

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2019

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 nine months ended September 30, 2019, including the notes thereto, and the MD&A and the audited consolidated financial statements for the year ended December 31, 2018, 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 November 6, 2019.

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: 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 \$0.29 for the quarter ended September 30, 2019 was lower than the \$1.10 for the third quarter of 2018. During the third quarter of 2019, demand was lower and steel prices declined following the removal of tariffs between Canada and the U.S. In the third quarter of 2018, we experienced strong demand and inventory holding gains after the imposition of the section 232 tariffs and retaliatory tariffs. Subsequent to September 30, 2019, hot rolled coil prices, a barometer for the industry, reached lows not seen since 2016.

For the nine months ended September 30, 2019, our basic earnings per share of \$1.34 compared to \$2.79 for the same period in 2018. Metals service center average selling prices in 2019 were 3% higher than levels achieved in 2018 but demand was lower than the comparable period in 2018. Gross margins across all segments were lower than the nine months ended September 30, 2018 due to inventory holding gains experienced in 2018 as a result of steel tariffs.

On October 1, 2019, we completed the acquisition of Texas-based City Pipe & Supply Corp. ("City Pipe") for approximately \$141 million. City Pipe is an industry leader in the distribution of pipe, valves and fittings to oil and gas companies primarily in the Permian basin area in Texas and New Mexico. City Pipe will be part of our energy products segment and will complement our Apex Remington energy field store operations. For the first nine months of 2019, prior to our acquisition, City Pipe had revenues of approximately \$150 million and earnings before interest and taxes of approximately \$17 million.

UPDATE ON TARIFFS AND CANADIAN SAFEGUARDS

Trade actions by government authorities in recent years have increased the volatility in steel prices and have created significant uncertainty in the industry. The following is a summary of the major actions by government authorities.

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 subsequently implemented retaliatory tariffs on steel and aluminum products from the U.S. effective July 1, 2018. These steel and aluminum tariffs on products produced in Canada, the U.S. and Mexico were eliminated on May 20, 2019.

On September 30, 2018, the U.S., Canada and Mexico reached an agreement to replace the NAFTA trade agreement. The new agreement has yet to be ratified by all three countries.

On October 22, 2018, the Canadian Department of Finance announced provisional safeguards of 25% on seven steel product categories. Material imported into Canada from sources other than the U.S., Israel, Chile, Mexico and a number of developing countries were subject to provisional surcharges once the import volumes exceeded an allowable quota. Formal hearings were conducted in January 2019 and recommendations were announced in April 2019 at which time it was recommended that tariff rate quotas be continued on heavy plate and stainless-steel wire products for three years. On May 10, 2019, the final safeguard order was implemented on these two product categories. No remedy was recommended on the other five product categories, thus the provisional safeguards on these goods were removed effective April 29, 2019.

During the 2019 first quarter the U.S. International Trade Commission made a preliminary determination that fabricated structural steel from Canada, China and Mexico materially injured the U.S. fabricated steel industry. On July 8, 2019 the U.S. Department of Commerce announced a preliminary determination that no countervailing duties will be assessed by the U.S. on shipments of fabricated steel from Canada but that fabricated steel from China and Mexico would attract countervailing duties. The Department of Commerce is expected to issue its final determination on anti-dumping on November 19, 2019. This ruling should lead to increased steel fabrication in the United States and Canada which should benefit our customer base.

More details on these and other trade actions can be found in the sections that follow.

