

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS FOR THE SIX MONTHS ENDED JUNE 30, 2018

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, 2018, including the notes thereto, and the MD&A and the audited consolidated financial statements for the year ended December 31, 2017, 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 9, 2018.

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 of \$1.07 for the quarter ended June 30, 2018 was significantly higher than the \$0.62 for the first quarter of 2018 and \$0.52 for the 2017 second quarter. Price increases in all products coupled with improved year over year demand in most operations, led to stellar results in all segments. Operating profits at our metals service centers doubled compared to the 2018 first quarter and the 2017 second quarter.

For the six months ended June 30, 2018, our basic earnings per share were \$1.69 compared to \$1.00 for the same period in 2017.

On April 16, 2018, we completed the acquisition of the operating assets and facilities of DuBose Steel. DuBose Steel is a full line structural steel service center operation with value-added processing capabilities and locations in Roseboro and Fayetteville in North Carolina. The acquisition was immediately accretive to earnings and is included in the metals service center segment.

RESULTS OF OPERATIONS

The following table provides earnings before interest, finance expense 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		
	2018	2017	variance as a % of 2017	2018	2017	variance as a % of 2017
Segment Revenues						
Metals service centers	\$ 561.8	\$ 415.5	35%	\$ 1,017.2	\$ 801.9	27%
Energy products	320.3	296.0	8%	702.4	635.1	11%
Steel distributors	92.0	100.9	(9%)	185.7	178.5	4%
Other	4.1	4.1		4.2	4.5	
	\$ 978.2	\$ 816.5	20%	\$ 1,909.5	\$ 1,620.0	18%
Segment Operating Profits						
Metals service centers	\$ 57.3	\$ 24.4	135%	\$ 86.2	\$ 46.2	87%
Energy products	28.3	21.6	31%	60.7	45.2	34%
Steel distributors	15.3	10.2	50%	26.0	18.6	40%
Corporate expenses	(5.9)	(4.9)	(20%)	(12.8)	(10.0)	(28%)
Asset impairment	-	-		(3.3)	-	
Other	2.3	2.8		1.1	2.0	
Earnings before interest, finance expense and taxes	\$ 97.3	\$ 54.1	80%	\$ 157.9	\$ 102.0	55%
Segment Gross Margin as a % of Revenues						
Metals service centers	25.5%	21.6%		24.0%	22.0%	
Energy products	20.9%	18.7%		20.0%	17.9%	
Steel distributors	26.8%	19.0%		24.2%	20.2%	
Total operations	24.4%	20.6%		22.7%	20.4%	
Segment Operating Profit as a % of Revenues						
Metals service centers	10.2%	5.9%		8.5%	5.8%	
Energy products	8.8%	7.3%		8.6%	7.1%	
Steel distributors	16.6%	10.1%		14.0%	10.4%	
Total operations	9.9%	6.6%		8.2%	6.3%	

Results of our U.S. operations reported for the six months ended June 30, 2018 were converted at \$1.2781 per US\$1 compared to \$1.3340 per US\$1 for the six months ended June 30, 2017. Our U.S. operations represented approximately 32% of our total revenues. The exchange rate used to translate the balance sheet at June 30, 2018 was \$1.3168 per US\$1 versus \$1.2545 per US\$1 at December 31, 2017.

QUARTERLY FINANCIAL HIGHLIGHTS

<i>(for the quarters ended)</i>	Jun 30 2018	Mar 31 2018	Dec 31 2017	Sep 30 2017	Jun 30 2017	Mar 31 2017	Dec 31 2016	Sep 30 2016
Revenues (\$ millions)	\$ 978	\$ 931	\$ 825	\$ 851	\$ 817	\$ 804	\$ 654	\$ 639
Operating profits (\$ millions)	97	61	47	58	54	48	45	28
Net earnings (\$ millions)	66	38	28	34	32	30	23	16
Basic earnings per share (\$)	1.07	0.62	0.45	0.55	0.52	0.48	0.37	0.26

METALS SERVICE CENTERS

a) Description of operations

We provide processing and distribution services to a broad base of approximately 47,000 end users through a network of 51 Canadian locations and 16 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, Color Steels, Leroux Steel, Mégantic Métal, Pemco Steel, 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, DuBose Steel, 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 quarters of 2018 and 2017 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 2017 and in the first quarter of 2018 which resulted in increased selling prices. Prices have continued to rise throughout the second quarter.

