

## MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

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The accompanying condensed consolidated financial statements and Management's Discussion and Analysis of Financial Condition have been prepared by management and approved by the Audit Committee and the Board of Directors of the Company.

These condensed consolidated financial statements were prepared in accordance with International Financial Reporting Standards, as issued by the International Accounting Standards Board, and, where appropriate, reflect management's best estimates and judgements. Management is responsible for the accuracy, integrity and objectivity of the condensed consolidated financial statements and Management's Discussion and Analysis of Financial Condition within reasonable limits of materiality.

To assist management in the discharge of these responsibilities, the Company has developed, documented and maintained a system of internal controls in order to provide reasonable assurance that its assets are safeguarded; that only valid and authorized transactions are executed; and that accurate, timely and comprehensive financial information is prepared in accordance with International Financial Reporting Standards. In addition, the Company has developed and maintained a system of disclosure controls in order to provide reasonable assurance that the financial information is relevant, reliable and accurate.

The Company's Audit Committee is appointed annually by the Board of Directors. The Audit Committee, which is composed entirely of outside directors, meets with management to satisfy itself that management is properly discharging its financial reporting responsibilities and to review the condensed consolidated financial statements and the Management's Discussion and Analysis of Financial Condition. The Audit Committee reports its findings to the Board of Directors for consideration in approving the condensed consolidated financial statements and the Management's Discussion and Analysis of Financial Condition for presentation to the shareholders.

May 2, 2017

(signed) B. R. Hedges  
Chief Executive Officer

(signed) M. E. Britton  
Executive Vice President and  
Chief Financial Officer

## CONDENSED CONSOLIDATED STATEMENTS OF EARNINGS (UNAUDITED)

<i>(in millions of Canadian dollars, except per share data)</i>	Quarters ended March 31	
	2017	2016
<b>Revenues</b>	<b>\$ 803.5</b>	<b>\$ 662.1</b>
Cost of materials (Note 3)	641.2	535.3
Employee expenses (Note 12)	66.6	64.7
Other operating expenses (Note 12)	47.8	45.5
<b>Earnings before interest and provision for income taxes</b>	<b>47.9</b>	<b>16.6</b>
Interest expense (Note 13)	5.0	5.4
<b>Earnings before provision for income taxes</b>	<b>42.9</b>	<b>11.2</b>
Provision for income taxes (Note 14)	13.3	3.4
<b>Net earnings for the period</b>	<b>\$ 29.6</b>	<b>\$ 7.8</b>
<b>Basic earnings per common share (Note 11)</b>	<b>\$ 0.48</b>	<b>\$ 0.13</b>
<b>Diluted earnings per common share (Note 11)</b>	<b>\$ 0.48</b>	<b>\$ 0.13</b>

## CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS) (UNAUDITED)

<i>(in millions of Canadian dollars)</i>	Quarters ended March 31	
	2017	2016
<b>Net earnings for the period</b>	<b>\$ 29.6</b>	<b>\$ 7.8</b>
Other comprehensive loss		
<b>Items that may be reclassified to earnings</b>		
Unrealized foreign exchange (losses) gains on translation of foreign operations	(4.4)	(31.7)
<b>Items that may not be reclassified to earnings</b>		
Actuarial gains (losses) on pension and similar obligations, net of taxes of \$0.7 million (2016: \$1.1 million)	2.0	(2.9)
Other comprehensive loss	(2.4)	(34.6)
<b>Total comprehensive income (loss)</b>	<b>\$ 27.2</b>	<b>\$ (26.8)</b>

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

## CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION *(UNAUDITED)*

<i>(in millions of Canadian dollars)</i>	<b>March 31 2017</b>	December 31 2016
<b>ASSETS</b>		
<b>Current</b>		
Cash and cash equivalents	\$ 168.8	\$ 181.8
Accounts receivable	466.4	359.4
Inventories (Note 3)	628.3	615.8
Prepaid expenses	11.8	8.5
Income taxes	0.5	6.6
	1,275.8	1,172.1
<b>Property, Plant and Equipment (Note 4)</b>	<b>237.8</b>	<b>239.7</b>
<b>Deferred Income Tax Assets</b>	<b>7.5</b>	<b>5.9</b>
<b>Financial and Other Assets</b>	<b>6.3</b>	<b>5.1</b>
<b>Goodwill and Intangibles (Note 5)</b>	<b>84.0</b>	<b>85.7</b>
	<b>\$ 1,611.4</b>	<b>\$ 1,508.5</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
<b>Current</b>		
Bank indebtedness (Note 6)	\$ 78.4	\$ 34.9
Accounts payable and accrued liabilities	359.4	313.5
Income taxes payable	15.1	5.3
Current portion long-term debt (Note 7)	0.1	0.1
	453.0	353.8
<b>Long-Term Debt (Note 7)</b>	<b>296.0</b>	<b>295.8</b>
<b>Pensions and Benefits (Note 8)</b>	<b>8.5</b>	<b>11.0</b>
<b>Deferred Income Tax Liabilities</b>	<b>14.8</b>	<b>14.5</b>
<b>Provisions and Other Non-Current Liabilities (Note 15)</b>	<b>8.8</b>	<b>8.1</b>
	<b>781.1</b>	<b>683.2</b>
<b>Shareholders' Equity (Note 9)</b>		
Common shares	533.6	532.4
Retained earnings	170.0	161.9
Contributed surplus	16.0	15.9
Accumulated other comprehensive income	110.7	115.1
	<b>830.3</b>	<b>825.3</b>
<b>Total Shareholders' Equity</b>	<b>830.3</b>	<b>825.3</b>
<b>Total Liabilities and Shareholders' Equity</b>	<b>\$ 1,611.4</b>	<b>\$ 1,508.5</b>

