

## 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 1, 2018

(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	
	2018	2017
<b>Revenues</b>	<b>\$ 931.3</b>	<b>\$ 803.5</b>
Cost of materials (Note 5)	736.7	641.2
Employee expenses (Note 14)	77.9	66.6
Other operating expenses (Note 14)	52.8	47.8
Asset impairment (Note 6)	3.3	-
<b>Earnings before interest, finance expense and provision for income taxes</b>	<b>60.6</b>	<b>47.9</b>
Interest expense (Note 15)	6.7	5.0
Other finance expense (Note 15)	1.2	-
<b>Earnings before provision for income taxes</b>	<b>52.7</b>	<b>42.9</b>
Provision for income taxes (Note 16)	14.2	13.3
<b>Net earnings for the period</b>	<b>\$ 38.5</b>	<b>\$ 29.6</b>
<b>Basic earnings per common share (Note 13)</b>	<b>\$ 0.62</b>	<b>\$ 0.48</b>
<b>Diluted earnings per common share (Note 13)</b>	<b>\$ 0.62</b>	<b>\$ 0.48</b>

## CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (UNAUDITED)

<i>(in millions of Canadian dollars)</i>	Quarters ended March 31	
	2018	2017
<b>Net earnings for the period</b>	<b>\$ 38.5</b>	<b>\$ 29.6</b>
Other comprehensive income		
<b>Items that may be reclassified to earnings</b>		
Unrealized foreign exchange gains (losses) on translation of foreign operations	13.2	(4.4)
<b>Items that may not be reclassified to earnings</b>		
Actuarial gains on pension and similar obligations, net of taxes of \$0.8 million (2017: \$0.7 million)	2.1	2.0
Other comprehensive income (loss)	15.3	(2.4)
<b>Total comprehensive income</b>	<b>\$ 53.8</b>	<b>\$ 27.2</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 2018</b>	December 31 2017
<b>ASSETS</b>		
<b>Current</b>		
Cash and cash equivalents	\$ 136.0	\$ 125.8
Accounts receivable	548.7	446.2
Inventories (Note 5)	870.4	819.9
Prepaid expenses	19.6	17.2
Income taxes	2.1	4.5
	<b>1,576.8</b>	1,413.6
<b>Property, Plant and Equipment</b> (Note 6)	<b>248.9</b>	246.8
<b>Deferred Income Tax Assets</b>	<b>4.6</b>	4.7
<b>Financial and Other Assets</b>	<b>4.5</b>	3.5
<b>Goodwill and Intangibles</b> (Note 7)	<b>89.4</b>	90.5
	<b>\$ 1,924.2</b>	\$ 1,759.1
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
<b>Current</b>		
Bank indebtedness (Note 8)	\$ 115.9	\$ 207.7
Accounts payable and accrued liabilities	467.5	365.7
Income taxes payable	1.7	21.6
Current portion long-term debt (Note 9)	0.1	0.1
	<b>585.2</b>	595.1
<b>Long-Term Debt</b> (Note 9)	<b>442.6</b>	296.5
<b>Pensions and Benefits</b> (Note 10)	<b>8.8</b>	12.0
<b>Deferred Income Tax Liabilities</b>	<b>18.7</b>	17.7
<b>Provisions and Other Non-Current Liabilities</b> (Note 17)	<b>9.7</b>	11.0
	<b>1,065.0</b>	932.3
<b>Shareholders' Equity</b> (Note 11)		
Common shares	539.0	536.6
Retained earnings	207.5	190.5
Contributed surplus	15.8	16.0
Accumulated other comprehensive income	96.9	83.7
	<b>859.2</b>	826.8
<b>Total Shareholders' Equity</b>	<b>859.2</b>	826.8
<b>Total Liabilities and Shareholders' Equity</b>	<b>\$ 1,924.2</b>	\$ 1,759.1