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. On March 8, 2018, the U.S. President signed executive orders to implement import tariffs of 25% on steel and 10% on aluminum. These tariffs were implemented on March 23, 2018. Canada and Mexico were initially excluded from the tariffs; however, the exclusion was lifted and the tariffs were implemented on material from Canada and Mexico on June 1, 2018. Canada has since implemented retaliatory tariffs on steel and aluminum products from the U.S. effective July 1, 2018.

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 2018, the Canadian International Trade Tribunal initiated an interim review on carbon plate from Bulgaria, the Czech Republic, Romania, Ukraine, Brazil, Chinese Taipei, Denmark, Indonesia, Italy, Japan and the Republic of South Korea and a review of cold rolled steel from China, South Korea and Vietnam.

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 moves in tandem with the economic cycles. Revenues and operating profits fluctuate with the general business activity in the markets served. We are most impacted by the resource (including oil and gas), manufacturing 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 market share and diverse customer base of approximately 29,000 Canadian customers means that our results tend to mirror the performance of the regional economies of Canada. In September 2017, we acquired Color Steels, which expanded our Canadian service center product line to include pre-painted flat rolled product. Our U.S. operations, which have approximately 18,000 customers, are also impacted by the local economic conditions in the regions that they serve. In April 2018, we acquired DuBose Steel which expands our geographic presence in the Southeastern United States.

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, 2018 compared to June 30, 2017*

Revenues for the three months ended June 30, 2018 increased 35% to \$562 million compared to the same period in 2017 due to stronger demand, higher steel prices and the acquisition of Color Steels and DuBose Steel. Tons shipped in the second quarter of 2018 were approximately 17% higher than the second quarter of 2017. The increase in tons shipped over the 2017 second quarter, excluding shipments from Color Steels and DuBose Steel, was 9%. The average selling price was 14% higher than the 2018 first quarter and 17% higher than the 2017 second quarter.

Gross margin as a percentage of revenues of 25.5% was higher than the same quarter last year at 21.6%, and 22.1% for the first quarter of 2018. The gross margin as a percentage of revenues in the second quarter 2018 was higher than the 2017 average due to inventory holding gains from rising steel prices.

Operating expenses as a percentage of revenues of 15% in the 2018 second quarter improved from 16% in the 2017 second quarter.

Metals service centers operating profits for the three months ended June 30, 2018 of \$57 million were 135% higher than the \$24 million reported for the same period in 2017.

d) *Metals service centers segment results -- Six Months Ended June 30, 2018 compared to June 30, 2017*

Revenues for the six months ended June 30, 2018 increased 27% to \$1.0 billion compared to \$0.8 billion in the same period in 2017. Same store tons shipped in the metals service centers segment in the six months ended June 30, 2018 were 8% higher than the same period in 2017. Average selling price per ton was 13% higher than the six months ended June 30, 2017.

Gross margin as a percentage of revenues of 24.0% for the six months ended June 30, 2018 compared to 22.0% for the same period in 2017.

Operating expenses as a percentage of revenues for the six months ended June 30, 2018 of 16% were consistent with the same period of 2017.

Metals service centers operating profits for the six months ended June 30, 2018 of \$86 million increased 87% compared to \$46 million reported for the same period in 2017 mainly 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, Oklahoma 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 49 Canadian and 21 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 2018 and 2017 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 prices increased late in 2017 and have continued the upward trend to date in 2018. Rig activity in the U.S. increased in the first quarter of 2018 and remained stable in the second quarter which benefited our U.S. operations in our energy products segment. In Canada, rig activity rose in the 2018 second quarter resulting in continued growth of our field store revenues.