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 September 30		variance as a % of 2018	Nine Months Ended September 30		variance as a % of 2018
	2019	2018		2019	2018	
Segment Revenues						
Metals service centers	\$ 473.6	\$ 559.3	(15%)	\$ 1,546.4	\$ 1,576.5	(2%)
Energy products	297.7	463.4	(36%)	968.1	1,165.8	(17%)
Steel distributors	93.7	114.0	(18%)	315.3	299.7	5%
Other	4.2	3.4		8.7	7.6	
	\$ 869.2	\$ 1,140.1	(24%)	\$ 2,838.5	\$ 3,049.6	(7%)
Segment Operating Profits						
Metals service centers	\$ 15.5	\$ 54.9	(72%)	\$ 64.9	\$ 141.1	(54%)
Energy products	17.6	40.4	(56%)	70.6	101.1	(30%)
Steel distributors	3.3	10.4	(68%)	19.0	36.4	(48%)
Corporate expenses	(3.9)	(6.0)	35%	(14.4)	(18.8)	23%
Asset impairment	-	-		-	(3.3)	
Other	2.4	1.9		3.9	3.0	
Earnings before interest, finance expense and taxes	\$ 34.9	\$ 101.6	(66%)	\$ 144.0	\$ 259.5	(45%)
Segment Gross Margin as a % of Revenues						
Metals service centers	18.5%	24.3%		18.8%	24.1%	
Energy products	16.7%	17.3%		18.4%	18.9%	
Steel distributors	10.9%	18.6%		12.8%	22.1%	
Total operations	17.5%	21.1%		18.2%	22.1%	
Segment Operating Profit as a % of Revenues						
Metals service centers	3.3%	9.8%		4.2%	9.0%	
Energy products	5.9%	8.7%		7.3%	8.7%	
Steel distributors	3.5%	9.1%		6.0%	12.1%	
Total operations	4.0%	8.9%		5.1%	8.5%	

On January 1, 2019, we adopted *IFRS 16 – Leases* which resulted in an increase in our segment operating profits and interest expense but had no impact on net income.

EFFECT OF IFRS 16

September 30, 2019 (in millions)	Quarter Ended		Nine Months Ended	
	As reported	Pre-IFRS 16	As reported	Pre-IFRS 16
Segment Operating Profits				
Metals service centers	\$ 15.5	\$ 14.8	\$ 64.9	\$ 62.0
Energy products	17.6	16.9	70.6	67.7
Steel distributors	3.3	3.2	19.0	18.7
Corporate expenses	(3.9)	(3.9)	(14.4)	(14.4)
Other	2.4	2.4	3.9	3.8
	\$ 34.9	\$ 33.4	\$ 144.0	\$ 137.8
Interest	10.0	8.4	31.0	24.9
Provision for taxes	6.8	6.8	29.8	29.5
Net earnings	\$ 18.1	\$ 18.2	\$ 83.2	\$ 83.4

Results of our U.S. operations reported for the nine months ended September 30, 2019 were converted at \$1.3291 per US\$1 compared to \$1.2876 per US\$1 for the nine months ended September 30, 2018. Our U.S. operations represented approximately 30% of our total revenues. The exchange rate used to translate the balance sheet at September 30, 2019 was \$1.3243 per US\$1 versus \$1.3642 per US\$1 at December 31, 2018.

QUARTERLY FINANCIAL HIGHLIGHTS

(for the quarters ended)	Sep 30 2019	Jun 30 2019	Mar 31 2019	Dec 31 2018	Sep 30 2018	Jun 30 2018	Mar 31 2018	Dec 31 2017
Revenues (\$ millions)	\$ 869	\$ 937	\$ 1,033	\$ 1,115	\$ 1,140	\$ 978	\$ 931	\$ 825
Operating profits (\$ millions)	35	51	58	71	102	97	61	47
Net earnings (\$ millions)	18	31	34	46	68	66	38	28
Basic earnings per share (\$)	0.29	0.50	0.55	0.74	1.10	1.07	0.62	0.45

METALS SERVICE CENTERS

a) Description of operations

We provide processing and distribution services to a broad base of approximately 35,000 end users through a network of 49 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 as well as 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, 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 third quarters of 2019 and 2018 is found in the sections that follow.

Steel prices fluctuate significantly throughout the steel cycle. Steel prices are influenced by overall international demand, domestic demand, trade sanctions, iron ore prices, scrap steel prices and product availability. Changing metal prices cause fluctuations in our operating margins. U.S. coil product prices have continued to soften during 2019 and U.S. long products and plate pricing softened in the 2019 third quarter. During 2018 and early 2019, due to tariffs on material between Canada and the U.S., product prices in Canada for coil, structural tubing and hot rolled plate were not based on the currency adjusted U.S. pricing as had been the historical practice of the mills. Canadian coil and structural tubing prices were lower than the equivalent U.S. price whereas plate prices were higher until tariffs were removed in May 2019 when the prices reverted to currency-adjusted prices.