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

ON BEHALF OF THE BOARD,

(signed) A. Laberge  
Director

(signed) J. A. Hanna  
Director

## CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOW (UNAUDITED)

<i>(in millions of Canadian dollars)</i>	Quarters ended March 31	
	2017	2016
Operating activities		
Net earnings for the period	\$ 29.6	\$ 7.8
Depreciation and amortization	8.5	8.9
Provision for income taxes	13.3	3.4
Interest expense	5.0	5.4
Gain on sale of property, plant and equipment	(0.1)	(0.3)
Share-based compensation	0.2	0.2
Difference between pension expense and amount funded	-	(0.4)
Debt accretion, amortization and other	0.2	0.2
Interest paid	(0.4)	(0.7)
Cash from operating activities before non-cash working capital	56.3	24.5
Changes in non-cash working capital items		
Accounts receivable	(107.6)	(0.7)
Inventories	(14.3)	21.4
Accounts payable and accrued liabilities	42.8	(1.0)
Other	(3.3)	(0.1)
Change in non-cash working capital	(82.4)	19.6
Income taxes refund, net	0.7	4.9
<b>Cash (used in) from operating activities</b>	<b>(25.4)</b>	<b>49.0</b>
Financing activities		
Increase (decrease) in bank indebtedness	43.5	(17.9)
Issue of common shares	1.1	-
Dividends on common shares	(23.5)	(23.4)
Issuance of long-term debt	-	0.2
Repayment of long-term debt	-	(0.2)
<b>Cash from (used in) financing activities</b>	<b>21.1</b>	<b>(41.3)</b>
Investing activities		
Purchase of property, plant and equipment	(5.6)	(3.0)
Proceeds on sale of property, plant and equipment	0.2	4.7
Payment of contingent consideration	-	(0.1)
<b>Cash (used in) from investing activities</b>	<b>(5.4)</b>	<b>1.6</b>
<b>Effect of exchange rates on cash and cash equivalents</b>	<b>(3.3)</b>	<b>(12.0)</b>
<b>Decrease in cash and cash equivalents</b>	<b>(13.0)</b>	<b>(2.7)</b>
Cash and cash equivalents, beginning of the period	181.8	143.4
<b>Cash and cash equivalents, end of the period</b>	<b>\$ 168.8</b>	<b>\$ 140.7</b>

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

## CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY *(UNAUDITED)*

<i>(in millions of Canadian dollars)</i>	Common Shares	Retained Earnings	Contributed Surplus	Accumulated Other Comprehensive Income	Total
<b>Balance, January 1, 2017</b>	\$ 532.4	\$ 161.9	\$ 15.9	\$ 115.1	\$ 825.3
Payment of dividends	-	(23.5)	-	-	(23.5)
Net earnings for the period	-	29.6	-	-	29.6
Other comprehensive loss for the period	-	-	-	(2.4)	(2.4)
Recognition of share-based compensation	-	-	0.2	-	0.2
Share options exercised	1.2	-	(0.1)	-	1.1
Transfer of net actuarial gains on defined benefit plans	-	2.0	-	(2.0)	-
<b>Balance, March 31, 2017</b>	<b>\$ 533.6</b>	<b>\$ 170.0</b>	<b>\$ 16.0</b>	<b>\$ 110.7</b>	<b>\$ 830.3</b>

<i>(in millions of Canadian dollars)</i>	Common Shares	Retained Earnings	Contributed Surplus	Accumulated Other Comprehensive Income	Total
<b>Balance, January 1, 2016</b>	\$ 531.7	\$ 192.1	\$ 15.2	\$ 129.9	\$ 868.9
Payment of dividends	-	(23.4)	-	-	(23.4)
Net earnings for the period	-	7.8	-	-	7.8
Other comprehensive loss for the period	-	-	-	(34.6)	(34.6)
Recognition of share-based compensation	-	-	0.2	-	0.2
Transfer of net actuarial losses on defined benefit plans	-	(2.9)	-	2.9	-
<b>Balance, March 31, 2016</b>	<b>\$ 531.7</b>	<b>\$ 173.6</b>	<b>\$ 15.4</b>	<b>\$ 98.2</b>	<b>\$ 818.9</b>

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

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

### NOTE 1 GENERAL BUSINESS DESCRIPTION

Russel Metals Inc. (the "Company"), a Canadian corporation with common shares listed on the Toronto Stock Exchange, is a metals distribution company operating in various locations within North America.

