steel prices are influenced by overall international demand, trade sanctions, iron ore prices, scrap steel prices and product availability. Volatile metal prices cause fluctuations in our operating results. Steel price increases were announced in late 2016 and during the first quarter of 2017. In April 2017, the U.S. Department of Commerce self-initiated an investigation under section 232 of the Trade Expansion Act of 1962 to determine whether imports of foreign-made steel were harming U.S. national security. Trade sanction decisions from both the U.S. Department of Commerce and the Canadian International Trade Tribunal have been awaiting the results of the U.S. section 232 investigation.

During the second quarter of 2017 prices remained stable as industry participants waited on the section 232 investigation decision.

Supply side management, practiced by steel producers in North America, and international supply and demand, which impact steel imports, affects product availability. Trade sanctions are initiated either by steel mills or by North American government agencies. During the second quarter of 2017, the U.S. Department of Commerce initiated reviews of alloy steel wire rod and cold-drawn mechanical tubing which are not significant products for us. Also during the 2017 second quarter, the Canadian International Trade Tribunal issued final dumping determinations on rebar and certain fabricated industrial steel components from certain countries. All of these rulings were positive for North American steel mills and steel prices.

Our operating results are affected by the inherent risk of the cyclicity of the metals industry and the industries that purchase our products. Demand for our products is significantly affected by economic cycles. Revenues and operating profits fluctuate with the level of general business activity in the markets served. We are most impacted by the manufacturing, resource (including oil and gas) and construction segments of the North American economy.

Canadian service centers, which represent the majority of our metals service center operations, have operations in all regions of Canada and are affected by general regional economic conditions. Our large market share and diverse customer base of approximately 26,000 Canadian customers means that our results tend to mirror the performance of the regional economies of Canada. Our U.S. operations, which have approximately 17,000 customers, are also impacted by the local economic conditions in the regions that they serve.

Results of our Canadian operations can be affected by the U.S. dollar exchange rate since some products are sourced outside of Canada and are priced in U.S. dollars. Movement in the Canadian dollar has a short-term impact on inventory prices.

c) *Metals service centers segment results -- Three Months Ended June 30, 2017 compared to June 30, 2016*

Revenues for the three months ended June 30, 2017 increased 14% to \$416 million compared to the same period in 2016 due to stronger average selling prices. Tons shipped in the second quarter of 2017 approximated tons shipped in the second quarter of 2016. Alberta experienced an increase in tons which offset small reductions in certain of our other regions. The average selling price was 5% higher than the 2017 first quarter and 15% higher than the 2016 second quarter.

Gross margin as a percentage of revenues of 21.6% was lower than the same quarter last year at 22.9%, and 22.4% for the first quarter of 2017. The higher margin in the 2016 second quarter and the 2017 first quarter resulted from rising prices in those quarters which generated inventory holding gains. The gross margin percentage in second quarter 2017 reflects more stable pricing.

Operating expenses as a percentage of revenues of 16% in the 2017 second quarter were consistent with the 2016 second quarter.

Metals service centers operating profits for the three months ended June 30, 2017 of \$24 million were unchanged from the same period in 2016.

d) *Metals service centers segment results -- Six Months Ended June 30, 2017 compared to June 30, 2016*

Revenues for the six months ended June 30, 2017 increased 14% to \$802 million compared to \$705 million in the same period in 2016. Tons shipped in the metals service centers segment in the six months ended June 30, 2017 were consistent with the same period in 2016 and selling prices were approximately 13% higher. Demand increased in the Alberta region offsetting reductions in other regions.

Gross margin as a percentage of revenues of 22.0% for the six months ended June 30, 2017 compared to 21.8% for the same period in 2016.

Operating expenses as a percentage of revenues for the six months ended June 30, 2017 decreased to 16% compared to 17% in the same period of 2016.