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 have reduced imports of these products. In January 2018, U.S. pipe mills announced a trade petition on imported large diameter pipe from six countries including Canada. The U.S. section 232 investigation and the resulting tariffs and retaliatory tariffs referred to under metals service centers, have resulted in increased pipe prices. Prices of valves and fittings are not as sensitive to steel price fluctuations as they are highly engineered value-added products.

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. Drilling related to oil and natural gas in Western Canada historically peaks during the period from October to March.

**c) *Energy products segment results -- Three Months Ended
June 30, 2018 compared to June 30, 2017***

Revenues in our energy products segment increased 8% to \$320 million for the second quarter of 2018 compared to the same period of 2017 due to higher activity in our field service stores and increased U.S. line pipe activity.

Gross margin as a percentage of revenues for the three months ended June 30, 2018 was 20.9% compared to 18.7% in the same period in 2017 due to mix as our field stores generate higher gross margin percentages than our other energy product operations.

Operating expenses as a percentage of revenues increased to 12% compared to 11% for the same quarter last year. The increased percentage reflects the change in mix as revenues from field service stores were a higher percentage of the segment revenues and these stores have higher operating expenses as a percentage of revenues.

This segment generated an operating profit of \$28 million for the three months ended June 30, 2018 compared to \$22 million for the same period in 2017.

**d) *Energy products segment results -- Six Months Ended
June 30, 2018 compared to June 30, 2017***

Revenues increased 11% to \$702 million for the six months ended June 30, 2018 compared to the same period in 2017.

Gross margin as a percentage of revenues for the six months ended June 30, 2018 was 20.0% compared to 17.9% in the same period in 2017 as a result of increased selling prices.

Operating expenses as a percentage of revenues were consistent at 11% in 2018 and 2017.

Operating profit for this segment was \$61 million for the six months ended June 30, 2018 compared to \$45 million for the same period in 2017 due to higher selling prices and large U.S. line pipe projects.

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 quarters of 2018 and 2017 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. The imposition of steel tariffs under the section 232 investigation, discussed in more detail under the metals service center section, has led to higher prices but uncertainty has led to cautious buying by steel distributor customers.

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.

Our Canadian operation sources product outside of Canada that is priced in U.S. dollars and may be subject to movements in the Canadian dollar.

c) *Steel distributors segment results -- Three Months Ended June 30, 2018 compared to June 30, 2017*

Steel distributors revenues decreased 9% to \$92 million for the three months ended June 30, 2018 compared to the same period in 2017, partially as a result of decreased volumes of 29% as tariff concerns led to cautious buying by our customers. The significant decrease in tons was partially offset by higher selling prices.

Gross margin as a percentage of revenues was 26.8% for the three months ended June 30, 2018 compared to 19.0% for the three months ended June 30, 2017 due to rising selling prices.

Operating expenses as a percentage of revenues for the second quarter of 2018 were 10% which was higher than the same quarter in 2017 at 9%, due to higher variable compensation as a result of stronger earnings.

Operating profits for the three months ended June 30, 2018 were \$15 million compared to \$10 million June 30, 2017 mainly as a result of stronger margins.

d) *Steel distributors segment results -- Six Months Ended June 30, 2018 compared to June 30, 2017*

Revenues for the six months ended June 30, 2018 increased 4% to \$186 million compared to \$179 million for the six months ended June 30, 2017 as a decrease in tons sold of 12% was offset by an increase of 19% in selling prices per ton.

Gross margin as a percentage of revenues was 24.2% for the six months ended June 30, 2018 compared to 20.2% for the same period in 2017 due to rising steel prices.

Operating expenses as a percentage of revenues were 10% for the six months ended June 30, 2018 and 2017.

Operating profits for the six months ended June 30, 2018 were \$26 million compared to \$19 million for the six months ended June 30, 2017 due to stronger margins.

CORPORATE EXPENSES -- Three and Six Months Ended June 30, 2018 compared to June 30, 2017

Corporate expenses for the three and six months ended June 30, 2018 were 20% and 28% higher than 2017 due to higher variable compensation as a result of stronger earnings.