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

ON BEHALF OF THE BOARD,

(signed) J. Clark  
Director

(signed) A. Laberge  
Director

## CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOW (UNAUDITED)

<i>(in millions of Canadian dollars)</i>	Quarters ended March 31	
	2018	2017
Operating activities		
Net earnings for the period	\$ 38.5	\$ 29.6
Depreciation and amortization	8.4	8.5
Provision for income taxes	14.2	13.3
Interest expense	6.7	5.0
Loss (gain) on disposal of property, plant and equipment	3.2	(0.1)
Share-based compensation	0.1	0.2
Difference between pension expense and amount funded	(0.2)	-
Debt accretion, amortization and other	0.2	0.2
Change in fair value of contingent consideration	1.2	-
Interest paid	(1.3)	(0.4)
<b>Cash from operating activities before non-cash working capital</b>	<b>71.0</b>	<b>56.3</b>
Changes in non-cash working capital items		
Accounts receivable	(99.4)	(107.6)
Inventories	(44.3)	(14.3)
Accounts payable and accrued liabilities	96.3	42.8
Other	(2.4)	(3.3)
<b>Change in non-cash working capital</b>	<b>(49.8)</b>	<b>(82.4)</b>
Income taxes (paid) refund, net	(31.2)	0.7
<b>Cash used in operating activities</b>	<b>(10.0)</b>	<b>(25.4)</b>
Financing activities		
(Decrease) increase in bank indebtedness	(91.9)	43.5
Issue of common shares	2.0	1.1
Dividends on common shares	(23.6)	(23.5)
Issuance of long-term debt	146.0	-
Deferred financing costs	(1.1)	-
<b>Cash from financing activities</b>	<b>31.4</b>	<b>21.1</b>
Investing activities		
Purchase of property, plant and equipment	(10.9)	(5.6)
Proceeds on sale of property, plant and equipment	0.3	0.2
Payment of contingent consideration	(4.5)	-
<b>Cash used in investing activities</b>	<b>(15.1)</b>	<b>(5.4)</b>
<b>Effect of exchange rates on cash and cash equivalents</b>	<b>3.9</b>	<b>(3.3)</b>
<b>Increase (decrease) in cash and cash equivalents</b>	<b>10.2</b>	<b>(13.0)</b>
Cash and cash equivalents, beginning of the period	125.8	181.8
<b>Cash and cash equivalents, end of the period</b>	<b>\$ 136.0</b>	<b>\$ 168.8</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, 2018</b>	\$ 536.6	\$ 190.5	\$ 16.0	\$ 83.7	\$ 826.8
Payment of dividends	-	(23.6)	-	-	(23.6)
Net earnings for the period	-	38.5	-	-	38.5
Other comprehensive income for the period	-	-	-	15.3	15.3
Recognition of share-based compensation	-	-	0.1	-	0.1
Share options exercised	2.4	-	(0.3)	-	2.1
Transfer of net actuarial gains on defined benefit plans	-	2.1	-	(2.1)	-
<b>Balance, March 31, 2018</b>	<b>\$ 539.0</b>	<b>\$ 207.5</b>	<b>\$ 15.8</b>	<b>\$ 96.9</b>	<b>\$ 859.2</b>

<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>

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

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

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### **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 1, 2018.

### **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, 2017 except for the change in accounting policies as explained in Note 3. 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, 2017. These condensed consolidated financial statements should be read in conjunction with the Company's consolidated financial statements for the year ended December 31, 2017.

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 CHANGE IN ACCOUNTING POLICIES**

#### *IFRS 15 Revenue from Contracts with Customers*

The Company adopted *IFRS 15 Revenue from Contracts with Customers*, with a date of initial application of January 1, 2018, using the modified retrospective approach. *IFRS 15* establishes principles for reporting the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers. The Company applied the new standard to all new contracts initiated after January 1, 2018. The Company does not have any obligations remaining for contracts entered into prior to January 1, 2018. The adoption of *IFRS 15* did not have a material effect on the financial statements as the Company does not have long-term service contracts, multiple element arrangements or complex revenue transactions.

The Company has certain arrangements with its customers with elements of variable consideration included, which were not material in the quarter. Implementation of the standard resulted in increased disclosure on sources of revenues by product. (Note 18c))

#### *New Accounting Policy - Revenue from Contracts with Customers*

Revenue is recognized at an amount that reflects the expected consideration receivable in exchange for transferring goods or services to a customer applying the following steps:

1. Identify the contract with a customer
2. Identify the performance obligation
3. Determine the transaction price
4. Allocate the transaction price to the performance obligation in the contract
5. Recognize revenue when (or as) the entity satisfies a performance obligation

The Company generates revenue primarily from the delivery of metal and metal products to customers. The primary contracts to provide goods and services to customers are purchase orders which provide the Company's performance obligations and transaction price. The primary performance obligation in the Company's contracts is to provide metal products to customers in accordance with their specifications. These specifications could require the Company to cut, bend and provide other metal processing prior to delivery. The Company's performance obligation is satisfied upon transfer of control of product to the customers, which occurs when it has been packed and loaded for delivery. Credit terms for customers are short-term in nature.