Metals service centers operating profits for the six months ended June 30, 2016 of \$46 million increased 38% compared to \$34 million reported for the same period in 2016 due to higher selling prices resulting in stronger gross margin dollars.

ENERGY PRODUCTS

a) *Description of operations*

We distribute oil country tubular goods (OCTG), line pipe, tubes, valves and fittings, primarily to the energy industry in Western Canada and the United States. A significant portion of our business units are clustered in Alberta and Saskatchewan, Canada, and in the U.S., in Colorado and Texas. A large portion of our inventories are located in third party yards ready for distribution to customers throughout North America. In addition, we operate from 47 Canadian and 20 U.S. facilities mainly to support our valve and fitting operations. The majority of these facilities are oil field stores which form the Apex Distribution network. We purchase our products from the pipe division of North American steel mills, independent manufacturers of pipe, valves and fittings, international steel mills and other distributors. Our energy products segment operates under the names Apex Distribution, Apex Monarch, Apex Remington, Apex Western Fiberglass, Comco Pipe and Supply Company, Fedmet Tubulars, Triumph Tubular & Supply, Pioneer Pipe and Spartan Energy Tubulars.

b) *Factors affecting results*

The following is a general discussion of the factors affecting our energy products segment operations. More specific information on how these factors impacted the second quarter of 2017 and 2016 is found in the sections that follow.

The price of natural gas and oil can impact rig count and drilling activities, which affects demand for our products. Oil and gas prices, which had declined since 2014, stabilized in 2016 and remained relatively stable in 2017. This severe drop in demand and continued low level of the price of oil caused a reduction in capital spending projects and rig activity of our energy product customers during 2015 and 2016. Rig activity has increased in the first half of 2017 in both Canada and the U.S. to the strongest level in two years, which has benefited our energy products segment.

Prices for pipe products are influenced by overall demand, trade sanctions, product availability and metal prices. Trade sanctions are initiated either by steel mills or by government agencies in North America. Both the Canadian and U.S. governments have imposed duties on certain Chinese pipe, which remain in effect and resulted in lower imports of these products. The U.S. government initiated reviews in 2015 and 2016 on pipe from a number of other countries. This continued into the 2017 first quarter with the U.S. Department of Commerce completing an administrative review of OCTG from South Korea. The U.S. section 232 investigation, referred to above, may have an effect on pipe prices. Due to the overstocked inventory position of the industry and low demand, prices remained under pressure for most of 2016 despite the trade sanctions put in place. By the end of 2016, this inventory overhang was reduced and, as demand increased in 2017 product margins improved due to price increases and shortages of certain products. Prices of valves and fittings are not as sensitive to steel price fluctuations because they are highly engineered value-added products.

Drilling related to oil and natural gas in Western Canada historically peaks during the period from October to March, which means that the first and fourth quarters tend to be stronger in this segment. The 2017 spring breakup was shorter than historical norms resulting in increased activity for our Alberta energy product operations.

**c) *Energy products segment results -- Three Months Ended
June 30, 2017 compared to June 30, 2016***

Revenues in our energy products segment increased 68% to \$296 million for the second quarter of 2017 compared to the same period of 2016 due to higher activity at all operations in the segment. Improved selling prices, early lifting of spring road bans in Alberta and increased demand led to increased revenues.

Gross margin as a percentage of revenues for the three months ended June 30, 2017 was 18.7% compared to 16.4% in the same period in 2016. All of our energy products operations experienced stronger demand. A continued reduction of excess inventory in the industry as well as an increase in the price of pipe resulted in higher margins.

Operating expenses as a percentage of revenues decreased to 11% compared to 16% for the same quarter last year as revenue increased at a greater rate than operating expenses.

This segment generated an operating profit of \$22 million for the three months ended June 30, 2017 compared to \$1 million for the same period in 2016.

**d) *Energy products segment results -- Six Months Ended
June 30, 2017 compared to June 30, 2016***

Revenues increased 50% to \$635 million for the six months ended June 30, 2017 compared to the same period in 2016. Revenue increases at our Canadian oil country tubular operations represented the strongest increase over the comparable six month period in 2016.