CONSOLIDATED RESULTS -- Three and Six Months Ended June 30, 2018 compared to June 30, 2017

Operating profits improved to \$97 million for the three months ended June 30, 2018 compared to \$54 million for the same quarter of 2017. For the six months ended June 30, 2018 operating profits were \$158 million compared to \$102 million in the same period last year.

LOSS ON ASSET IMPAIRMENT

During the quarter ended March 31, 2018, we recorded an asset impairment charge of \$3.3 million relating to costs associated with our ERP modernization project, as we decided to move in another direction to meet the needs of the business.

INTEREST EXPENSE

Net interest expense was \$8 million for the three months ended June 30, 2018 compared to \$6 million for the same quarter of 2017. Net interest expense was \$15 million for the six months ended June 30, 2018 and \$11 million for the same period in 2017. The increase in interest expense was due to higher borrowings to support working capital levels and higher interest rates in 2018 related to the \$150 million 6% debenture issued on March 16, 2018.

OTHER FINANCE EXPENSE

We recorded finance expense of \$1 million in the 2018 first quarter related to the final payment for the Apex Distribution contingent consideration.

INCOME TAXES

We recorded a provision for income taxes of \$23 million for the second quarter of 2018 compared to \$15 million for the second quarter of 2017 due to higher earnings. Our effective income tax rate for the three months ended June 30, 2018 was 26.0% compared to 31.7% for the three months ended June 30, 2017. For the six months ended June 30, 2018 our effective income tax rate was 26.4% compared to 31.3% for the same period. U.S. tax reform resulted in reduced 2018 income tax rates on our U.S. operations.

NET EARNINGS

Net earnings for the second quarter of 2018 at \$66 million were higher than the \$33 million in the second quarter of 2017. Basic earnings per share for the second quarter of 2018 were \$1.07 compared to \$0.52 per share for the second quarter of 2017 as all business segments benefited from higher steel prices and healthy demand. Basic earnings per share for the six months ended June 30, 2018 were \$1.69 compared to \$1.00 for the same period last year.

SHARES OUTSTANDING AND DIVIDENDS

The weighted average number of common shares outstanding for the second quarter of 2018 was 62,012,928 compared to 61,792,194 for the second quarter of 2017. The weighted average number of common shares outstanding for the six months ended June 30, 2018 was 61,967,427 compared to 61,773,614 for the six months ended June 30, 2017. Common shares outstanding at June 30, 2018 and August 9, 2018 were 62,077,045.

We paid common share dividends of \$24 million or \$0.38 per share in the second quarter of 2018 and 2017.

During the 2018 first quarter, we issued \$150 million 6% Senior Notes due March 16, 2026. The senior notes have restrictions related to dividends. The notes include a basket for restricted payments for quarterly dividends in excess of \$0.38 per share. Our current dividend rate does not reduce the basket.

We have outstanding \$300 million principal amount 6% Senior Notes due April 19, 2022. The indenture for these senior notes has restrictions related to quarterly dividends. There is sufficient room in the applicable basket for restricted payments to continue to pay the current dividend to the maturity of these senior notes.

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.

EBITDA

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

<i>(millions)</i>	Quarters ended June 30		Six months ended June 30	
	2018	2017	2018	2017
Net earnings	\$ 66.1	\$ 32.5	\$ 104.6	\$ 62.1
Provision for income taxes	23.3	15.0	37.5	28.3
Interest and finance expense, net	7.9	6.6	15.8	11.6
Earnings before interest, finance expense and income taxes (EBIT)	97.3	54.1	157.9	102.0
Depreciation and amortization	8.7	8.5	17.1	17.0
Earnings before interest, finance expense, income taxes, depreciation and amortization (EBITDA)	\$ 106.0	\$ 62.6	\$ 175.0	\$ 119.0

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 \$20 million for the six months ended June 30, 2018 compared to \$14 million in the same period of 2017. Depreciation expense was \$14 million for the six months ended June 30, 2018 and 2017. We expect capital expenditures to continue to be higher than depreciation for the second half of 2018 as we continue to invest in equipment for value-added processing.