Supply side management, practiced by steel producers in North America, and international supply and demand, which impact steel imports, have historically affected product availability. Trade sanctions on specific products have been initiated either by steel mills or by North American government agencies.

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 subsequently implemented retaliatory tariffs on steel and aluminum products from the U.S. effective July 1, 2018. These steel and aluminum tariffs on products produced in Canada, the U.S. and Mexico were eliminated on May 20, 2019.

On September 30, 2018, the U.S., Canada and Mexico reached an agreement to replace the NAFTA trade agreement. The new agreement has yet to be ratified by all three countries.

On October 22, 2018, the Canadian Department of Finance announced provisional safeguards of 25% on seven steel product categories. Material imported into Canada from sources other than the U.S., Israel, Chile, Mexico and a number of developing countries were subject to provisional surcharges once the import volumes exceeded an allowable quota. Formal hearings were conducted in January 2019 and recommendations were announced in April 2019 at which time it was recommended that tariff rate quotas be continued on heavy plate and stainless-steel wire products for three years. On May 10, 2019, the final safeguard order was implemented on these two product categories. No remedy was recommended on the other five product categories, thus the provisional safeguards on these goods were removed effective April 29, 2019.

During the 2019 first quarter the U.S. International Trade Commission made a preliminary determination that fabricated structural steel from Canada, China and Mexico materially injured the U.S. fabricated steel industry. On July 8, 2019 the U.S. Department of Commerce announced a preliminary determination that no countervailing duties will be assessed by the U.S. on shipments of fabricated steel from Canada but that fabricated steel from China and Mexico would attract countervailing duties. The Department of Commerce is expected to issue its final determination on anti-dumping on November 19, 2019. This ruling should lead to increased steel fabrication in the United States and Canada which should benefit our customer base.

Our operating results are affected by the cyclicity of the metals industry and the industries that purchase our products. Demand for our products is significantly affected by economic cycles. Revenues and operating profits fluctuate with the level of general business activity in the markets we serve. We are most impacted by several sectors of the North American economy including natural resources, oil and gas, manufacturing and construction.

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 21,000 Canadian customers means that our results tend to mirror the performance of the regional economies of Canada.

Our U.S. operations, which have approximately 14,000 customers, are also impacted by the local economic conditions in the regions that they serve. In April 2018, we acquired DuBose Steel which expanded 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 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 September 30, 2019 compared to September 30, 2018*

Revenues for the three months ended September 30, 2019 decreased 15% to \$474 million compared to \$559 million in the same period in 2018. Tons shipped in the third quarter of 2019 were approximately 5% lower than the third quarter of 2018. Average selling price per ton was 11% lower than the 2018 third quarter and 7% lower than the 2019 second quarter.

Gross margin as a percentage of revenues of 18.5% was lower than the same quarter last year at 24.3% as steel prices continued to decline and demand softened in 2019. During 2018, tariffs and retaliatory tariffs led to higher steel prices and gross margins.

Operating expenses for the 2019 third quarter of \$72 million were lower than the \$81 million in the 2018 third quarter due to our emphasis on cost control, lower variable compensation and the new lease accounting standard.

Metals service centers operating profits for the three months ended September 30, 2019 of \$16 million were lower than the \$55 million reported for the same period in 2018 mainly due to margin pressure.

d) *Metals service centers segment results -- Nine Months Ended September 30, 2019 compared to September 30, 2018*

Revenues for the nine months ended September 30, 2019 decreased 2% to \$1.5 billion compared to \$1.6 billion in the same period in 2018. Tons shipped in the metals service centers segment in the nine months ended September 30, 2019 were 6% lower than the same period in 2018, on a same store basis. Average selling price per ton was 3% higher than the nine months ended September 30, 2018.

Gross margin as a percentage of revenues of 18.8% for the nine months ended September 30, 2019 compared to 24.1% for the same period in 2018. The 2018 gross margins included inventory holding gains as a result of the section 232 tariffs, while 2019 was impacted by declining steel prices.

Operating expenses as a percentage of revenues for the nine months ended September 30, 2019 of 14.6% were lower than the 15.2% in the same period of 2018 due to lower variable compensation and the effect of the new lease accounting standard.