Gross margin as a percentage of revenues for the six months ended June 30, 2017 was 17.9% compared to 16.5% in the same period in 2016.

Operating expenses as a percentage of revenue improved to 11% from 15% in 2016 as revenues increased at a greater rate than operating expenses.

Operating profit was \$45 million for the six months ended June 30, 2017 compared to \$8 million for the same period in 2016 due to the recovery in activity in the energy industry.

STEEL DISTRIBUTORS

a) *Description of operations*

Our steel distributors act as master distributors selling steel in large volumes to other steel service centers and equipment manufacturers mainly on an "as is" basis. Our U.S. operation has a cut-to-length facility operating under the name Arrow Steel, located in Houston, Texas, where it processes coil for its customers. Our steel distributors source their steel both domestically and off shore.

The main steel products sourced by this segment are structural beam, plate, coils, pipe and tubing; however, product volumes vary based on the economy and trade actions in North America. Our steel distributors operate under the names Wirth Steel and Sunbelt Group. Arrow Steel processes and levels coil products.

b) *Factors affecting results*

The following is a general discussion of the significant factors affecting our steel distributors. More specific information on how these factors impacted the second quarter of 2017 and 2016 is found in the sections that follow.

Steel prices are influenced by overall demand, trade sanctions and product availability both domestically and worldwide. Trade sanctions are initiated either by steel mills or government agencies in North America. Trade actions currently exist on plate and pipe from specified countries. New import duties from additional countries were levied by the U.S. Department of Commerce in 2017 and the section 232 investigation commenced.

Demand for steel that is sourced off shore fluctuates significantly and is mainly driven by price and product availability in North America. Our steel distributors have a significant number of customers who buy product from them on a periodic basis which can result in large fluctuations in revenues reported from period to period.

c) *Steel distributors segment results -- Three Months Ended June 30, 2017 compared to June 30, 2016*

Steel distributors revenues increased 25% to \$101 million for the three months ended June 30, 2017 compared to the same period in 2016, due to increased volumes and higher prices.

Gross margin as a percentage of revenues was 19.0% for the three months ended June 30, 2017 compared to 18.5% for the three months ended June 30, 2016.

Operating expenses as a percentage of revenue for the second quarter of 2017 were 9% which was higher than the same quarter in 2016 at 7%, due to higher variable compensation as a result of stronger earnings.

Operating profits for the three months ended June 30, 2017 were \$10 million compared to \$9 million June 30, 2016 mainly as a result of higher volumes.

d) *Steel distributors segment results -- Six Months Ended June 30, 2017 compared to June 30, 2016*

Revenues for the six months ended June 30, 2017 increased 16% to \$179 million compared to \$154 million for the six months ended June 30, 2016.

Gross margin as a percentage of revenues was 20.2% for the six months ended June 30, 2017 compared to 19.5% for the same period in 2016 due to rising steel prices.

Operating expenses as a percentage of revenues were 10% for the six months ended June 30, 2017 compared to 9% for the comparable 2016 period.

Operating profits for the six months ended June 30, 2017 were \$19 million compared to \$16 million for the six months ended June 30, 2016 due to increased volumes and prices.

CORPORATE EXPENSES -- Three and Six Months Ended June 30, 2017 compared to June 30, 2016

Corporate expenses for the three and six months ended June 30, 2017 were consistent with the prior year.

CONSOLIDATED RESULTS -- Three and Six Months Ended June 30, 2017 compared to June 30, 2016

Operating profits improved to \$54 million for the three months ended June 30, 2017 compared to \$30 million for the same quarter of 2016. For the six months ended June 30, 2017 operating profits more than doubled to \$102 million compared to \$47 million in the same period last year.