#### *IFRS 9 Financial Instruments*

The Company adopted *IFRS 9* which replaces *IAS 39, Financial Instruments: Recognition and Measurement* ("*IAS 39*"). This standard establishes principles for the financial reporting of financial assets and financial liabilities that presents relevant and useful information to users of financial statements for the assessment of the amounts, timing and uncertainty of an entity's future cash flows. The adoption of this standard has changed the Company's estimation for allowance for doubtful accounts but does not have a material impact on the Company's financial position or results of operations.

## **NOTE 4 FUTURE ACCOUNTING CHANGES**

#### *IFRS 16 Leases*

In January 2016, the IASB issued *IFRS 16, Leases*, which sets out the principles for the recognition, measurement, presentation and disclosure of leases for both parties to a contract, i.e. the customer ("lessee") and the supplier ("lessor"). The Company will adopt *IFRS 16* beginning on January 1, 2019. *IFRS 16* replaces the previous lease standard, *IAS 17 Leases*, and related interpretations. The most significant effect of the new requirements will be an increase in lease assets and financial liabilities as *IFRS 16* eliminates the classification of leases as either operating leases or finance leases for a lessee. With few exceptions, all leases will be recognised as an asset at the present value of the lease payments and shown either as lease assets (right-of-use assets) or together with property, plant and equipment. The Company will also recognise a financial liability representing its obligation to make future lease payments. The current lease payment will be charged to earnings on a declining basis and a portion representing financing cost will be charged to interest.

In 2017, the Company's implementation team developed an implementation plan, compiled a lease database and evaluated alternative information systems to manage the lease database. In early 2018, the Company chose a lease management system and began to populate the system with the necessary data. The Company has significant leased assets and continues its analysis but expects that the implementation of *IFRS 16* may have an effect on its statement of financial position.

## **NOTE 5 INVENTORIES**

<i>(millions)</i>	Quarters ended March 31	
	2018	2017
Inventory expensed in cost of materials	\$ 736.7	\$ 641.2
Inventory impairment charge, net of reversals	1.3	2.7

## NOTE 6 PROPERTY, PLANT AND EQUIPMENT

<i>Cost (millions)</i>	Land and Buildings	Machinery and Equipment	Leasehold Improvements	Total
Balance, December 31, 2017	\$ 243.4	\$ 361.8	\$ 27.4	\$ 632.6
Additions	0.5	10.2	0.2	10.9
Disposals	-	(3.2)	-	(3.2)
Asset impairment	-	(3.3)	-	(3.3)
Foreign exchange	0.9	2.6	-	3.5
<b>Balance, March 31, 2018</b>	<b>\$ 244.8</b>	<b>\$ 368.1</b>	<b>\$ 27.6</b>	<b>\$ 640.5</b>

<i>Accumulated depreciation and amortization (millions)</i>	Land and Buildings	Machinery and Equipment	Leasehold Improvements	Total
Balance, December 31, 2017	\$ 107.9	\$ 256.0	\$ 21.9	\$ 385.8
Depreciation and amortization	1.9	4.9	0.1	6.9
Disposals	-	(3.0)	-	(3.0)
Foreign exchange	0.4	1.5	-	1.9
<b>Balance, March 31, 2018</b>	<b>\$ 110.2</b>	<b>\$ 259.4</b>	<b>\$ 22.0</b>	<b>\$ 391.6</b>

### *Net Book Value (millions)*

December 31, 2017	\$ 246.8
<b>March 31, 2018</b>	<b>\$ 248.9</b>

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

Land, included in land and buildings, was \$43.5 million (December 31, 2017: \$43.4 million).