LIQUIDITY

At June 30, 2018, we had net bank indebtedness, defined as cash less bank indebtedness of \$15 million, compared to net cash of \$82 million at December 31, 2017 as cash was utilized to support working capital due to the increase in activity to date in 2018.

We generated \$167 million from operations in the six months ended June 30, 2018 and utilized \$103 million for working capital to support higher revenues. The new senior notes provided net proceeds of \$146 million which was utilized to reduce bank indebtedness. We utilized \$20 million for capital expenditures, \$46 million in income tax payments, \$37 million for the DuBose Steel acquisition and \$47 million for dividends.

Due to our cyclical nature, we experience significant swings in working capital which impact cash flow. Inventory and accounts receivable represent a large percentage of our total assets employed and fluctuate throughout each cycle. Accounts receivable and inventory comprise our largest liquidity risks and utilized \$256 million in cash to support increased business activity.

Total assets were \$2.1 billion at June 30, 2018 and \$1.8 billion at December 31, 2017. At June 30, 2018, current assets excluding cash represented 81% of our total assets excluding cash compared to 79% at December 31, 2017.

Inventory utilized cash of \$162 million in the six months ended June 30, 2018. Inventories were higher due to increased steel prices and increased tons to support higher demand. Inventories represented 49% of our total assets at June 30, 2018 compared to 47% at December 31, 2017.

<i>Inventory by Segment (millions)</i>	June 30 2018	Mar. 31 2018	Dec. 31 2017	Sept. 30 2017	June 30 2017
Metals service centers	\$ 392	\$ 338	\$ 302	\$ 306	\$ 282
Energy products	499	435	414	345	314
Steel distributors	118	97	104	125	120
Total	\$ 1,009	\$ 870	\$ 820	\$ 776	\$ 716

<i>Inventory Turns (quarters ended)</i>	June 30 2018	Mar. 31 2018	Dec. 31 2017	Sept. 30 2017	June 30 2017
Metals service centers	4.3	4.2	4.5	4.4	4.6
Energy products	2.0	2.8	2.3	3.1	3.1
Steel distributors	2.3	3.0	3.2	2.6	2.7
Total	2.9	3.4	3.2	3.5	3.6

At June 30, 2018, our metals service centers had increased inventory tons and higher average cost per ton than at June 30, 2017.

During the second quarter of 2018 inventory levels increased at our energy products operations due to increased activity in the sector and higher inventory costs.

Accounts receivable utilized cash of \$94 million in the six months ended June 30, 2018. Accounts receivable represented 29% of our total assets excluding cash at June 30, 2018 compared to 27% at December 31, 2017.

During the six months ended June 30, 2018 we made income tax payments of \$46 million compared to \$21 million for the six months ended June 30, 2017.

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	
	2018	2017	2018	2017
Cash from operating activities before non-cash working capital	\$ 95.5	\$ 52.7	\$ 166.5	\$ 109.0
Purchase of property, plant and equipment	(8.6)	(8.7)	(19.5)	(14.3)
	\$ 86.9	\$ 44.0	\$ 147.0	\$ 94.7

We believe that free cash flow may be useful in assessing our ability to pay dividends, interest, 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 2018	December 31 2017
Long-term debt		
6% \$300 million Unsecured Senior Notes due April 19, 2022	\$ 297	\$ 297
6% \$150 million Unsecured Senior Notes due March 16, 2026	146	-
	\$ 443	\$ 297

CASH, DEBT AND CREDIT FACILITIES

<i>Cash Facilities</i> <i>(millions)</i>	June 30 2018	December 31 2017
Bank loans	\$ (160)	\$ (223)
Cash net of outstanding cheques	145	141
Net debt	(15)	(82)
Letters of credit	(127)	(34)
	\$ (142)	\$ (116)
Facilities		
Borrowings and letters of credit	\$ 400	\$ 350
Letters of credit	50	50
Facilities availability	\$ 450	\$ 400
Available line based on borrowing base	\$ 450	\$ 400

On February 6, 2018, we increased and extended our credit facility to \$450 million expiring September 21, 2021. The facility with a syndicate of Canadian and U.S. banks provides \$50 million for letters of credit and \$400 million which can be utilized for borrowings or additional letters of credit. 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 \$450 million.