The Company's registered office is located at 6600 Financial Drive, Mississauga, Ontario, L5N 7J6.

These condensed consolidated financial statements were authorized for issue by the Board of Directors on May 2, 2017.

### NOTE 2 BASIS OF PRESENTATION

These condensed consolidated financial statements, including comparatives, have been prepared using the same accounting policies and methods as those used in the Company's consolidated financial statements for the year ended December 31, 2016. These condensed consolidated financial statements are in compliance with International Accounting Standard 34, Interim Financial Reporting ("IAS 34"). Accordingly, 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 judgement in applying the Company's accounting policies. The areas involving a higher degree of judgement or complexity or areas where assumptions and estimates are significant to the financial statements have been set out in the Company's consolidated financial statements for the year ended December 31, 2016. These condensed consolidated financial statements should be read in conjunction with the Company's consolidated financial statements for the year ended December 31, 2016.

These condensed consolidated financial statements have been prepared on a going concern basis under the historical cost convention, as modified by the revaluation of financial assets and financial liabilities (including derivative instruments) at fair value through the condensed consolidated statement of earnings. Historical cost is generally based on the fair value of the consideration given in exchange for assets at the time of the transaction.

These condensed consolidated financial statements are presented in Canadian dollars, which is the Company's functional currency.

### NOTE 3 INVENTORIES

Inventories of \$0.6 billion (2016: \$0.5 billion) were expensed in cost of materials for the first quarter of 2017.

The Company recorded an inventory impairment charge of \$2.7 million (2016: \$nil) during the quarter ended March 31, 2017. The Company did not have any reversals of previous inventory impairment charges taken during the quarters ended March 31, 2017 and 2016.

### NOTE 4 PROPERTY, PLANT AND EQUIPMENT

<i>Cost (millions)</i>	Land and Buildings	Machinery and Equipment	Leasehold Improvements	Total
Balance, December 31, 2016	\$ 239.0	\$ 345.5	\$ 26.8	\$ 611.3
Additions	0.1	5.4	0.1	5.6
Disposals	-	(1.0)	-	(1.0)
Foreign exchange	(0.3)	(0.8)	-	(1.1)
<b>Balance, March 31, 2017</b>	<b>\$ 238.8</b>	<b>\$ 349.1</b>	<b>\$ 26.9</b>	<b>\$ 614.8</b>

<b>Accumulated depreciation and amortization</b> (millions)	Land and Buildings	Machinery and Equipment	Leasehold Improvements	Total
Balance, December 31, 2016	\$ 103.3	\$ 246.8	\$ 21.5	\$ 371.6
Depreciation and amortization	1.0	5.8	0.1	6.9
Disposals	-	(0.9)	-	(0.9)
Foreign exchange	(0.1)	(0.5)	-	(0.6)
<b>Balance, March 31, 2017</b>	<b>\$ 104.2</b>	<b>\$ 251.2</b>	<b>\$ 21.6</b>	<b>\$ 377.0</b>

**Net Book Value** (millions)

December 31, 2016	\$ 239.7
<b>March 31, 2017</b>	<b>\$ 237.8</b>

All items of property, plant and equipment are recorded and held at cost.

Land, included in land and buildings, was \$43.2 million (December 31, 2016: \$43.2 million).

For the quarter ended March 31, 2017, depreciation of \$2.0 million was included in cost of materials (2016: \$2.1 million) and depreciation of \$4.9 million (2016: \$5.3 million) was included in other operating expenses.

**NOTE 5 GOODWILL AND INTANGIBLES**

(millions)	March 31 2017	December 31 2016
Goodwill	\$ 27.1	\$ 27.2
Intangibles	56.9	58.5
	<b>\$ 84.0</b>	<b>\$ 85.7</b>

a) *Goodwill*

<b>Goodwill</b> (millions)	Total
Balance, December 31, 2016	\$ 27.2
Foreign exchange	(0.1)
Balance, March 31, 2017	<b>\$ 27.1</b>

The entire goodwill balance relates to the metals service centers segment.

b) *Intangibles*

The continuity of intangibles, which are comprised of customer relationships and non-competition agreements acquired through business combinations, within the metals service centers and energy products segments, is as follows:

<b>Cost</b> (millions)	Metals Service Centers	Energy Products	Total
Balance, December 31, 2016	\$ 17.9	\$ 70.7	\$ 88.6
Foreign exchange	(0.1)	-	(0.1)
Balance, March 31, 2017	<b>\$ 17.8</b>	<b>\$ 70.7</b>	<b>\$ 88.5</b>

<b>Accumulated amortization</b> (millions)	Metals Service Centers	Energy Products	<b>Total</b>
Balance, December 31, 2016	\$ (9.5)	\$ (20.6)	<b>\$ (30.1)</b>
Amortization	(0.3)	(1.2)	<b>(1.5)</b>
Balance, March 31, 2017	\$ (9.8)	\$ (21.8)	<b>\$ (31.6)</b>

  

<b>Net book value</b> (millions)		
December 31, 2016		\$ 58.5
<b>March 31, 2017</b>		<b>\$ 56.9</b>

The remaining amortization periods for customer relationships are 6 to 13 years.