<i>(millions)</i>	Quarters ended March 31	
	2018	2017
Depreciation - cost of materials	\$ 1.8	\$ 2.0
Depreciation - other operating expense	5.1	4.9
	<b>\$ 6.9</b>	<b>\$ 6.9</b>

During the quarter, the Company recorded an asset impairment charge of \$3.3 million relating to the costs associated with its ERP modernization project, as the Company has decided to move in another direction to meet the needs of the business.

## NOTE 7 GOODWILL AND INTANGIBLES

<i>(millions)</i>	March 31 2018	December 31 2017
Goodwill	\$ 36.6	\$ 36.3
Intangibles	52.8	54.2
	<b>\$ 89.4</b>	<b>\$ 90.5</b>

### a) *Goodwill*

<i>Goodwill (millions)</i>	Total
Balance, December 31, 2017	\$ 36.3
Foreign exchange	0.3
<b>Balance, March 31, 2018</b>	<b>\$ 36.6</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:

<i>Cost (millions)</i>	Metals Service Centers	Energy Products	Total
Balance, December 31, 2017	\$ 19.5	\$ 70.7	\$ 90.2
Foreign exchange	0.1	-	0.1
Balance, March 31, 2018	\$ 19.6	\$ 70.7	\$ 90.3

  

<i>Accumulated amortization (millions)</i>	Metals Service Centers	Energy Products	Total
Balance, December 31, 2017	\$ (10.7)	\$ (25.3)	\$ (36.0)
Amortization	(0.3)	(1.2)	(1.5)
Balance, March 31, 2018	\$ (11.0)	\$ (26.5)	\$ (37.5)

  

<i>Net book value (millions)</i>			
December 31, 2017			\$ 54.2
<b>March 31, 2018</b>			<b>\$ 52.8</b>

The remaining amortization periods for customer relationships are 6 to 14 years.

## **NOTE 8 REVOLVING CREDIT FACILITIES**

On February 6, 2018, the Company increased and extended its credit agreement to provide \$450 million for borrowings and letters of credit with an expiry of September 21, 2021. The syndicated facility consists of availability of \$400 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 \$450 million. The obligations of the Company under this agreement are secured by a pledge of trade accounts receivable and inventories.

At March 31, 2018, the Company had borrowings of \$125.0 million (December 31, 2017: \$223.0 million) and letters of credit of \$69.7 million (December 31, 2017: \$33.7 million) under this facility.

The Company was in compliance with its financial covenants at March 31, 2018.

## **NOTE 9 LONG-TERM DEBT**

<i>(millions)</i>	March 31 2018	December 31 2017
6% \$300 million Unsecured Senior Notes due April 19, 2022	\$ 296.6	\$ 296.5
6% \$150 million Unsecured Senior Notes due March 16, 2026	146.0	-
Finance lease obligations	0.1	0.1
Less: current portion	(0.1)	(0.1)
	<b>\$ 442.6</b>	<b>\$ 296.5</b>

Fees associated with the issue of the debt are included in the carrying amount of debt and are amortized using the effective interest method.

a) On March 16, 2018, the Company issued through a private placement \$150 million 6% Unsecured Senior Notes due March 16, 2026 for net proceeds of \$146.0 million. Interest is due semi-annually on March 16 and September 16 of each year.

The Company may redeem up to 40% of these notes prior to March 16, 2021 with the net proceeds of certain equity offerings at the redemption price of 106% of their principal amount, plus accrued and unpaid interest. Prior to March 16, 2021 the Company may redeem these notes in whole or in part at an amount equal to 100% of the principal amount plus the applicable premium which is the greater of the called principal of these notes and the excess of (i) the discounted value of the remaining scheduled payments over (ii) the called principal of these notes. The Company may also redeem the notes in whole or in part at any time after March 16, 2021 at 104.5% of the principal amount declining rateably to 100% of the principal amount on or after March 16, 2024.

The \$150 million Senior Notes contain certain covenants that limit the Company's ability to incur additional indebtedness. These notes also contain certain restrictions on the payment of common share dividends in excess of \$0.38 per share per quarter. The Company was in compliance with these financial covenants at March 31, 2018.

b) On April 19, 2012, the Company issued, through a private placement, \$300 million 6% Unsecured Senior Notes due April 19, 2022. Interest is due on April 19 and October 19 of each year.