As of June 30, 2018, we were entitled to borrow and issue letters of credit totaling \$450 million under this facility. At June 30, 2018, we had \$160 million in borrowings compared to \$223 million at December 31, 2017 as the proceeds from issuing our new senior notes were used to reduce borrowings. We had \$128 million in letters of credit at June 30, 2018 compared to \$34 million at December 31, 2017.

At June 30, 2018, we were in compliance with all of our financial covenants.

With our cash, cash equivalents and our bank facilities we have access to approximately \$292 million of cash based on our June 30, 2018 balances. The use of our bank facilities has been predominantly to fund working capital requirements, acquisitions and trade letters of credit for inventory purchases.

CONTRACTUAL OBLIGATIONS

As at June 30, 2018, we were contractually obligated to make payments as per the following table:

<i>Contractual Obligations</i> <i>(millions)</i>	Payments due in				Total
	2018	2019 and 2020	2021 and 2022	2023 and thereafter	
Bank indebtedness	\$ 132	\$ -	\$ -	\$ -	\$ 132
Accounts payable	521	-	-	-	521
Debt	-	-	300	150	450
Long-term debt interest	12	54	46	32	144
Operating leases	12	35	22	22	91
Total	\$ 677	\$ 89	\$ 368	\$ 204	\$ 1,338

As part of the purchase consideration for Apex Monarch we agreed to pay additional cash consideration during the five years ending in December 2018, based on earnings before interest and taxes and return on net assets. We do not forecast any additional payment related to this earnout.

We provide defined contribution pension plans for a majority of our Canadian and U.S. employees; however, we have obligations related to multiple defined benefit pension plans in Canada, as disclosed in Note 14 of our 2017 consolidated financial statements. During the six months ended June 30, 2018, we contributed \$2.6 million to these plans. We expect to contribute approximately \$3.5 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 \$11 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 may 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 reserves are determined in the period in which revenue is recorded. 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, 2018 was approximately \$3 million higher than our reserve at December 31, 2017. Bad debt expense for the six months ended June 30, 2018 as a percentage of revenue was less than 1% and approximates that of 2017.

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, 2018 was \$4 million higher than the level at December 31, 2017.

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.

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 \$141 million in plan assets at June 30, 2018, which is an increase of approximately \$3 million from December 31, 2017. The discount rate used on the employee benefit plan obligation for the quarter ended June 30, 2018 was 3.5% which is 0.25% higher than the discount rate at December 31, 2017.

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 2018 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 believe we enhance profitability by operating with the lowest possible net assets. This reduces borrowings and minimizes interest expense in all periods of the economic cycle and creates returns on net assets that are more stable. 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 average profits and that we will generate earnings over the cycle in the top quartile of the industry.

Growth from selective acquisitions is also part of our strategy. We focus on investment opportunities in metals and energy distribution 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. In addition, we will continue to invest in value-added processing that allows for growth and will further stabilize our returns. We completed the acquisition of Color Steels in 2017 which provided a new product line to our Canadian service center operations. On April 16, 2018, we completed the acquisition of the operating assets and facilities of DuBose Steel which provides a new geographic area to our U.S. service center operations. We continue to review opportunities for additional acquisitions.

We believe that the steel-based pricing cycle will continue to be short and volatile, and that our decentralized 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. The tariffs implemented under the section 232 investigation have supported higher steel prices and North American production. Future changes to country or product exemptions may impact steel prices and product availability.

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 and made us one of the largest energy services companies in Canada.

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 strong second quarter results benefited from increases in the price of steel and improved volumes compared to 2017. Notwithstanding the effects of mid-summer shutdowns and vacations, this healthy demand level is expected to continue into the third quarter. We believe that steel prices will be range-bound in the third quarter in both Canada and the United States and will result in lower gross margins as a percentage of revenues in the second half of 2018 compared to the 2018 second quarter.