## **NOTE 6      REVOLVING CREDIT FACILITIES**

The Company has a credit agreement with a syndicate of banks which provides \$400 million available for borrowings and letters of credit with a term to September 21, 2019. The syndicated facility consists of availability of \$350 million under Tranche I to be utilized for borrowings and letters of credit and \$50 million under Tranche II to be utilized only for letters of credit. Letters of credit are issued under Tranche II first and additional needs are issued under Tranche I. The borrowings and letters of credit are available on a revolving basis, up to an amount equal to the sum of specified percentages of the Company's eligible accounts receivable and inventories, to a maximum of \$400 million. The obligations of the Company under this agreement are secured by a pledge of trade accounts receivable and inventories.

At March 31, 2017, the Company had borrowings of \$83 million (December 31, 2016: \$43.0 million) and letters of credit of \$78.7 million (December 31, 2016: \$38.9 million) under this facility.

The Company was in compliance with the financial covenants at March 31, 2017.

## **NOTE 7      LONG-TERM DEBT**

<i>(millions)</i>	<b>March 31 2017</b>	December 31 2016
6.0% \$300 million Unsecured Senior Notes due April 19, 2022	<b>\$ 295.9</b>	\$ 295.7
Finance lease obligations	<b>0.2</b>	0.2
Less: current portion	<b>(0.1)</b>	(0.1)
	<b>\$ 296.0</b>	\$ 295.8

a) On April 19, 2012, the Company issued through a private placement, \$300 million 6.0% Unsecured Senior Notes (the "Notes") due April 19, 2022. Interest is due on April 19 and October 19 of each year.

After April 19, 2017, the Company may redeem the Notes in whole or in part at any time at 103% of the principal amount declining rateably to 100% of the principal amount on or after April 19, 2020.

The Notes contain certain restrictions on the payment of common share dividends in excess of \$0.35 per share per quarter. The Company was in compliance with these covenants at March 31, 2017. The Notes also contain certain covenants that limit the Company's ability to incur additional indebtedness. Fees associated with the issue of the debt are included in the carrying amount of debt and are amortized using the effective interest method.

## NOTE 8 PENSIONS AND BENEFITS

As at March 31, 2017, the Company determined its accrued benefit obligations related to the employee future benefit plans using a discount rate of 3.75% (December 31, 2016: 3.75%) and also determined the fair value of the defined benefit pension plan assets as at the statement of financial position date. The net change in the accrued benefit obligations less the fair value of the defined benefit plan assets resulted in an actuarial gain on employee future benefit plans of \$2.7 million for the three month period ended March 31, 2017 (2016: loss of \$4.0 million), which was recorded net of tax through other comprehensive income.

The benefit obligations and plan assets for the Company's pension and other post retirement benefit obligations are as follows:

<i>(millions)</i>	<b>March 31 2017</b>	December 31 2016
Present value of defined benefit pension obligations	<b>\$ 136.3</b>	\$ 135.6
Fair value of plan assets	<b>131.8</b>	128.7
	<b>4.5</b>	6.9
Other post retirement benefit obligations	<b>4.0</b>	4.1
Defined benefit obligations, net	<b>\$ 8.5</b>	\$ 11.0

The following table provides the defined benefit obligation for partially funded plans and unfunded plans.

<i>(millions)</i>	Pension Plans		Other Benefit Plans	
	<b>March 31 2017</b>	December 31 2016	<b>March 31 2017</b>	December 31 2016
<b>Defined benefit obligation</b>				
Partially funded plans	<b>\$ 4.5</b>	\$ 6.9	<b>\$ -</b>	\$ -
Unfunded plans	<b>-</b>	-	<b>4.0</b>	4.1
Defined benefit obligation	<b>\$ 4.5</b>	\$ 6.9	<b>\$ 4.0</b>	\$ 4.1

## NOTE 9 SHAREHOLDERS' EQUITY

- a) At March 31, 2017 and 2016, the authorized share capital of the Company consisted of:
- (i) an unlimited number of common shares without nominal or par value;
  - (ii) an unlimited number of Class I preferred shares without nominal or par value, issuable in series; and
  - (iii) an unlimited number of Class II preferred shares without nominal or par value, issuable in series.

The Directors have the authority to issue the Class I and Class II preferred shares in series and fix the designation, rights, privileges and conditions to be attached to each series, except that the Class I shares shall be entitled to preference over the Class II shares with respect to the payment of dividends and the distribution of assets in the event of liquidation, dissolution or winding-up of the Company.