INTEREST EXPENSE AND INCOME

Net interest expense was \$6 million for the three months ended June 30, 2017 and 2016. Net interest expense was \$11 million for the six months ended June 30, 2017 and 2016.

OTHER FINANCE EXPENSE

We recorded a finance expense of \$1 million related to the fair value of the contingent consideration on our Apex Distribution acquisition as their operating results were stronger than previously forecasted. There was no change in the fair value of the Apex Monarch contingent consideration.

INCOME TAXES

We recorded a provision for income taxes of \$15 million for the second quarter of 2017 compared to \$8 million for the second quarter of 2016. Our effective income tax rate for the three months ended June 30, 2017 was 31.7% compared to 33.0% for the three months ended June 30, 2016. For the six months ended June 30, 2017 our effective income tax rate was 31.3% compared to 32.2% for the same period.

NET EARNINGS

Net earnings for the second quarter of 2017 at \$33 million were double the \$16 million in the second quarter of 2016. Basic earnings per share for the second quarter of 2017 were \$0.52 compared to \$0.27 per share for the second quarter of 2016 as all business segments experienced improved results. Basic earnings per share for the six months ended June 30, 2017 were \$1.00 compared to \$0.39 for the same period last year.

SHARES OUTSTANDING AND DIVIDENDS

The weighted average number of common shares outstanding for the second quarter of 2017 was 61,792,194 compared to 61,702,736 for the second quarter of 2016. The weighted average number of common shares outstanding for the six months ended June 30, 2017 was 61,773,614 compared to 61,702,648 for the six months ended June 30, 2016. Common shares outstanding at June 30, 2017 and August 2, 2017 were 61,792,194.

We paid common share dividends of \$24 million or \$0.38 per share in the second quarter of 2017 and 2016.

We have \$300 million 6% Senior Notes due April 19, 2022. The indenture for our Senior Notes has restrictions related to the payment of quarterly dividends in excess of \$0.35 per share. We currently have a basket of approximately \$246 million available for restricted payments, which is adjusted for 50% of our net earnings or losses on a quarterly basis. This basket is available for dividend payments greater than \$0.35 per share which, at the current dividend rate, utilizes approximately \$7 million per annum of the restricted payment basket.

Under our syndicated bank facility, the payment of dividends is subject to excess borrowing base availability of not less than four times the declared dividend. We do not believe this requirement will restrict our ability to pay dividends as our borrowing base, which is based on percentages of accounts receivable and inventories, has traditionally been in excess of our borrowings plus four times the current dividend. In addition, if our excess borrowing base were to be below four times our dividend, we believe we would be able to obtain a waiver or finance our short-term cash requirements with alternate financing structures and pay the dividend.

EBITDA

The following table shows the reconciliation of net earnings to EBITDA:

<i>(millions)</i>	Quarters ended June 30		Six months ended June 30	
	2017	2016	2017	2016
Net earnings	\$ 32.5	\$ 16.4	\$ 62.1	\$ 24.2
Provision for income taxes	15.0	8.1	28.3	11.5
Interest and finance expense, net	6.6	5.5	11.6	10.9
Earnings before interest and income taxes (EBIT)	54.1	30.0	102.0	46.6
Depreciation and amortization	8.5	8.8	17.0	17.7
Earnings before interest, income taxes, depreciation and amortization (EBITDA)	\$ 62.6	\$ 38.8	\$ 119.0	\$ 64.3

We believe that EBITDA, a non-GAAP measure, may be useful in assessing our operating performance and as an indicator of our ability to service or incur indebtedness, make capital expenditures and finance working capital requirements. The items excluded in determining EBITDA are significant in assessing our operating results and liquidity. Therefore, EBITDA should not be considered in isolation or as an alternative to cash from operating activities or other combined income or cash flow data prepared in accordance with GAAP.