Metals service centers operating profits for the nine months ended September 30, 2019 of \$65 million compared to \$141 million reported for the same period in 2018 mainly due to lower volumes and gross margins.

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 48 Canadian and 23 U.S. facilities mainly to support our valve and fitting operations. The majority of these facilities are energy 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. On October 1, 2019 we acquired City Pipe & Supply Corp., which expanded our energy field store footprint in the Permian basin through their five distribution locations.

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 third quarter of 2019 and 2018 is found in the sections that follow.

The price of oil, including the Western Canadian select discount, and natural gas can impact rig count and drilling activities, which in turn affects demand for our products. Oil prices increased throughout the first four months of 2019 but leveled off in the 2019 second and third quarter. To date in 2019, rig activity in the U.S. and Canada has been lower than the same period in 2018.

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 North America government agencies. 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 August 2018, anti-dumping duties were imposed by the U.S. on imported large diameter pipe from six countries including Canada. The U.S. section 232 investigation and the resulting tariffs and retaliatory tariffs resulted in increased pipe prices. The subsequent removal of these tariffs and retaliatory tariffs in North America has led to decreased pipe prices. Large projects such as the Kitimat LNG project should result in stronger demand in our industry. Valves and fittings prices are not as sensitive to steel price fluctuations because they are highly engineered 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
September 30, 2019 compared to September 30, 2018***

Revenues in our energy products segment decreased 36% to \$298 million for the third quarter of 2019 compared to \$463 million in the same period of 2018 due to lower rig counts and a large line pipe shipment in 2018 which was not replicated in 2019.

Gross margin as a percentage of revenues for the three months ended September 30, 2019 was 16.7% compared to 17.3% in the same period in 2018 due to lower industry-wide OCTG and line pipe prices in reaction to lower North American rig counts. The lower OCTG prices in the 2019 third quarter resulted in a \$5 million inventory write-down.

Operating expenses were \$32 million compared to \$40 million in the 2018 third quarter due to cost reductions triggered by lower volumes and lower variable compensation on reduced profitability.

Operating profits of \$18 million were generated for the three months ended September 30, 2019 compared to \$40 million for the same period in 2018.

**d) *Energy products segment results -- Nine Months Ended
September 30, 2019 compared to September 30, 2018***

Revenues in our energy products segment decreased 17% to \$968 million for the nine months ended September 30, 2019 compared to the same period in 2018.

Gross margin as a percentage of revenues for the nine months ended September 30, 2019 was 18.4% compared to 18.9% in the same period in 2018 as a result of price pressure on line pipe and OCTG products due to demand declines.

Operating expenses of \$108 million for the nine months ended September 30, 2019 were lower than the \$120 million in the nine months ended September 30, 2018 due to cost savings from lower volumes and lower variable compensation on reduced profitability.

Operating profits for this segment were \$71 million for the nine months ended September 30, 2019 compared to \$101 million for the same period in 2018 due to lower demand and selling prices.

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 third quarters of 2019 and 2018 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 "Update on Tariffs and Canadian Safeguards", led to higher prices and shifted supply channels for steel distributor customers in the second half of 2018. Certain products purchased by our Canadian steel distributors operation were subject to the Canadian provisional safeguards that went into effect October 25, 2018. On May 10, 2019 these safeguards were removed, and provisional surcharges were implemented on heavy plate and stainless-steel wire products.

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 impacted by movements in the Canadian dollar.

c) *Steel distributors segment results -- Three Months Ended September 30, 2019 compared to September 30, 2018*

Revenues for steel distributors decreased 18% to \$94 million for the three months ended September 30, 2019 compared to the same period in 2018 due to reduced volumes and selling prices experienced in the 2019 third quarter.

Gross margin as a percentage of revenues was 10.9% for the three months ended September 30, 2019 compared to 18.6% for the three months ended September 30, 2018. Gross margins at our U.S. steel distributors operation have been impacted by softness in the industrial manufacturing and energy sectors and declining steel prices.

Operating expenses as a percentage of revenues for the third quarter of 2019 were 7.4% which was lower than the same quarter in 2018 at 9.5%, due to cost containment and lower variable compensation.

