

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS FOR THE THREE MONTHS ENDED MARCH 31, 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 three months ended March 31, 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 May 7, 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: the volatility in metal prices; volatility in oil and natural gas prices; cyclical nature of the metals industry and the industries that purchase our products; decreased capital and other expenditures in the energy industry; product claims from customers; significant competition that could reduce our market share; the interruption in sources of metals supply; manufacturers selling directly to our customer base; material substitution; credit risk of our customers; lack of credit availability; change in our credit ratings; currency exchange risk; restrictive debt covenants; non-cash asset impairments; the unexpected loss of key individuals; decentralized operating structure; the availability of future acquisitions and their integration; the failure of our key computer-based systems, including our enterprise resource and planning systems; failure to renegotiate any of our collective agreements and work stoppages; litigious business environment; environmental liabilities; environmental concerns or changes in government regulations; legislation on carbon emissions; workplace health and safety laws and regulations; significant changes in laws and governmental regulations; fluctuation of our common share price; dilution; and variability of dividends.

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

NON-GAAP MEASURES

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

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

OVERVIEW

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

Our basic earnings per share was \$0.55 for the quarter ended March 31, 2019 compared to \$0.62 for the first quarter of 2018. The implementation of *IFRS 16 – Leases* caused our earnings before interest, finance expense and taxes to increase by \$3 million offset by increased interest expense of \$3 million. There was no material impact on net income.

Steel prices remained consistent with levels at the end of 2018 during the first quarter but demand was slightly lower than the 2018 first quarter and higher than the 2018 fourth quarter. Margins across all segments were under pressure due to the higher cost of material leading to lower operating profits.

UPDATE ON TARIFFS AND CANADIAN SAFEGUARDS

Trade actions by government authorities have increased steel prices which has benefited producers and distributors; however, these actions 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. On September 30, 2018, the U.S., Canada and Mexico reached an agreement to replace the NAFTA trade agreement but the agreement did not eliminate the steel and aluminum tariffs. The new agreement has yet to be ratified by the three countries.

In October 2018, the Department of Finance announced provisional safeguards on seven steel product categories in the form of tariff rate quotas with a 25% surtax imposed on such goods above the specified quota. Formal hearings were conducted in January 2019 and recommendations were announced in April 2019. It was recommended that tariff rate quotas be continued on heavy plate and stainless steel wire products for three years. As of May 7, 2019, no official announcement has been made 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.

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, other 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 March 31		variance as a % of 2018
	2019	2018	
Segment Revenues			
Metals service centers	\$ 537.9	\$ 455.4	18%
Energy products	372.6	382.1	(3%)
Steel distributors	122.0	93.7	30%
Other	0.1	0.1	
	\$ 1,032.6	\$ 931.3	11%
Segment Operating Profits			
Metals service centers	\$ 26.7	\$ 28.9	(8%)
Energy products	29.5	32.4	(9%)
Steel distributors	9.2	10.7	(14%)
Corporate expenses	(6.0)	(6.9)	13%
Asset impairment	-	(3.3)	
Other	(1.2)	(1.2)	
Earnings before interest, finance expense and taxes	\$ 58.2	\$ 60.6	(3%)
Segment Gross Margin as a % of Revenues			
Metals service centers	19.1%	22.1%	
Energy products	18.9%	19.3%	
Steel distributors	13.9%	21.6%	
Total operations	18.4%	20.9%	
Segment Operating Profit as a % of Revenues			
Metals service centers	5.0%	6.3%	
Energy products	7.9%	8.5%	
Steel distributors	7.5%	11.4%	
Total operations	5.6%	6.5%	

EFFECT OF IFRS 16

<i>(in millions)</i>	Quarters Ended March 31, 2019	
	As reported	Pre-IFRS 16
Segment Operating Profits		
Metals service centers	\$ 26.7	\$ 25.3
Energy products	29.5	28.2
Steel distributors	9.2	9.1
Corporate expenses	(6.0)	(6.0)
Other	(1.2)	(1.2)
	\$ 58.2	\$ 55.4
Interest	11.1	8.4
Provision for taxes	12.8	12.7
Net Income	\$ 34.3	\$ 34.3

Results of our U.S. operations reported for the three months ended March 31, 2019 were converted at \$1.3292 per US\$1 compared to \$1.2650 per US\$1 for the three months ended March 31, 2018. The weaker Canadian dollar in 2019 versus 2018 increased revenues, expenses and profits for our U.S. operations when translated to Canadian dollars. Revenues from our U.S. operations represented 31% of our total revenues. The exchange rate at March 31, 2019 used to translate the balance sheet was \$1.3363 per US\$1 versus \$1.3642 per US\$1 at December 31, 2018.