- b) The number of common shares issued and outstanding was as follows:

	Number of Shares	Amount <i>(millions)</i>
Balance, December 31, 2016	61,735,485	\$ 532.4
Share options exercised	56,709	1.2
<b>Balance, March 31, 2017</b>	<b>61,792,194</b>	<b>\$ 533.6</b>

The continuity of contributed surplus is as follows:

(millions)

Balance, December 31, 2016	\$ 15.9
Share-based compensation expense	0.2
Exercise of options	(0.1)
<b>Balance, March 31, 2017</b>	<b>\$ 16.0</b>

Dividends paid and declared are as follows:

	Quarters ended March 31	
	2017	2016
Dividends paid (millions)	\$ 23.5	\$ 23.4
Dividends per share	\$ 0.38	\$ 0.38
Quarterly dividend per share declared on May 2, 2017 (May 3, 2016)	\$ 0.38	\$ 0.38

## NOTE 10 SHARE-BASED COMPENSATION

### Share Options

The Company has a shareholder approved share option plan, the purpose of which is to provide certain employees of the Company and its subsidiaries with the opportunity to participate in the growth and development of the Company. The following is a continuity of options outstanding:

	Number of Options		Weighted Average Exercise Price	
	March 31 2017	December 31 2016	March 31 2017	December 31 2016
Balance, beginning of period	2,383,203	2,226,728	\$ 26.25	\$ 27.49
Granted	141,773	375,000	28.99	18.11
Exercised	(56,709)	(32,925)	17.70	17.85
Expired or forfeited	-	(185,600)	-	26.22
Balance, end of the period	2,468,267	2,383,203	\$ 26.60	\$ 26.25
Exercisable	1,827,330	1,624,626	\$ 27.81	\$ 27.94

The outstanding options had exercise price ranges as follows:

	March 31 2017	December 31 2016
(number of options)		
\$ 29.00 - \$ 33.81	550,772	550,772
\$ 25.37 - \$ 28.99	1,154,310	1,012,537
\$ 16.58 - \$ 25.36	763,185	819,894
Options outstanding	2,468,267	2,383,203

The Black-Scholes option-pricing model assumptions used to compute compensation expense are as follows:

	March 31 2017	December 31 2016
Dividend yield	5%	5%
Expected volatility	26%	26%
Expected life	5 yrs	5 yrs
Risk free rate of return	2.25%	2.22%
Weighted average fair value of options granted	\$ 4.14	\$ 2.16

Expected volatility is based on historical volatility over the last five years.

#### *Share Appreciation Rights (SAR)*

On February 16, 2017, the Board of Directors approved a Share Appreciation Rights Plan. Under this plan the Company may award SARs to officers and full-time employees as determined by the Board of Directors. The SARs are cash settled and vest over a period of four years in the amount of one quarter each year and expire in ten years from their grant date. At March 31, 2017, there were 63,291 SARs outstanding at an exercise price of \$28.99 whose fair value was \$nil.

#### *Deferred Share Units (DSU)*

At March 31, 2017, there were 218,141 DSUs outstanding (December 31, 2016: 207,650). The liability and fair value of DSUs was \$5.7 million at March 31, 2017 (December 31, 2016: \$5.3 million). Dividends declared on common shares accrue to units in the DSU plan in the form of additional DSUs.

#### *Restricted Share Units (RSU)*

The Company has a RSU Plan for eligible employees as designated by the Board of Directors. Continuity of RSUs outstanding is as follows:

<i>(number of units)</i>	March 31 2017	December 31 2016
Balance, beginning of the period	216,402	344,115
Granted	59,938	36,616
Paid out	(824)	(164,329)
Balance, end of the period	275,516	216,402

The RSU liability at March 31, 2017 was \$5.2 million (December 31, 2016: \$4.7 million). The fair value of RSUs was \$7.2 million at March 31, 2017 (December 31, 2016: \$5.5 million). Dividends declared on common shares accrue to units in the RSU plan in the form of additional RSUs.

## **NOTE 11 EARNINGS PER SHARE**

The net income used in the calculation of basic and diluted earnings per share for March 31, 2017 was \$29.6 million (2016: \$7.8 million).

<i>(number of shares)</i>	Quarters ended March 31	
	2017	2016
Weighted average shares outstanding	61,754,827	61,702,560
Dilution impact of share options	148,948	-
Diluted weighted average shares outstanding	61,903,775	61,702,560

## NOTE 12 EXPENSES

<i>(millions)</i>	Quarters ended March 31	
	2017	2016
<b>Employee Expenses</b>		
Wages and salaries	\$ 56.4	\$ 54.0
Other employee related costs	10.2	10.7
	<b>\$ 66.6</b>	<b>\$ 64.7</b>
<b>Other Operating Expenses</b>		
Plant and other expenses	\$ 30.3	\$ 29.6
Delivery expenses	11.6	10.5
Repairs and maintenance	2.7	2.5
Selling expenses	2.5	2.1
Professional fees	1.2	1.2
Gain on sale of property, plant and equipment	(0.1)	(0.3)
Foreign exchange gain	(0.4)	(0.1)
	<b>\$ 47.8</b>	<b>\$ 45.5</b>

## NOTE 13 INTEREST EXPENSE

<i>(millions)</i>	Quarters ended March 31	
	2017	2016
Interest on 6.0% Unsecured Senior Notes	\$ 4.6	\$ 4.6
Other interest expense	0.4	0.8
Interest expense	<b>\$ 5.0</b>	<b>\$ 5.4</b>

Interest expense on long-term debt is comprised of the interest calculated on the face value of long-term debt, issue costs and accretion of the carrying value of the long-term debt. Interest expense on long-term debt is charged to earnings using the effective interest method. Debt accretion and issue cost amortization for the quarter ended March 31, 2017 was \$0.2 million (2016: \$0.2 million).