Operating profits for the three months ended September 30, 2019 were \$3 million compared to \$10 million September 30, 2018.

d) *Steel distributors segment results -- Nine Months Ended September 30, 2019 compared to September 30, 2018*

Revenues for the nine months ended September 30, 2019 increased 5% to \$315 million compared to \$300 million for the nine months ended September 30, 2018 due to higher volumes in our Canadian operation.

Gross margin as a percentage of revenues was 12.8% for the nine months ended September 30, 2019 compared to 22.1% for the same period in 2018 due to declining steel prices in 2019 compared to rising prices in 2018.

Operating expenses as a percentage of revenues were 6.8% for the nine months ended September 30, 2019 and 9.9% for the comparable period in 2018 due to cost containment and lower variable compensation.

Operating profits for the nine months ended September 30, 2019 were \$19 million compared to \$36 million for the nine months ended September 30, 2018 due to lower demand and gross margins.

CORPORATE EXPENSES -- Three and Nine Months Ended September 30, 2019 compared to September 30, 2018

Corporate expenses for the three and nine months ended September 30, 2019 were 35% and 23% lower than 2018 due to lower variable and stock-based compensation.

CONSOLIDATED RESULTS -- Three and Nine Months Ended September 30, 2019 compared to September 30, 2018

Operating profits of \$35 million for the three months ended September 30, 2019 compared to \$102 million for the same quarter of 2018. For the nine months ended September 30, 2019 operating profits were \$144 million compared to \$260 million in the same period last year.

INTEREST EXPENSE

Net interest expense was \$10 million for the three months ended September 30, 2019 compared to \$9 million for the same quarter of 2018. Net interest expense was \$31 million for the nine months ended September 30, 2019 and \$23 million for the same period in 2018 reflecting additional interest expense of \$6 million related to the new lease accounting standard *IFRS 16*.

INCOME TAXES

We recorded a provision for income taxes of \$7 million for the third quarter of 2019 compared to \$25 million for the third quarter of 2018. Our effective income tax rate for the three months ended September 30, 2019 was 27.3% compared to 26.7% for the three months ended September 30, 2018. For the nine months ended September 30, 2019 our effective income tax rate was 26.3% compared to 26.5% in 2018.

NET EARNINGS

Net earnings for the third quarter of 2019 at \$18 million compared to \$68 million in the third quarter of 2018. Basic earnings per share for the third quarter of 2019 of \$0.29 compared to \$1.10 per share for the third quarter of 2018 as all business segments experienced lower gross margins and volumes. Basic earnings per share for the nine months ended September 30, 2019 of \$1.34 compared to \$2.79 for the same period last year.

SHARES OUTSTANDING AND DIVIDENDS

The weighted average number of common shares outstanding for the third quarter of 2019 was 62,136,688 compared to 62,081,187 for the third quarter of 2018. The weighted average number of common shares outstanding for the nine months ended September 30, 2019 was 62,118,081 compared to 62,005,764 for the nine months ended September 30, 2018. Common shares outstanding at September 30, 2019 and November 6, 2019 were 62,173,430.

We paid common share dividends of \$24 million or \$0.38 per share in the third quarter of 2019 and 2018.

We have \$150 million of 6% Senior Notes due March 16, 2026. The indenture for these Senior Notes has restrictions related to the payment of quarterly dividends in excess of \$0.38 per share. These notes can be redeemed at par on or after March 16, 2024.

We have \$300 million of 6% Senior Notes due April 19, 2022. The indenture for these Senior Notes has restrictions related to the payment of quarterly dividends in excess of \$0.35 per share. At the current dividend rate, there is sufficient room to continue to pay the dividend to the maturity of these 2022 Senior Notes which can be redeemed at par on or after April 19, 2020.

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. In addition, if our excess borrowing base were to be insufficient we believe we would be able to obtain a waiver or finance our short-term cash requirements with alternative financing structures and pay the dividend.

EBITDA

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

(millions)	Quarters ended September 30		Nine months ended September 30	
	2019	2018	2019	2018
Net earnings	\$ 18.1	\$ 68.2	\$ 83.2	\$ 172.8
Provision for income taxes	6.8	24.8	29.8	62.3
Interest and finance expense, net	10.0	8.6	31.0	24.4
Earnings before interest, finance expense and income taxes (EBIT)	34.9	101.6	144.0	259.5
Depreciation and amortization	13.8	9.0	41.4	26.1
Earnings before interest, finance expense, income taxes, depreciation and amortization (EBITDA)	\$ 48.7	\$ 110.6	\$ 185.4	\$ 285.6

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. EBITDA for the nine months ended September 30, 2019 increased by \$19 million as a result of the new lease accounting standard *IFRS 16*.