CAPITAL EXPENDITURES

Capital expenditures were \$14 million for the six months ended June 30, 2017 compared to \$7 million in the same period of 2016. The increase in expenditures reflects the expansion of our Edmonton facility and the continued emphasis on our processing capabilities. Depreciation expense was \$14 million for the six months ended June 30, 2017 and 2016.

LIQUIDITY

At June 30, 2017, we had net cash, defined as cash less bank indebtedness of \$38 million, compared to net cash of \$147 million at December 31, 2016 as cash was utilized to support working capital due to the increase in activity to date in 2017.

We generated \$109 million from operations in the six months ended June 30, 2017 and utilized \$131 million for increased working capital, primarily due to increased accounts receivable and inventories. We utilized \$14 million for capital expenditures and \$47 million for dividends to shareholders.

Due to our cyclical business, we experience significant swings in working capital which impacts cash flow. Inventory and accounts receivable represent a large percentage of our total assets employed and vary throughout each cycle. Accounts receivable and inventory comprise our largest liquidity risks and the increased business activity to date in 2017 has utilized \$188 million in cash to support increases in these balances.

Total assets were \$1.7 billion at June 30, 2017 and \$1.5 billion at December 31, 2016. At June 30, 2017 current assets excluding cash represented 78% of our total assets compared to 75% at December 31, 2016.

Inventory purchases utilized cash of \$106 million in the six months ended June 30, 2017. Inventories were higher in all operating segments consistent with the increase in activity and selling prices, particularly in energy products and steel distributors. Inventories represented 43% of our total assets at June 30, 2017 compared to 41% at December 31, 2016.

<i>Inventory by Segment (millions)</i>	June 30 2017	Mar. 31 2017	Dec. 31 2016	Sept. 30 2016	June 30 2016
Metals service centers	\$ 282	\$ 280	\$ 252	\$ 249	\$ 260
Energy products	314	267	288	302	340
Steel distributors	120	81	76	84	81
Total	\$ 716	\$ 628	\$ 616	\$ 635	\$ 681

<i>Inventory Turns (quarters ended)</i>	June 30 2017	Mar. 31 2017	Dec. 31 2016	Sept. 30 2016	June 30 2016
Metals service centers	4.6	4.3	4.2	4.4	4.3
Energy products	3.1	4.2	2.9	2.4	1.7
Steel distributors	2.7	3.0	3.5	2.8	3.3
Total	3.6	4.1	3.5	3.2	2.9

At June 30, 2017, our metals service centers had inventory tons 4% lower than at June 30, 2016; however, higher steel prices have increased the value of metals service center inventory.

During the second quarter of 2017 inventory levels increased at our energy products operations due to stronger activity in the oil and gas sector and higher mill prices.

Increased inventory levels at our steel distributors were due to stronger mill prices and demand.

Accounts receivable utilized cash of \$82 million in the six months ended June 30, 2017. Accounts receivable represented 26% of our total assets at June 30, 2017 compared to 27% at December 31, 2016.

During the six months ended June 30, 2017 we made income tax payments of \$21 million compared to \$1 million for the six months ended June 30, 2016 due to increased earnings.

The balances disclosed in our consolidated cash flow statements are adjusted to remove the non-cash component related to foreign exchange rate fluctuations impacting inventory, accounts receivable, accounts payable and income tax balances of our U.S. operations.

FREE CASH FLOW

<i>(millions)</i>	Quarters ended June 30		Six months ended June 30	
	2017	2016	2017	2016
Cash from operating activities before non-cash working capital	\$ 52.7	\$ 28.2	\$ 109.0	\$ 52.7
Purchase of property, plant and equipment	(8.7)	(4.0)	(14.3)	(7.0)
	\$ 44.0	\$ 24.2	\$ 94.7	\$ 45.7

We believe that free cash flow may be useful in assessing our ability to pay dividends, reduce outstanding debt and fund working capital growth. Free cash flow is a non-GAAP measure regularly used by investors and analysts to evaluate companies.