## NOTE 14 INCOME TAXES

The consolidated effective tax rates for the quarters ended March 31, 2017 and March 31, 2016 were 30.9% and 30.4% respectively.

## NOTE 15 PROVISIONS AND OTHER NON-CURRENT LIABILITIES

<i>(millions)</i>	March 31 2017	December 31 2016
Provision for decommissioning liabilities	\$ 2.7	\$ 2.7
Deferred compensation and employee incentives	10.9	10.0
Product warranty provision (Note 18)	-	20.0
	<b>13.6</b>	<b>32.7</b>
Less: current portion	<b>(4.8)</b>	<b>(24.6)</b>
	<b>\$ 8.8</b>	<b>\$ 8.1</b>

b) Deferred compensation includes the RSU and DSU liabilities. The RSU liabilities that will be paid in December 2017 amounting to \$4.8 million were reclassified to current accrued liabilities.

## NOTE 16 SEGMENTED INFORMATION

For the purpose of segment reporting, operating segments are identified as a component of an entity:

- ♦ that engages in business activities from which it may earn revenues and incur expenses;
- ♦ whose operating results are regularly reviewed by the Company's Chief Executive Officer to make decisions about resources to be allocated to the segment and assess its performance; and
- ♦ for which discrete financial information is available.

Accordingly, the Company conducts business in Canada and the U.S. in three reportable segments.

*i) Metals service centers*

The Company's network of metals service centers provides processing and distribution services on a broad line of metal 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 aluminium. The Company services all major geographic regions of Canada and certain regions in the Southeastern and Midwestern United States.

*ii) Energy products*

The Company's energy products operations distribute oil country tubular products, line pipe, tubes, valves, flanges and fittings, primarily to the energy industry in Western Canada and the United States.

*iii) Steel distributors*

The Company's steel distributors act as master distributors selling steel to customers in large volumes, mainly on an "as is" basis. Steel distributors source their steel domestically and off shore.

The Company has segmented its operations on the basis of management reporting and geographic segments in which it operates. For the quarter ended March 31, 2017 the inter-segment revenues from steel distributors to metals service centers were \$8.1 million (2016: \$8.1 million). These revenues, which are at market rates, are eliminated in the following table.

a) *Results by business segment:*

<i>(millions)</i>	Quarters ended March 31	
	2017	2016
<b>Segment Revenues</b>		
Metals service centers	\$ 386.4	\$ 341.1
Energy products	339.1	248.4
Steel distributors	77.6	72.5
	<b>803.1</b>	662.0
Other	0.4	0.1
	<b>\$ 803.5</b>	<b>\$ 662.1</b>
<b>Segment Operating Profits</b>		
Metals service centers	\$ 21.8	\$ 9.6
Energy products	23.6	6.8
Steel distributors	8.4	7.1
	<b>53.8</b>	23.5
Corporate expenses	(5.1)	(5.9)
Other expense	(0.8)	(1.0)
	<b>47.9</b>	16.6
Earnings before interest and income taxes	47.9	16.6
Interest expense	(5.0)	(5.4)
Provision for income taxes	(13.3)	(3.4)
Net earnings	<b>\$ 29.6</b>	<b>\$ 7.8</b>
<b>Capital Expenditures</b>		
Metals service centers	\$ 4.8	\$ 2.5
Energy products	0.7	0.4
Steel distributors	0.1	0.1
	<b>\$ 5.6</b>	<b>\$ 3.0</b>
<b>Depreciation Expense</b>		
Metals service centers	\$ 5.6	\$ 6.0
Energy products	1.0	1.2
Steel distributors	0.3	0.2
	<b>\$ 6.9</b>	<b>\$ 7.4</b>

<i>(millions)</i>	March 31 2017	December 31 2016
<b>Current Identifiable Assets</b>		
Metals service centers	\$ 481.1	\$ 408.9
Energy products	505.0	459.4
Steel distributors	121.0	116.9
	<b>1,107.1</b>	985.2
<b>Non-Current Identifiable Assets</b>		
Metals service centers	240.1	241.8
Energy products	73.8	75.5
Steel distributors	7.1	7.3
Total identifiable assets included in segments	<b>1,428.1</b>	1,309.8
Assets not included in segments		
Cash and cash equivalents	168.8	181.8
Income tax assets	8.0	12.5
Deferred financing charges	1.1	1.2
Other assets	5.2	3.9
Corporate and other operating assets	0.2	(0.7)
Total assets	<b>\$ 1,611.4</b>	\$ 1,508.5
<b>Liabilities</b>		
Metals service centers	\$ 196.0	\$ 151.5
Energy products	123.3	111.9
Steel distributors	16.5	12.9
Liabilities by segment	<b>335.8</b>	276.3
Liabilities not included in segments		
Bank indebtedness	78.4	34.9
Income taxes payable and deferred income tax liabilities	29.2	19.8
Long-term debt	296.1	295.9
Pension and benefits	11.0	11.0
Corporate and other liabilities	32.6	45.3
Total liabilities	<b>\$ 783.1</b>	\$ 683.2