CAPITAL EXPENDITURES

Capital expenditures were \$24 million for the nine months ended September 30, 2019 compared to \$31 million in the same period of 2018. We continue to invest in value-added processing equipment in our metals service centers. Depreciation expense was \$36 million for the nine months ended September 30, 2019 compared to \$21 million for the comparable period in 2018. The implementation of the new lease accounting standard *IFRS 16* resulted in additional depreciation of \$13 million in the nine months ended September 30, 2019.

LIQUIDITY

At September 30, 2019, we had net bank indebtedness, defined as cash less bank indebtedness, of \$7 million compared to \$4 million at December 31, 2018. We generated cash of \$158 million from operations in the nine months ended September 30, 2019 and \$11 million from working capital. We invested \$24 million for capital expenditures, utilized \$61 million for income tax payments and returned \$71 million in dividends to our shareholders.

Due to our cyclicity, 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 utilize cash at the peak of each cycle and generate cash from working capital reductions at the bottom of each cycle. Accounts receivable and inventory comprise our largest liquidity risks and generated \$139 million in cash for the nine months ended September 30, 2019 due to decreased business activity triggering our counter cyclical cashflows.

Total assets were \$2.1 billion at September 30, 2019 and December 31, 2018. At September 30, 2019, current assets excluding cash represented 77% of our total assets excluding cash compared to 80% at December 31, 2018.

Reduced inventory levels yielded cash of \$80 million in the nine months ended September 30, 2019. Inventories were lower due to both decreased tons and steel prices. Inventories represented 46% of our total assets at September 30, 2019 compared to 49% at December 31, 2018.

<i>Inventory by Segment (millions)</i>	Sept. 30 2019	June 30 2019	Mar. 31 2019	Dec. 31 2018	Sept. 30 2018
Metals service centers	\$ 334	\$ 378	\$ 429	\$ 427	\$ 394
Energy products	507	506	465	475	468
Steel distributors	123	124	137	150	168
Total	\$ 964	\$ 1,008	\$ 1,031	\$ 1,052	\$ 1,030

<i>Inventory Turns (quarters ended)</i>	Sept. 30 2019	June 30 2019	Mar. 31 2019	Dec. 31 2018	Sept. 30 2018
Metals service centers	4.6	4.6	4.1	3.9	4.3
Energy products	2.0	1.9	2.6	3.0	3.3
Steel distributors	2.7	2.8	3.1	3.6	2.2
Total	3.0	3.0	3.3	3.4	3.5

At September 30, 2019, our metals service centers inventory tons and average cost per ton were lower than at September 30, 2018 and June 30, 2019. At September 30, 2019, inventory levels at our energy products operations were higher than September 30, 2018 primarily due to lower demand caused by lower rig counts.

Accounts receivable generated cash of \$59 million due to lower revenues in the nine months ended September 30, 2019. Accounts receivable represented 26% of our total assets excluding cash at September 30, 2019 compared to 28% at December 31, 2018.

During the nine months ended September 30, 2019 we made income tax payments of \$61 million compared to \$64 million for the nine months ended September 30, 2018.

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 September 30		Nine months ended September 30	
	2019	2018	2019	2018
Cash from operating activities before non-cash working capital	\$ 41.7	\$ 104.2	\$ 157.9	\$ 270.7
Purchase of property, plant and equipment	(9.7)	(11.7)	(23.6)	(31.2)
	\$ 32.0	\$ 92.5	\$ 134.3	\$ 239.5

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. The purchase of property, plant and equipment excludes the non-cash addition of right-of-use assets.