DEBT

<i>(millions)</i>	June 30 2017	December 31 2016
Long-term debt		
6% \$300 million Unsecured Senior Notes due April 19, 2022	\$ 296	\$ 296

CASH, DEBT AND CREDIT FACILITIES

<i>Cash Facilities</i> (millions)	June 30 2017	December 31 2016
Bank loans	\$ (137)	\$ (43)
Cash net of outstanding cheques	175	190
Net cash	38	147
Letters of credit	(80)	(39)
	\$ (42)	\$ 108
Facilities		
Borrowings and letters of credit	\$ 350	\$ 350
Letters of credit	50	50
Facilities availability	\$ 400	\$ 400
Available line based on borrowing base	\$ 400	\$ 400

We have a credit facility with a syndicate of Canadian and U.S. banks totaling \$400 million which expires September 21, 2019. Borrowings, excluding letters of credit, cannot exceed \$350 million. The borrowings and letters of credit are available on a revolving basis, up to an amount equal to the sum of specified percentages of our eligible accounts receivable and inventories, to a maximum of \$400 million.

As of June 30, 2017, we were entitled to borrow and issue letters of credit totaling \$400 million under our facility. At June 30, 2017, we had \$137 million in borrowings compared to \$43 million at December 31, 2016. We had \$80 million in letters of credit at June 30, 2017 compared to \$39 million at December 31, 2016.

At June 30, 2017, we were in compliance with all of our financial covenants.

With our cash, cash equivalents and our bank facilities we have access to approximately \$347 million of cash based on our June 30, 2017 balances. The use of our bank facilities has been predominantly to fund working capital requirements, acquisitions and trade letters of credit for inventory purchases. These lines are used to support increased working capital needs when volumes and steel prices increase.

CONTRACTUAL OBLIGATIONS

As at June 30, 2017, we were contractually obligated to make payments as per the following table:

<i>Contractual Obligations</i> (millions)	Payments due in				Total
	2017	2018 and 2019	2020 and 2021	2022 and thereafter	
Accounts payable	\$ 373	\$ -	\$ -	\$ -	\$ 373
Debt	-	-	-	300	300
Long-term debt interest	9	36	36	10	91
Operating leases	12	35	21	23	91
Total	\$ 394	\$ 71	\$ 57	\$ 333	\$ 855

As part of the purchase consideration for Apex Distribution and Apex Monarch we agreed to pay additional cash consideration during the five years ending 2017 and 2018, respectively, based on earnings before interest and taxes and return on net assets. Based on the forecasted future profit levels of these operations, we have expensed \$1 million in the current period to cover the expected payment for Apex Distribution.

We have obligations related to multiple defined benefit pension plans in Canada, as disclosed in Note 14 of our 2016 consolidated financial statements. During the six months ended June 30, 2017, we contributed \$2 million to these plans. We expect to contribute approximately \$3 million to these plans during the remainder of the year. The defined benefit obligations reported in the consolidated financial statements use different assumptions than the going concern actuarial valuations prepared for funding. In addition, the actuarial valuations provide a solvency valuation, which is a valuation assuming the plan is wound up at the valuation date. Our reported funding obligations would increase by \$6 million on a solvency basis and thus additional funding could be required based on solvency if the plans were wound up. We estimate the impact of a 0.25% change in the discount rate on the solvency obligation would be approximately \$5 million.

We have disclosed our obligations related to environmental litigation, regulatory actions and remediation in our Annual Information Form under the heading "Environmental Regulation". These obligations, which are not material, relate to previously divested or discontinued operations and do not relate to the metals distribution business.

OFF-BALANCE SHEET ARRANGEMENTS

Our off-balance sheet arrangements consist of the letters of credit disclosed in the bank credit facilities table and operating lease obligations disclosed in the contractual obligations table.