QUARTERLY FINANCIAL HIGHLIGHTS

<i>(for the quarters ended)</i>	Mar 31 2019	Dec 31 2018	Sep 30 2018	Jun 30 2018	Mar 31 2018	Dec 31 2017	Sep 30 2017	Jun 30 2017
Revenues (\$ millions)	\$ 1,033	\$ 1,115	\$ 1,140	\$ 978	\$ 931	\$ 825	\$ 851	\$ 817
Operating profits (\$ millions)	58	71	102	97	61	47	58	54
Net earnings (\$ millions)	34	46	68	66	38	28	34	32
Basic earnings per share (\$)	0.55	0.74	1.10	1.07	0.62	0.45	0.55	0.52

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 first quarters of 2019 and 2018 is found in the section that follows.

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. Volatile metal prices cause fluctuations in our operating results. U.S. coil product prices continued to soften in the first quarter of 2019 and U.S. long products and plate pricing remained steady. Due to tariffs on material moving 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.

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 which resulted in import tariffs of 25% on steel and 10% on aluminum. In response to these tariffs, Canada implemented retaliatory tariffs on steel and aluminum from the U.S. effective July 1, 2018. On September 30, 2018, the Canadian, U.S. and Mexican governments reached an agreement to replace NAFTA which has not been ratified and did not eliminate the steel and aluminum tariffs.

On October 22, 2018, the Canadian Department of Finance announced provisional surcharges 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 are subject to provisional surcharges once the import volumes exceed an allowable quota. The Canadian International Trade Tribunal has recommended that surcharge be continued for three years on two of the seven products; heavy plate and stainless steel wire products. The Canadian government has not acted on these recommendations to date.

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. The Department of Commerce is expected to issue preliminary countervailing duties and antidumping determinations by July 2019 and September 2019 respectively.

Our operating results are affected by the inherent risk of the cyclical nature 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 the following: 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.

In April 2018, we acquired DuBose Steel which expanded our geographic presence in the Southeastern United States. Our U.S. operations, which have approximately 14,000 customers, are also impacted by the local economic conditions in the regions that they serve.

Results of our Canadian operations can be affected by the U.S. dollar exchange rate since some products are sourced outside of Canada 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
March 31, 2019 compared to March 31, 2018**

Revenues for the three months ended March 31, 2019 increased 18% to \$538 million compared to the same period in 2018 due to higher steel prices and the acquisition of DuBose Steel. Same store tons shipped in the metals service centers segment in the first quarter of 2019 were approximately 6% lower than the first quarter of 2018 but 3% higher than the fourth quarter of 2018. The average selling price improved 21% compared to the same quarter in 2018 and was consistent with the 2018 fourth quarter.

Gross margin as a percentage of revenues of 19.1% was lower than the 22.1% in the same quarter last year due to the higher average cost of inventory and increased competitive pricing pressure.

Operating expenses were \$78 million compared to \$72 million in the 2018 first quarter due, in part, to the increase in the U.S./Canada exchange rate and the acquisition of DuBose Steel. The new lease accounting standard *IFRS 16* resulted in an improvement of \$1 million in operating expenses.

Metals service centers operating profits for the three months ended March 31, 2019 of \$27 million were 8% lower than the \$29 million reported for the same period in 2018.

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 22 U.S. facilities mainly to support our valve and fitting operations. The majority of these facilities are oil field stores which form the Apex Distribution network. We purchase our products from the pipe division of North American steel mills, independent manufacturers of pipe, valves and fittings, international steel mills and other distributors. Our energy products segment operates under the names Apex Distribution, Apex Monarch, Apex Remington, Apex Western Fiberglass, Comco Pipe and Supply Company, Fedmet Tubulars, Triumph Tubular & Supply, Pioneer Pipe and Spartan Energy Tubulars.

b) Factors affecting results

The following is a general discussion of the factors affecting our energy products segment operations. More specific information on how these factors impacted the first quarters of 2019 and 2018 is found in the section that follows.

The price of oil including the Western Canadian select discount and natural gas, can impact rig count and drilling activities, which affects demand for our products. Oil prices have increased throughout the first quarter of 2019. Rig activity in the U.S. though higher than the same period in 2018, decreased throughout the 2019 first quarter and rig activity in Canada was 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 government agencies in North America. Both the Canadian and U.S. governments have imposed duties on certain Chinese pipe, which remain in effect and have reduced imports of these products. In 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 referred to above under "Update on Tariffs and Canadian Safeguards", resulted in increased pipe prices. 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 March 31, 2019 compared to March 31, 2018

Revenues in our energy products segment decreased 2% to \$373 million for the first quarter of 2019 compared to the same period of 2018 due to lower activity at our Canadian field service stores, lower selling prices in OCTG and line pipe offset by increased U.S. field store demand, particularly in the Permian Basin.