DEBT

<i>(millions)</i>	September 30 2019	December 31 2018
Long-term debt		
6% \$300 million Unsecured Senior Notes due April 19, 2022	\$ 298	\$ 297
6% \$150 million Unsecured Senior Notes due March 16, 2026	147	147
	\$ 445	\$ 444

CASH, DEBT AND CREDIT FACILITIES

<i>Cash Facilities</i> (millions)	September 30 2019	December 31 2018
Bank loans	\$ (148)	\$ (148)
Cash net of outstanding cheques	141	144
Net debt	(7)	(4)
Letters of credit	(33)	(76)
	\$ (40)	\$ (80)
Facilities		
Borrowings and letters of credit	\$ 400	\$ 500
Letters of credit	50	50
Facilities availability	\$ 450	\$ 550
Available line based on borrowing base	\$ 450	\$ 550

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. On August 31, 2018, we amended our credit facility to increase availability by \$100 million for borrowings or additional letters of credit for a period of one year for a total availability of \$550 million. On August 30, 2019, this increase expired and the availability reverted back to \$450 million. The borrowings and letters of credit are available on a revolving basis, up to an amount equal to the sum of specified percentages of our eligible accounts receivable and inventories, to a maximum of \$450 million.

As of September 30, 2019, we were entitled to borrow and issue letters of credit totaling \$450 million under this facility. At September 30, 2019 and December 31, 2018, we had \$148 million in borrowings. We had \$33 million in letters of credit at September 30, 2019 compared to \$76 million at December 31, 2018.

At September 30, 2019, we were in compliance with all of our financial covenants.

With our cash, cash equivalents and our bank facilities we have access to approximately \$384 million of cash based on our September 30, 2019 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 September 30, 2019, we were contractually obligated to make payments as per the following table:

<i>Contractual Obligations</i> (millions)	Payments due in				Total
	2019	2020 and 2021	2022 and 2023	2024 and thereafter	
Bank indebtedness	\$ 148	\$ -	\$ -	\$ -	\$ 148
Accounts payable	364	-	-	-	364
Debt	-	-	300	150	450
Long-term debt interest	9	54	26	23	112
Operating leases	8	46	34	73	161
Total	\$ 529	\$ 100	\$ 360	\$ 246	\$ 1,235

In addition to the bank loans noted in the above table we are obligated to pay \$33 million in letters of credit when they mature in 2019.

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 15 of our 2018 consolidated financial statements. During the nine months ended September 30, 2019, we contributed \$3 million to these plans. We expect to contribute approximately \$2 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 short-term and low value operating lease obligations disclosed in the contractual obligations table. On January 1, 2019, we adopted the new lease accounting standard *IFRS 16* and our leases, excluding short-term and low value leases, that were previously off-balance sheet were recorded on the balance sheet.

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 September 30, 2019 approximated our reserve at December 31, 2018. Bad debt expense for the nine months ended September 30, 2019 as a percentage of revenue was less than 1%.

Inventories

We review our inventories to ensure that the cost of inventories is not in excess of 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 September 30, 2019 was approximately \$4 million higher than the level at December 31, 2018.

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.

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 \$151 million in plan assets at September 30, 2019, which is an increase of approximately \$16 million from December 31, 2018. The discount rate used on the employee benefit plan obligation for the quarter ended September 30, 2019 was 3.00% which is 75 basis points lower than the discount rate at December 31, 2018.

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 third quarter of 2019 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 adds a new geographic area to our U.S. service center operations. On October 1, 2019, we completed the acquisition of City Pipe & Supply Corp. which added energy field services primarily in the Permian basin to our existing Apex Remington strength in Oklahoma, Texas and North Dakota. 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 cyclical nature of the steel industry, modest capacity utilization rates for North American steel producers and high import levels. The tariffs implemented under the section 232 investigation supported higher steel prices and North American production in 2018. The removal of the North American tariffs reduced steel prices for 2019. Future changes to country or product exemptions may impact steel prices and product availability.

Approximately 40% of our revenues are dependent on the oil and gas industry whose activity fluctuates with oil and gas prices. We are one of the largest suppliers to the Canadian energy sector through operations in our energy product segment and our metals service centers located in close proximity. Our energy field store operations provide a more stable stream of earnings as their products are used in maintenance and repair as well as new drilling activity.

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 business segments are navigating the challenging environment of lower steel prices and demand. We expect these pressures to remain during the fourth quarter and result in the generation of positive cash flows. We anticipate that our City Pipe acquisition will improve profitability in our energy products segment in 2020.