ACCOUNTING ESTIMATES

The preparation of our consolidated financial statements requires management to make estimates and judgements that affect the reported amounts. On an ongoing basis, we evaluate our estimates, including those related to bad debts, inventory valuation, useful lives of fixed assets, asset impairment, fair values, income taxes, pensions and benefits obligations, guarantees, decommissioning liabilities, contingencies, contingent consideration, litigation and assigned values on net assets acquired. We base our estimates on historical experience and on various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgements about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

Our most significant assets are accounts receivable and inventories.

Accounts Receivable

An allowance for doubtful accounts is maintained for estimated losses resulting from the inability of our customers to make required payments. Assessments are based on aging of receivables, legal issues (bankruptcy status), past collection experience, current financials, credit agency reports and the experience of our credit personnel. Accounts receivable which we determine to be uncollectible are reserved in the period in which the determination is made. If the financial condition of our customers was to deteriorate, resulting in an impairment of their ability to make payments, additional allowances may be required. Our reserve for bad debts at June 30, 2017 was approximately \$0.3 million lower than our reserve at December 31, 2016. Bad debt expense for the six months ended June 30, 2017 as a percentage of revenue was less than 1% and approximates that of 2016.

Inventories

We review our inventories to ensure that the cost of inventories is not in excess of its estimated net realizable value and for obsolete and slow moving product. Inventory reserves or write-downs are recorded when cost exceeds the estimated selling price less cost to sell and when product is determined to be slow moving or obsolete. The inventory reserve level at June 30, 2017 was \$14 million lower than the level at December 31, 2016 due to a stronger price environment and the sale of slow moving product.

Other areas involving significant estimates and judgements include:

Goodwill Impairment

The determination of whether goodwill and intangibles are impaired requires the estimation of future cash flows and an appropriate discount rate to determine value in use. An impairment occurs when the book value of the assets associated with a particular cash generating unit is greater than the value in use. The assessment of future cash flows and a discount rate requires significant judgment.

Income Taxes

We believe that we have adequately provided for income taxes based on all of the information that is currently available. The calculation of income taxes in many cases requires significant judgement in interpreting tax rules and regulations, which are constantly changing. Our tax filings are also subject to audits, which could materially change the amount of current and future income tax assets and liabilities. Any change would be recorded as a charge or reduction in income tax expense.

Business Combinations

For each acquisition we review the fair value of assets acquired. Where we deem it appropriate, we hire outside business valuers to assist in the assessment of the fair value of property, plant, equipment, intangibles and contingent consideration of acquired businesses. The assessment of fair values for contingent consideration is completed quarterly and requires significant judgement.

Contingent Liabilities

Provisions for claims and potential claims are determined on a case by case basis. We recognize contingent loss provisions when it is determined that a loss is probable and when we are able to reasonably estimate the obligation. This determination takes significant judgement and actual cash outflows might be materially different from estimates. In addition, we may receive claims in the future that could have a material impact on our financial results.

The Company and certain of its subsidiaries have been named defendants in a number of legal actions. Although the outcome of these legal actions cannot be determined, management intends to defend all such legal actions and has recorded provisions, as required, based on its best estimate of the potential losses. In the opinion of management, the resolution of these legal actions is not expected to have a material adverse effect on our financial position, cash flows or operations.

During the 2017 first quarter we settled and paid an energy products customer claim relating to product that was distributed from 2010 to 2012. We had previously provided for this claim.

Employee Benefit Plans

At least every three years, our actuaries perform a valuation for each defined benefit plan to determine the actuarial present value of the benefits. The valuation uses management's assumptions for the interest rate, rate of compensation increase, rate of increase in government benefits and expected average remaining years of service of employees. While we believe that these assumptions are reasonable, differences in actual results or changes in assumptions could materially affect employee benefit obligations and future net benefit plan cost. We account for differences between actual and assumed results by recognizing differences in benefit obligations and plan performance immediately in other comprehensive income.