*b) Results by geographic segment:*

<i>(millions)</i>	Quarters ended March 31	
	2017	2016
<b>Segment Revenues</b>		
Canada	\$ 556.8	\$ 476.4
United States	246.3	185.6
	<b>\$ 803.1</b>	\$ 662.0
<b>Segment Operating Profits</b>		
Canada	\$ 38.7	\$ 19.0
United States	15.1	4.5
	<b>\$ 53.8</b>	\$ 23.5
<b>Identifiable Assets</b>		
Canada	\$ 1,038.0	\$ 950.3
United States	390.1	359.5
	<b>\$ 1,428.1</b>	\$ 1,309.8

## NOTE 17 FINANCIAL INSTRUMENTS AND RELATED RISK MANAGEMENT

### a) *Financial assets and liabilities*

Financial assets and liabilities are as follows:

<i>March 31, 2017 (millions)</i>	Loans and Receivables	Other Financial Liabilities	Total
Cash and cash equivalents	\$ 168.8	\$ -	\$ 168.8
Accounts receivable	466.4	-	466.4
Financial assets	1.1	-	1.1
Bank indebtedness	-	(78.4)	(78.4)
Accounts payables and accrued liabilities	-	(359.6)	(359.6)
Current portion of long-term debt	-	(0.1)	(0.1)
Long-term debt	-	(296.0)	(296.0)
<b>Total</b>	<b>\$ 636.3</b>	<b>\$ (734.1)</b>	<b>\$ (97.8)</b>

<i>December 31, 2016 (millions)</i>	Loans and Receivables	Other Financial Liabilities	Total
Cash and cash equivalents	\$ 181.8	\$ -	\$ 181.8
Accounts receivable	359.4	-	359.4
Financial assets	1.2	-	1.2
Bank indebtedness	-	(34.9)	(34.9)
Accounts payables and accrued liabilities	-	(313.5)	(313.5)
Current portion of long-term debt	-	(0.1)	(0.1)
Long-term debt	-	(295.8)	(295.8)
<b>Total</b>	<b>\$ 542.4</b>	<b>\$ (644.3)</b>	<b>\$ (101.9)</b>

The impact of fair value gains and losses from derivative financial instruments on the condensed consolidated statements of earnings was as follows:

<i>(millions)</i>	Quarters ended March 31	
	2017	2016
Embedded derivatives	\$ (0.1)	\$ (2.5)
Forward contracts	(0.1)	1.7

### b) *Fair Value*

The fair value of cash and cash equivalents, accounts receivable, bank indebtedness, accounts payable and accrued liabilities approximate their carrying amounts because of the short-term maturity of these instruments.

The fair values of long-term debt are set forth below.

#### *Carrying Amounts*

Amounts recorded in the condensed consolidated statement of financial position are referred to as "carrying amounts". The carrying amounts of primary debt are reflected in "Long-term debt" and "Current portion long-term debt".

#### *Fair Value*

The Company records its debt at amortized cost using the effective interest method. The fair value of long-term debt as at March 31, 2017 and December 31, 2016 was estimated based on the last quoted trade price, where it exists, or based on current rates available to the Company for similar debt with the same period to maturity.

The following summary reflects the fair value of the long-term debt:

	Primary Debt Instrument	
	Carrying Amount	Fair Value Level 2
<i>March 31, 2017 (millions)</i>		
6.0% \$300 million Unsecured Senior Notes due April 19, 2022	\$ 295.9	\$ 302.3
Finance lease obligations	0.2	0.2
<b>Total</b>	<b>\$ 296.1</b>	<b>\$ 302.5</b>
<b>Current portion</b>	<b>\$ 0.1</b>	
<b>Long-term portion</b>	<b>\$ 296.0</b>	

	Primary Debt Instrument	
	Carrying Amount	Fair Value Level 2
<i>December 31, 2016 (millions)</i>		
6.0% \$300 million Unsecured Senior Notes due April 19, 2022	\$ 295.7	\$ 304.5
Finance lease obligations	0.2	0.2
<b>Total</b>	<b>\$ 295.9</b>	<b>\$ 304.7</b>
Current portion	\$ 0.1	
Long-term portion	\$ 295.8	

*c) Credit risk*

Credit risk is the risk of financial loss to the Company if the counterparty to a financial instrument fails to meet its contractual obligation. Credit risk arises from cash and cash equivalents and derivative financial instruments, as well as credit exposure to customers including accounts receivable.

The Company attempts to minimize credit exposure as follows:

- ◆ Cash investments are placed with high-quality financial institutions with limited exposure to any one institution. At March 31, 2017, nearly all cash and cash equivalents held were issued by institutions that were R1 High by DBRS;
- ◆ Counterparties to derivative contracts are members of the syndicated banking facility (Note 6);
- ◆ Credit limits minimize exposure to any one customer; and
- ◆ The customer base is geographically diverse and in different industries.