The Company may redeem these 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.

These notes contain certain restrictions on the payment of common share dividends in excess of \$0.35 per share per quarter. These notes also contain certain covenants that limit the Company's ability to incur additional indebtedness. The Company was in compliance with these covenants at March 31, 2018.

## NOTE 10 PENSIONS AND BENEFITS

As at March 31, 2018, the Company determined its accrued benefit obligations related to the employee future benefit plans using a discount rate of 3.5% (December 31, 2017: 3.25%) 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 \$2.9 million for the three month period ended March 31, 2018 (2017: gain of \$2.7 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 2018</b>	December 31 2017
Present value of defined benefit pension obligations	<b>\$ 141.5</b>	\$ 146.4
Fair value of plan assets	<b>136.4</b>	138.3
	<b>5.1</b>	8.1
Other post retirement benefit obligations	<b>3.7</b>	3.9
Defined benefit obligations, net	<b>\$ 8.8</b>	\$ 12.0

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 2018</b>	December 31 2017	<b>March 31 2018</b>	December 31 2017
<b>Defined benefit obligation</b>				
Plans with surplus	<b>\$ (3.2)</b>	\$ (1.5)	\$ -	\$ -
Partially funded plans	<b>8.3</b>	9.6	-	-
Unfunded plans	-	-	<b>3.7</b>	3.9
Defined benefit obligation	<b>\$ 5.1</b>	\$ 8.1	<b>\$ 3.7</b>	\$ 3.9

## NOTE 11 SHAREHOLDERS' EQUITY

- a) At March 31, 2018 and 2017, 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 (millions)
Balance, December 31, 2017	61,890,197	\$ 536.6
Share options exercised	75,447	2.4
<b>Balance, March 31, 2018</b>	<b>61,965,644</b>	<b>\$ 539.0</b>

The continuity of contributed surplus is as follows:

(millions)

Balance, December 31, 2017	\$ 16.0
Share-based compensation expense	0.1
Exercise of options	(0.3)
<b>Balance, March 31, 2018</b>	<b>\$ 15.8</b>

Dividends paid and declared are as follows:

	Quarters ended March 31	
	2018	2017
Dividends paid (millions)	\$ 23.6	\$ 23.5
Dividends per share	\$ 0.38	\$ 0.38
Quarterly dividend per share declared on May 1, 2018 (May 2, 2017)	\$ 0.38	\$ 0.38

## NOTE 12 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 2018	December 31 2017	March 31 2018	December 31 2017
Balance, beginning of period	1,941,719	2,383,203	\$ 25.13	\$ 26.25
Granted	64,815	141,773	31.46	28.99
Exercised	(75,447)	(154,712)	26.52	23.27
Expired or forfeited	(93,000)	(428,545)	26.70	33.32
Balance, end of the period	1,838,087	1,941,719	\$ 25.21	\$ 25.13
Exercisable	1,403,609	1,329,718	\$ 25.58	\$ 26.04

The outstanding options had exercise price ranges as follows:

<i>(number of options)</i>	<b>March 31 2018</b>	December 31 2017
\$ 29.00 - \$ 31.46	<b>213,987</b>	149,172
\$ 25.37 - \$ 28.99	<b>872,315</b>	1,037,262
\$ 16.58 - \$ 25.36	<b>751,785</b>	755,285
Options outstanding	<b>1,838,087</b>	1,941,719

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

	<b>March 31 2018</b>	December 31 2017
Dividend yield	<b>5%</b>	5%
Expected volatility	<b>29%</b>	26%
Expected life	<b>5 yrs</b>	5 yrs
Risk free rate of return	<b>2.28%</b>	2.25%
Weighted average fair value of options granted	<b>\$ 5.04</b>	\$ 4.14

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

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

The following is a continuity of SARs outstanding:

	Number of SARs		Weighted Average Exercise Price	
	<b>March 31 2018</b>	December 31 2017	<b>March 31 2018</b>	December 31 2017
Balance, beginning of period	<b>63,291</b>	-	<b>\$ 28.99</b>	\$ -
Granted	<b>49,603</b>	63,291	<b>31.46</b>	28.99
Balance, end of the period	<b>112,894</b>	63,291	<b>\$ 30.08</b>	\$ 28.99