We had approximately \$131 million in plan assets at June 30, 2017, which is an increase of approximately \$2 million from December 31, 2016. The discount rate used on the employee benefit plan obligation for the quarter ended June 30, 2017 was 3.25% which is 0.5% lower than the discount rate at December 31, 2016.

CONTROLS AND PROCEDURES

Disclosure controls and procedures are designed to provide reasonable assurance that all relevant information is gathered and reported to senior management on a timely basis so that appropriate decisions can be made regarding public disclosure.

The purpose of internal controls over financial reporting as defined by the Canadian Securities Administrators is to provide reasonable assurance that:

- (i) financial statements prepared for external purposes are in accordance with the Company's generally accepted accounting principles,
- (ii) transactions are recorded as necessary to permit the preparation of financial statements, and records are maintained in reasonable detail,

- (iii) receipts and expenditures of the Company are made only in accordance with authorizations of the Company's management and directors, and
- (iv) unauthorized acquisitions, uses or dispositions of the Company's assets that could have a material effect on the financial statements will be prevented or detected in order to prevent material error in financial statements.

The Chief Executive Officer and the Executive Vice President and Chief Financial Officer have caused management and other employees to design and document our disclosure controls and procedures and our internal controls over financial reporting. The design of internal controls was completed using the framework and criteria established in "Internal Control - Integrated Framework" issued by the Committee of Sponsoring Organizations of the Treadway Commission.

No changes were made in our disclosure controls and procedures of our internal controls over financial reporting during the second quarter of 2017 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

VISION AND STRATEGY

The metals distribution business is a segment of a mature, cyclical industry. We strive to deal with the cyclical nature of the business by operating with the lowest possible net assets throughout the course of a cycle. This intensive asset management reduces borrowings and therefore interest expense in declining periods in the economic cycle. This in turn creates higher, more stable returns on net assets over a cycle. Our conservative management approach creates relatively stronger trough earnings but could cause potential peak earnings to be somewhat muted. Management believes that this strategy will result in higher profits throughout a cycle and we believe will have average earnings over the cycle in the top deciles of the industry.

We have significant investments in business units that service the oil and gas industry. We endeavour to manage the inventories and costs in these businesses to enable us to react to the variability of oil and gas prices.

Growth from selective acquisitions is also part of our strategy. We focus on investment opportunities in metals businesses that have strong market niches or provide mass to our existing operations. New acquisitions could be either major stand-alone operations or ones that complement our existing operations. We made small acquisitions in both 2015 and 2016 and we continue to review opportunities for acquisitions.

We believe that the steel-based pricing cycle will continue to be short and volatile, and a management structure and philosophy that allows the fastest reaction to changes that affect the industry will be the most successful. We will continue to invest in our business systems to enable faster reaction times to changing business conditions.

RISK

The timing and extent of future price changes from steel producers and their impact on us cannot be predicted with any certainty due to the inherent cyclical nature of the steel industry, modest capacity utilization rates for North American steel producers and historically high import levels.

A large portion of our revenues are dependent on the oil and gas industry whose activity fluctuates with oil and gas prices. Our acquisitions between 2012 and 2015 of oil field store operations increased our exposure to the oil and gas industry; however, they have provided a more stable stream of earnings for the energy products segment.

We have implemented an enterprise risk management program. The enterprise risk management program and a summary of the risks affecting our business is described under the heading "Risk Management and Risks Affecting Our Business" in our most recent Annual Information Form, which section is incorporated by reference in this "Risk" section of our MD&A.

OUTLOOK

Our first half of 2017 was a significant improvement over the last two years. To date in the third quarter demand is relatively consistent with the second quarter in both metals service centers and steel distribution. Demand for energy products continues to increase in Canada as we exit the seasonality of spring breakup and the U.S. market appears to have stabilized.

There is uncertainty surrounding steel prices due to the pending U.S. 232 trade action announcement and oil prices remain range bound. The seasonal demand reduction in our metals service centers and steel distributors segments should be offset by increased demand levels in our energy products segment.