Gross margin as a percentage of revenues for the three months ended March 31, 2019 was 18.9% compared to 19.3% in the same period in 2018. This reduction was mainly due to mix.

Operating expenses were \$42 million compared to \$41 million in the 2018 first quarter excluding the \$1 million improvement due to the new lease accounting standard *IFRS 16*.

This segment generated lower operating profits of \$30 million for the three months ended March 31, 2019 compared to \$32 million for the same period in 2018 mainly due to lower margins.

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 first quarters of 2019 and 2018 is found in the section that follows.

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", has led to higher prices and shifted supply channels for steel distributor customers. Certain products purchased by our Canadian steel distributors operation may be subject to the Canadian provisional safeguards that went into effect October 25, 2018 depending on time of arrival but these safeguards were removed on all but two product categories. As of May 7, 2019 no official announcement has been made on the final two product categories.

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

c) Steel distributors segment results -- Three Months Ended March 31, 2019 compared to March 31, 2018

Revenues for steel distributors increased 30% to \$122 million for the three months ended March 31, 2019 compared to the same period in 2018 due to increased volumes and selling prices. Our Canadian operations experienced higher demand to meet customers needs due to disruption in traditional trade sources.

Gross margin as a percentage of revenues was 13.9% for the three months ended March 31, 2019 compared to 21.6% for the three months ended March 31, 2018 as margins returned to historical levels.

Operating expenses as a percentage of revenues of 6.4% for the first quarter of 2019 were lower than the 10.1% in the 2018 first quarter due to economics of scale realized on stronger demand and lower variable compensation.

This segment generated lower operating profits of \$9 million compared to \$11 million in the 2018 first quarter as a result of lower margins.

CORPORATE EXPENSES -- Three Months Ended March 31, 2019 compared to March 31, 2018

Corporate expenses of \$6 million for the three months ended March 31, 2019 were lower than the \$7 million in the first quarter of 2018 due to lower variable and stock-based compensation.

CONSOLIDATED RESULTS -- Three Months Ended March 31, 2019 compared to March 31, 2018

Operating profits of \$58 million for the first quarter of 2019 were lower than the \$61 million for the first quarter of 2018 due to lower gross margins. The new leasing standard resulted in an increase in operating profits of \$3 million.

INTEREST EXPENSE

Net interest expense of \$11 million in the 2019 first quarter was higher than the \$7 million in the 2018 first quarter mainly as a result of additional interest expense of \$3 million relating to the new lease accounting standard *IFRS 16* and slightly higher interest costs on borrowings to support working capital increases.

INCOME TAXES

We recorded a provision for income taxes of \$13 million for the first quarter of 2019 compared to \$14 million for the first quarter of 2018. Our effective income tax rate for the three months ended March 31, 2019 was 27.1% compared to 26.9% for the three months ended March 31, 2018.

NET EARNINGS

Net earnings for the first quarter of 2019 were \$34 million compared to \$38 million for the first quarter of 2018. Basic earnings per share for the first quarter of 2019 was \$0.55 per share compared to \$0.62 per share for the first quarter of 2018.

SHARES OUTSTANDING AND DIVIDENDS

The weighted average number of common shares outstanding for the first quarter of 2019 was 62,107,839 compared to 61,921,421 for the first quarter of 2018. Common shares outstanding at March 31, 2019 and May 7, 2019 were 62,109,395.

We paid common share dividends of \$24 million or \$0.38 per share in the first quarters 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:

<i>(millions)</i>	Quarters ended March 31	
	2019	2018
Net earnings	\$ 34.3	\$ 38.5
Provision for income taxes	12.8	14.2
Interest and finance expense, net	11.1	7.9
Earnings before interest, finance expense and income taxes (EBIT)	58.2	60.6
Depreciation and amortization	13.7	8.4
Earnings before interest, finance expense, income taxes, depreciation and amortization (EBITDA)	\$ 71.9	\$ 69.0

We believe that EBITDA, a non-GAAP measure, may be useful in assessing our operating performance and as an indicator of our ability to service or incur indebtedness, make capital expenditures and finance working capital requirements. The items excluded in determining EBITDA are significant in assessing our operating results and liquidity. Therefore, EBITDA should not be considered in isolation or as an alternative to cash from operating activities or other combined income or cash flow data prepared in accordance with GAAP. EBITDA for the 2019 first quarter increased by \$7 million as a result of the new lease accounting standard *IFRS 16*.