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

At March 31, 2018, there were 261,228 DSUs outstanding (December 31, 2017: 250,021). The liability and fair value of DSUs was \$7.3 million at March 31, 2018 (December 31, 2017: \$7.3 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>	<b>March 31 2018</b>	December 31 2017
Balance, beginning of the period	<b>74,145</b>	216,402
Granted	<b>172,955</b>	77,601
Paid out	-	(219,858)
Balance, end of the period	<b>247,100</b>	74,145

The RSU liability at March 31, 2018 was \$3.7 million (December 31, 2017: \$1.3 million). The fair value of RSUs was \$6.9 million at March 31, 2018 (December 31, 2017: \$2.2 million). Dividends declared on common shares accrue to units in the RSU plan in the form of additional RSUs.

## NOTE 13 EARNINGS PER SHARE

The net income used in the calculation of basic and diluted earnings per share for March 31, 2018 was \$38.5 million (2017: \$29.6 million).

<i>(number of shares)</i>	Quarters ended March 31	
	2018	2017
Weighted average shares outstanding	61,921,421	61,754,827
Dilution impact of share options	288,514	148,948
Diluted weighted average shares outstanding	62,209,935	61,903,775

## NOTE 14 EXPENSES

<i>(millions)</i>	Quarters ended March 31	
	2018	2017
<b>Employee Expenses</b>		
Wages and salaries	\$ 66.5	\$ 56.4
Other employee related costs	11.4	10.2
	\$ 77.9	\$ 66.6
<b>Other Operating Expenses</b>		
Plant and other expenses	\$ 33.4	\$ 30.3
Delivery expenses	12.7	11.6
Repairs and maintenance	3.0	2.7
Selling expenses	3.2	2.5
Professional fees	0.8	1.2
Gain on sale of property, plant and equipment	(0.1)	(0.1)
Foreign exchange gain	(0.2)	(0.4)
	\$ 52.8	\$ 47.8

## NOTE 15 INTEREST EXPENSE

<i>(millions)</i>	Quarters ended March 31	
	2018	2017
Interest on 6% \$300 million Unsecured Senior Notes	\$ 4.6	\$ 4.6
Interest on 6% \$150 million Unsecured Senior Notes	0.4	-
Other interest expense	1.7	0.4
Interest expense	\$ 6.7	\$ 5.0
Other finance expense	\$ 1.2	\$ -

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, 2018 was \$0.2 million (2017: \$0.2 million).

## NOTE 16 INCOME TAXES

The consolidated effective tax rates for the quarters ended March 31, 2018 and March 31, 2017 were 26.9% and 30.9% respectively. The rate for 2018 was lower as a result of the impact of U.S. Tax Reform.

## NOTE 17 PROVISIONS AND OTHER NON-CURRENT LIABILITIES

<i>(millions)</i>	<b>March 31 2018</b>	December 31 2017
Provision for decommissioning liabilities	\$ 2.3	\$ 2.4
Deferred compensation and employee incentives	11.0	8.6
Contingent consideration	-	3.3
	<b>13.3</b>	14.3
Less: current portion	<b>(3.6)</b>	(3.3)
	<b>\$ 9.7</b>	\$ 11.0

Deferred compensation includes the RSU and DSU liabilities. The RSU and DSU liabilities that will be paid within the current year amounting to \$3.6 million have been reclassified as current accrued liabilities.

## NOTE 18 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 how the Company manages the business, allocates resources, internal reporting and geographic segments in which it operates. For the quarter ended March 31, 2018 the inter-segment revenues from steel distributors to metals service centers were \$9.1 million (2017: \$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	
	2018	2017
<b>Segment Revenues</b>		
Metals service centers	\$ 455.4	\$ 386.4
Energy products	382.1	339.1
Steel distributors	93.7	77.6
	<b>931.2</b>	803.1
Other	0.1	0.4
	<b>\$ 931.3</b>	<b>\$ 803.5</b>
<b>Segment Operating Profits</b>		
Metals service centers	\$ 28.9	\$ 21.8
Energy products	32.4	23.6
Steel distributors	10.7	8.4
	<b>72.0</b>	53.8
Corporate expenses	(6.9)	(5.1)
Asset impairment	(3.3)	-
Other expense	(1.2)	(0.8)
	<b>60.6</b>	47.9
Earnings before interest, finance expense and income taxes	(7.9)	(5.0)
Interest and finance expense	(14.2)	(13.3)
Provision for income taxes		
Net earnings	<b>\$ 38.5</b>	<b>\$ 29.6</b>
<b>Capital Expenditures</b>		
Metals service centers	\$ 9.7	\$ 4.8
Energy products	0.7	0.7
Steel distributors	0.1	0.1
Other	0.4	-
	<b>\$ 10.9</b>	<b>\$ 5.6</b>
<b>Depreciation Expense</b>		
Metals service centers	\$ 5.5	\$ 5.6
Energy products	1.1	1.0
Steel distributors	0.3	0.3
	<b>\$ 6.9</b>	<b>\$ 6.9</b>