No allowance for credit losses on financial assets was required as of March 31, 2017 and December 31, 2016, other than the allowance for doubtful accounts. As at March 31, 2017, trade accounts receivable greater than 90 days represented less than 1% of trade accounts receivable (December 31, 2016: 2%).

*d) Interest rate risk*

Interest rate risk is the risk that the fair value of the future cash flows of a financial instrument will fluctuate because of changes in market rates of interest. The Company is not exposed to significant interest rate risk. The Company's long-term debt is at fixed rates. The Company's bank borrowings, net of cash and cash equivalents used to finance working capital which is short-term in nature, is at floating interest rates.

*e) Foreign exchange risk*

Foreign exchange risk is the risk that the fair value of the future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Company uses foreign exchange contracts with maturities of less than a year to manage foreign exchange risk on certain future committed cash outflows. As at March 31, 2017, the Company had outstanding forward foreign exchange contracts in the amount of US\$33.5 million and €10.5 million maturing in 2017 (2016: US\$16.1 million). A 1% change in foreign exchange rates would not result in a significant increase or decrease in accounts payable or net earnings.

f) *Liquidity risk*

Liquidity risk is the risk that the Company will not meet its financial obligations when due. Liquidity adequacy is assessed in view of seasonal needs, growth requirements, capital expenditures, and the maturity profile of indebtedness. Cash is managed by the centralized treasury function and is invested in money market instruments or bank deposits, with durations ranging up to sixty days. A centralized treasury function ensures that the Company maintains funding flexibility by assessing future cash flow expectations and by maintaining its committed borrowing facilities.

As at March 31, 2017, the Company was contractually obligated to make payments under its financial liabilities that come due during the following periods:

<i>(millions)</i>	Accounts Payable	Long-Term Debt Maturities	Long-Term Debt Interest	Operating Lease Obligations	Total
2017	\$ 359.4	\$ -	\$ 18.0	\$ 17.4	\$ 394.8
2018	-	-	18.0	19.9	37.9
2019	-	-	18.0	14.8	32.8
2020	-	-	18.0	11.7	29.7
2021	-	-	18.0	10.0	28.0
2022 and beyond	-	300.0	9.9	22.8	332.7
Total	\$ 359.4	\$ 300.0	\$ 99.9	\$ 96.6	\$ 855.9

At March 31, 2017, the Company was contractually obligated to repay its letters of credit under its bank facilities at maturity (Note 6).

g) *Capital management*

The Company manages capital in order to safeguard its ability to continue as a going concern, provide returns to shareholders through its dividend policy and provide the ability to finance future growth. Capital includes shareholders' equity, bank indebtedness and long-term debt, net of cash. The Company manages its capital structure and may make adjustments to the amount of dividends paid to shareholders, purchase shares for cancellation pursuant to issuer bids, issue new shares, issue new debt, repurchase existing debt and extend or amend its banking facilities.

## **NOTE 18 CONTINGENCIES, COMMITMENTS AND GUARANTEES**

a) *Lawsuits and legal claims*

The Company recognizes contingent loss provisions for losses that are probable when management is able to reasonably estimate the loss. When the estimated loss lies within a range, the Company records a contingent loss provision based on its best estimate of the probable loss. If no particular amount within that range is a better estimate than any other amount, the minimum amount is recorded. Estimates of losses may be developed before the ultimate loss is known, and are revalued each accounting period as additional information becomes known. In instances where the Company is unable to develop a reasonable loss estimate, no contingent loss provision is recorded at that time. A contingent loss provision is recorded when a reasonable estimate can be made. Estimates are reviewed quarterly and revised when expectations change. An outcome that deviates from the Company's estimate may result in an additional expense or income in a future accounting period.

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 the Company's financial position, cash flows or operations.

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

The Company has also entered into other agreements that provide indemnifications to counterparties in certain transactions including underwriting agreements. These indemnifications generally require the Company to indemnify the counterparties for costs incurred as a result of losses from litigation that may be suffered by counterparties arising from those transactions except in the case of gross negligence by the counterparties.

*b) Decommissioning liability*

The Company is incurring site cleanup and restoration costs related to properties not utilized in current operations. Remedial actions are currently underway at two sites. Decommissioning liabilities have been estimated using discounted cash flow valuation techniques for cleanup costs based on management's best estimates of the amount required to settle the liability.

The Company has asset retirement obligations relating to the land lease for its Thunder Bay Terminal operation whose lease term expires in 2031. The landlord has the option to retain the equipment or to require the Company to remove it. In addition, the Company has end-of-lease obligations in certain service center operations.

*c) Business combinations and investments*

The Company has a contractual obligation to pay additional consideration for its acquisitions of Apex Distribution and Apex Monarch, based upon the achievement of performance measures during the first five years of ownership to November 2017 and December 2018 respectively. The Company has estimated that it has no further obligation relating to these contracts.