CAPITAL EXPENDITURES

Capital expenditures, for the first quarter of 2019, were \$5 million, excluding non-cash right-of-use asset additions of \$4 million, compared to \$11 million in the first quarter of 2018. Depreciation expense was \$14 million for the first quarter of 2019 compared to \$8 million in the comparable 2018 period. The implementation of the new lease accounting standard *IFRS 16* resulted in additional depreciation of \$4 million. We expect capital expenditures to be higher than depreciation on property, plant and equipment in 2019 as we continue to invest in equipment for value-added processing.

<i>(millions)</i>	Quarters ended March 31	
	2019	2018
Capital expenditures - property, plant and equipment	\$ 5	\$ 11
Additions - right-of-use assets	4	-
Depreciation - property, plant and equipment	8	7
Depreciation - right-of-use assets	4	-

LIQUIDITY

At March 31, 2019, we had net debt, defined as cash less bank indebtedness, of \$47 million compared to net debt of \$4 million at December 31, 2018. We generated cash of \$63 million from operations in the first quarter of 2019 due to strong earnings and utilized \$36 million for working capital to support higher revenues. We utilized \$5 million for capital expenditures, \$33 million in income tax payments and \$24 million for dividends.

Due to our cyclical business and counter cyclical cash flows, we experience significant swings in working capital. Inventory and accounts receivable represent a large percentage of our total assets employed and fluctuate throughout each cycle. Accounts receivable and inventory comprise our largest liquidity risks and utilized \$9 million in cash to support increased business activity.

Total assets were \$2.2 billion at March 31, 2019 and \$2.1 billion at December 31, 2018. Total assets increased by \$0.1 billion due to the new lease standard. At March 31, 2019, current assets excluding cash represented 78% of our total assets excluding cash compared to 80% at December 31, 2018.

Inventory reductions generated cash of \$15 million in the three months ended March 31, 2019. Inventory tons were lower due to lower purchases reflecting our reaction to lower demand levels. Inventories represented 47% of our total assets at March 31, 2019 compared to 49% at December 31, 2018.

<i>Inventory by Segment (millions)</i>	Mar. 31 2019	Dec. 31 2018	Sept. 30 2018	June 30 2018	Mar. 31 2018
Metals service centers	\$ 429	\$ 427	\$ 394	\$ 392	\$ 338
Energy products	465	475	468	499	435
Steel distributors	137	150	168	118	97
Total	\$ 1,031	\$ 1,052	\$ 1,030	\$ 1,009	\$ 870

<i>Inventory Turns (quarters ended)</i>	Mar. 31 2019	Dec. 31 2018	Sept. 30 2018	June 30 2018	Mar. 31 2018
Metals service centers	4.1	3.9	4.3	4.3	4.2
Energy products	2.6	3.0	3.3	2.0	2.8
Steel distributors	3.1	3.6	2.2	2.3	3.0
Total	3.3	3.4	3.5	2.9	3.4

At March 31, 2019, our metals service centers had same store inventory tons that approximated tons at March 31, 2018. Total inventory dollars increased due to higher average steel prices per ton. First quarter 2019 inventory levels in our energy products segment decreased from year end to align with demand. Steel distributors continued to reduce inventory, from the 2018 third quarter, in line with import demand and the impact of tariffs.

Accounts receivable utilized cash of \$24 million in the first quarter of 2019 reflecting higher revenues at the end of the quarter compared to fourth quarter 2018. Accounts receivable represented 28% of our total assets, excluding cash at March 31, 2019 and December 31, 2018.

During the first quarter of 2019 and 2018 we made income tax payments of \$33 million and \$31 million respectively.

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 March 31	
	2019	2018
Cash from operating activities before non-cash working capital	\$ 63.4	\$ 71.0
Purchase of property, plant and equipment	(5.2)	(10.9)
	\$ 58.2	\$ 60.1

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>	March 31 2019	December 31 2018
Long-term debt		
6% \$300 million Unsecured Senior Notes due April 19, 2022	\$ 297	\$ 297
6% \$150 million Unsecured Senior Notes due March 16, 2026	147	147
	\$ 444	\$ 444

CASH AND BANK CREDIT FACILITY

<i>Credit Facility (millions)</i>	March 31 2019	December 31 2018
Bank loans	\$ (175)	\$ (148)
Cash net of outstanding cheques	128	144
Net bank indebtedness	(47)	(4)
Letters of credit	(64)	(76)
	\$ (111)	\$ (80)
Facilities		
Borrowings and letters of credit	\$ 500	\$ 500
Letters of credit	50	50
Facilities availability	\$ 550	\$ 550
Available line based on borrowing base	\$ 550	\$ 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 is set to expire and the availability will revert back to \$450 million unless an extension is negotiated. 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 \$550 million.