<i>(millions)</i>	March 31 2018	December 31 2017
<b>Current Identifiable Assets</b>		
Metals service centers	\$ 581.4	\$ 503.3
Energy products	713.7	632.4
Steel distributors	144.3	152.5
	<b>1,439.4</b>	1,288.2
<b>Non-Current Identifiable Assets</b>		
Metals service centers	261.5	259.4
Energy products	68.7	70.1
Steel distributors	6.7	6.7
Total identifiable assets included in segments	<b>1,776.3</b>	1,624.4
Assets not included in segments		
Cash and cash equivalents	136.0	125.8
Income tax assets	6.7	9.2
Financial and other assets	4.5	3.5
Corporate and other operating assets	0.7	(3.8)
Total assets	<b>\$ 1,924.2</b>	\$ 1,759.1
<b>Liabilities</b>		
Metals service centers	\$ 251.5	\$ 181.3
Energy products	172.0	142.5
Steel distributors	19.1	23.6
Liabilities by segment	<b>442.6</b>	347.4
Liabilities not included in segments		
Bank indebtedness	115.9	207.7
Income taxes payable and deferred income tax liabilities	20.4	39.3
Long-term debt	442.7	296.6
Pension and benefits	8.8	12.0
Corporate and other liabilities	34.6	29.3
Total liabilities	<b>\$ 1,065.0</b>	\$ 932.3

*b) Results by geographic segment:*

<i>(millions)</i>	Quarters ended March 31	
	2018	2017
<b>Segment Revenues</b>		
Canada	\$ 657.4	\$ 556.8
United States	273.8	246.3
	<b>\$ 931.2</b>	\$ 803.1
<b>Segment Operating Profits</b>		
Canada	\$ 51.3	\$ 38.7
United States	20.7	15.1
	<b>\$ 72.0</b>	\$ 53.8
<i>(millions)</i>	March 31 2018	December 31 2017
<b>Identifiable Assets</b>		
Canada	\$ 1,279.1	\$ 1,201.3
United States	497.2	423.1
	<b>\$ 1,776.3</b>	\$ 1,624.4

c) *Revenues by product:*

<i>(millions)</i>	Quarters ended March 31	
	<b>2018</b>	2017
<b>Carbon</b>		
Tubing/Pipe (Standard, Oil Country Tubular Goods)	\$ 219.5	\$ 213.0
Structurals (WF & I Beams, Angles, Channels, Hollow Tubes)	185.7	155.2
Flanges, Valves, Fittings and other Energy Products	171.8	134.0
Plate (Discrete & Plate in Coil)	166.2	139.2
Flat Rolled (Sheet & Coil)	77.1	60.3
Bars (Hot Rolled and Cold Finished)	42.4	38.9
Grating/ Expanded/Rails	7.9	6.8
<b>Total Carbon</b>	<b>\$ 870.6</b>	<b>\$ 747.4</b>
Total Non-Ferrous (Sheet, Extrusion, Tubes, etc.)	30.6	26.9
Other	30.1	29.2
	<b>\$ 931.3</b>	<b>\$ 803.5</b>

## NOTE 19 FINANCIAL INSTRUMENTS AND RELATED RISK MANAGEMENT

a) *Financial assets and liabilities*

Financial assets and liabilities are as follows:

<i>March 31, 2018 (millions)</i>	Loans and Receivables	Other Financial Liabilities	Total
Cash and cash equivalents	\$ 136.0	\$ -	\$ 136.0
Accounts receivable	548.7	-	548.7
Financial assets	1.4	-	1.4
Bank indebtedness	-	(115.9)	(115.9)
Accounts payables and accrued liabilities	-	(467.5)	(467.5)
Current portion of long-term debt	-	(0.1)	(0.1)
Long-term debt	-	(442.6)	(442.6)
<b>Total</b>	<b>\$ 686.1</b>	<b>\$ (1,026.1)</b>	<b>\$ (340.0)</b>

<i>December 31, 2017 (millions)</i>	Loans and Receivables	Other Financial Liabilities	Total
Cash and cash equivalents	\$ 125.8	\$ -	\$ 125.8
Accounts receivable	446.2	-	446.2
Financial assets	0.5	-	0.5
Bank indebtedness	-	(207.7)	(207.7)
Accounts payables and accrued liabilities	-	(365.7)	(365.7)
Current portion of long-term debt	-	(0.1)	(0.1)
Long-term debt	-	(296.5)	(296.5)
<b>Total</b>	<b>\$ 572.5</b>	<b>\$ (870.0)</b>	<b>\$ (297.5)</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	
	<b>2018</b>	2017
Embedded derivatives	\$ 0.7	\$ (0.1)
Forward contracts	(0.4)	(0.1)

### 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, 2018 and December 31, 2017 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, 2018 (millions)</i>		
6% \$300 million Unsecured Senior Notes due April 19, 2022	\$ 296.6	\$ 306.0
6% \$150 million Unsecured Senior Notes due March 16, 2026	146.0	150.0
Finance lease obligations	0.1	0.1
<b>Total</b>	<b>\$ 442.7</b>	<b>\$ 456.1</b>
<b>Current portion</b>	<b>\$ 0.1</b>	
<b>Long-term portion</b>	<b>\$ 442.6</b>	
<i>December 31, 2017 (millions)</i>		
6% \$300 million Unsecured Senior Notes due April 19, 2022	\$ 296.5	\$ 308.6
Finance lease obligations	0.1	0.1
<b>Total</b>	<b>\$ 296.6</b>	<b>\$ 308.7</b>
<b>Current portion</b>	<b>\$ 0.1</b>	
<b>Long-term portion</b>	<b>\$ 296.5</b>	

### 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, 2018, nearly all cash and cash equivalents were held in institutions that were R1 High by DBRS;
- ◆ Counterparties to derivative contracts are members of the syndicated banking facility (Note 8);
- ◆ 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, 2018 and December 31, 2017, other than the allowance for doubtful accounts. As at March 31, 2018, trade accounts receivable greater than 90 days represented less than 3% of trade accounts receivable (December 31, 2017: 3%).

*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, 2018, the Company had outstanding forward foreign exchange contracts in the amount of US\$58.3 million maturing in 2018 (2017: US\$33.5 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, 2018, 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
2018	\$ 467.3	\$ -	\$ 22.1	\$ 17.4	\$ 506.8
2019	-	-	27.0	18.9	45.9
2020	-	-	27.0	16.0	43.0
2021	-	-	27.0	13.4	40.4
2022	-	300.0	18.9	8.8	327.7
2023 and beyond	-	150.0	31.9	21.8	203.7
Total	\$ 467.3	\$ 450.0	\$ 153.9	\$ 96.3	\$ 1,167.5

At March 31, 2018, the Company was contractually obligated to repay its bank borrowings and letters of credit under its bank facilities at maturity (Note 8).

*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. During the quarter ended March 31, 2018, the Company issued \$150.0 million Unsecured Senior Notes and increased and extended its banking facilities.

## **NOTE 20 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.

The Company has 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 acquisition of Apex Monarch, based upon the achievement of performance measures during the first five years of ownership which expires December 2018. The Company has estimated that it has no further obligation relating to this contract.

## **NOTE 21      SUBSEQUENT EVENT**

On April 16, 2018, the Company acquired the operating assets and facilities of DuBose Steel, a full line structural steel service center with value-added processing facilities in Roseboro and Fayetteville, North Carolina. The Company paid approximately US\$29.0 million for accounts receivable, inventories and property, plant and equipment. This operation will be part of the metals service centers segment.