As of March 31, 2019, we were entitled to borrow and issue letters of credit totaling \$550 million under this facility. At March 31, 2019, we had \$175 million in borrowings compared to \$148 million at December 31, 2018. We had \$64 million in letters of credit at March 31, 2019 compared to \$76 million at December 31, 2018.

At March 31, 2019, we were in compliance with all of our financial covenants.

With our cash, cash equivalents and our bank facility we have access to approximately \$430 million of cash based on our March 31, 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 March 31, 2019, we were contractually obligated to make payments as per the following table:

<i>Contractual Obligations (millions)</i>	Payments due in				Total
	2019	2020 and 2021	2022 and 2023	2024 and thereafter	
Bank indebtedness	\$ 175	\$ -	\$ -	\$ -	\$ 175
Accounts payable	466	-	-	-	466
Long-term debt	-	-	300	150	450
Long-term debt interest	22	54	26	23	125
Lease obligations	24	42	30	66	162
Total	\$ 687	\$ 96	\$ 356	\$ 239	\$ 1,378

In addition to the bank loans noted in the above table we are obligated to pay \$64 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 first quarter of 2019, we contributed \$1 million to these plans. We expect to contribute approximately \$5 million to these plans during the remainder of the year. The defined benefit obligations reported in the consolidated financial statements use different assumptions than the going concern actuarial valuations prepared for funding. In addition, the actuarial valuations provide a solvency valuation, which is a valuation assuming the plan is wound up at the valuation date. Our reported funding obligations would increase by \$11 million on a solvency basis and thus additional funding could be required based on solvency if the plans were wound up. We estimate the impact of a 0.25% change in the discount rate on the solvency obligation would be approximately \$5 million.

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

OFF-BALANCE SHEET ARRANGEMENTS

Our off-balance sheet arrangements consist of the letters of credit disclosed in the bank credit facilities table and 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 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, litigation and assigned values on net assets acquired. We base our estimates on historical experience and on various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgements about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

Our most significant assets are accounts receivable and inventories.

Accounts Receivable

An allowance for doubtful accounts is maintained for estimated losses resulting from the inability of our customers to make required payments. Assessments are based on aging of receivables, legal issues (bankruptcy status), past collection experience, current financials, credit agency reports and the experience of our credit personnel. Accounts receivable which we determine to be uncollectible are reserved in the period in which the determination is made. If the financial condition of our customers was to deteriorate, resulting in an impairment of their ability to make payments, additional allowances may be required. Our reserve for bad debts at March 31, 2019 approximated our reserve at December 31, 2018. Bad debt expense for the first quarter of 2019 as a percentage of revenues was less than 1% and approximates that of 2018.

Inventories

We review our inventories to ensure that the cost of inventories is not in excess of its estimated net realizable value and for obsolete and slow moving product. Inventory reserves or write-downs are recorded when cost exceeds the estimated selling price less cost to sell and when product is determined to be slow moving or obsolete. The inventory reserve level at March 31, 2019 approximated 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 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 \$146 million in plan assets at March 31, 2019, which is an increase of approximately \$11 million from December 31, 2018. The discount rate used on the employee benefit plan obligation for the quarter ended March 31, 2019 was 3.25% which is 50 basis points lower than the discount rate at December 31, 2018.

Leases

We recognize right-of-use assets and lease obligations which includes our arrangements that contain a lease. The determination of the asset and obligation requires an assessment of whether we are reasonably certain that an extension option will be exercised, calculation of a discount rate inherent in the lease or an incremental borrowing rate and whether the right-of-use asset is impaired. These determinations require significant judgement.

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 first 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 at all times. 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. We continue to review opportunities for additional acquisitions.

We believe that the steel pricing cycle will continue to be highly 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 have supported higher steel prices and North American production. Future changes to country or product exemptions may impact steel prices and product availability.

We are one of the largest energy services companies in Canada. Approximately 40% of our revenues are dependent on the oil and gas industry whose activity fluctuates with oil and gas prices. Our oil 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

In 2019, we expect continued modest pressure on demand and steel prices in our metals service centers and steel distributors segments. Our Canadian energy product operations will experience the seasonal spring breakup slowdown and our U.S. energy product operations anticipate steady demand.