

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2020

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, 2020, including the notes thereto, and the MD&A and the audited consolidated financial statements for the year ended December 31, 2019, 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 4, 2020.

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; cyclicalities of the metals industry; volatility in oil and natural gas prices; capital budgets in the energy industry; pandemics and epidemics; climate change; product claims; significant competition; sources of metals supply; manufacturers selling directly; material substitution; credit risk; currency exchange risk; restrictive debt covenants; asset impairments; the unexpected loss of key individuals; decentralized operating structure; future acquisitions; the failure of our key computer-based systems, labour interruptions; laws and governmental regulations; litigious environment; environmental liabilities; carbon emissions; health and safety laws and regulations and common share risk.

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. These measures include EBITDA which represents earnings before interest, income taxes, depreciation and amortization; and free cash flow which represents cash from operating activities before changes in working capital less capital expenditures. We believe that EBITDA and free cash flow 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. The items excluded in determining EBITDA and free cash flow are significant in assessing operating results and liquidity. EBITDA and free cash flow should not be considered in isolation or 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.

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.

OVERVIEW OF THE 2020 THIRD QUARTER

Our basic earnings per share of \$0.29 for the quarter ended September 30, 2020, was equal to the third quarter of 2019 and higher than the \$0.07 reported in the 2020 second quarter. Revenues of \$615 million were lower than the third quarter of 2019 and higher than the \$588 million in the 2020 second quarter. Our EBITDA for the quarter was \$47 million compared to \$32 million in the 2020 second quarter. For the nine months ended September 30, 2020, our basic earnings per share of \$0.54 compared to \$1.34 for the same period in 2019.

During the 2020 third quarter, items of note that negatively impacted EBITDA included a net increase in our inventory valuation reserves of \$2 million related to our line pipe and OCTG operations and non-cash stock-based compensation expense of \$2 million due to our improved share price.

Market Conditions

In the 2020 third quarter, market conditions gradually improved from the deterioration in the 2020 second quarter. Our operations were deemed essential and remained open in the 2020 second quarter with reduced activity. At the end of the 2020 second quarter, many jurisdictions in which we operate began to re-open their economies leading to increased demand. As a result, our operations generally realized higher operating volumes and activity as the 2020 third quarter progressed.

Business Optimization

During the 2020 third quarter we completed the final step in our rationalization of our B.C. region through the sale of the real estate related to our Kelowna and Kitimat service centers. The closure of these branches will reduce operating costs in the region while still allowing us to provide continued service to our customers through our other B.C. locations. The sale of these two facilities resulted in proceeds of \$10 million and a gain on sale of \$6 million.

In our energy products segment, we reduced our line pipe/OCTG inventory by \$31 million, closed three of our Elite Supply Partners locations and accelerated the closure of two of our Pioneer Pipe third-party yards.

We continued to increase our value-added processing capability in the 2020 third quarter with the commissioning of the Trenton, Georgia tube laser and bar storage facility at the end of the quarter.

Liquidity and Capital Structure Improvements

During the 2020 third quarter, we generated \$81 million of cash from operating activities and ended the quarter with total liquidity of \$521 million.

On September 29, 2020, we extended our \$450 million credit facility from September 2021 to September 2023. In addition to the extension, the credit facility was updated to provide additional borrowing base flexibility and other improvements.

On October 1, 2020, we announced the redemption of \$150 million of our 6% senior unsecured notes due April 19, 2022 to be financed primarily by cash on hand with the remainder financed through our credit facility. On October 13, 2020, we announced that we entered into an underwriting agreement to sell \$150 million of 5.75% senior unsecured notes due 2025 and on October 27, 2020 the notes were issued. Concurrent with this announcement, we announced the conditional redemption of the remaining \$150 million of our 6% senior unsecured notes due April 19, 2022. The redemptions of the \$300 million of 6% senior unsecured notes will be completed in November 2020. The combination of these initiatives will reduce our interest expense and extend our debt maturities.

RESULTS OF OPERATIONS

The following table provides earnings before interest 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 2019	Nine Months Ended September 30		variance as a % of 2019
	2020	2019		2020	2019	
Segment Revenues						
Metals service centers	\$ 393.3	\$ 473.6	(17%)	\$ 1,202.6	\$ 1,546.4	(22%)
Energy products	157.5	297.7	(47%)	621.6	968.1	(36%)
Steel distributors	61.9	93.7	(34%)	188.3	315.3	40%
Other	2.2	4.2		5.2	8.7	
	\$ 614.9	\$ 869.2	(29%)	\$ 2,017.7	\$ 2,838.5	(29%)
Segment Operating Profits						
Metals service centers	\$ 26.2	\$ 15.5	69%	\$ 68.3	\$ 64.9	5%
Energy products	1.7	17.6	(90%)	3.7	70.6	(95%)
Steel distributors	1.6	3.3	(52%)	4.3	19.0	(77%)
Corporate expenses	(4.7)	(3.9)	(21%)	(11.9)	(14.4)	17%
Gain on sale of assets	6.1	-		6.1	-	
Asset impairment	-	-		(3.7)	-	
Other	1.3	2.4		1.4	3.9	
Earnings before interest and income taxes	\$ 32.2	\$ 34.9	(8%)	\$ 68.2	\$ 144.0	(53%)
Segment Gross Margin as a % of Revenues						
Metals service centers	20.8%	18.5%		21.0%	18.8%	
Energy products	16.5%	16.7%		16.0%	18.4%	
Steel distributors	11.1%	10.9%		11.8%	12.8%	
Total operations	19.0%	17.5%		18.8%	18.2%	
Segment Operating Profit as a % of Revenues						
Metals service centers	6.7%	3.3%		5.7%	4.2%	
Energy products	1.1%	5.9%		0.6%	7.3%	
Steel distributors	2.6%	3.5%		2.3%	6.0%	
Total operations	5.2%	4.0%		3.4%	5.1%	

Results of our U.S. operations reported for the nine months ended September 30, 2020 were converted at \$1.3539 per US\$1 compared to \$1.3291 per US\$1 for the nine months ended September 30, 2019. Our U.S. operations represented approximately a third of our total revenues. The exchange rate used to translate the balance sheet at September 30, 2020 was \$1.3339 per US\$1 versus \$1.2988 per US\$1 at December 31, 2019.

QUARTERLY FINANCIAL HIGHLIGHTS

<i>(for the quarters ended)</i>	Sep 30 2020	Jun 30 2020	Mar 31 2020	Dec 31 2019	Sep 30 2019	Jun 30 2019	Mar 31 2019	Dec 31 2018
Revenues (\$ millions)	\$ 615	\$ 588	\$ 815	\$ 837	\$ 869	\$ 937	\$ 1,033	\$ 1,115
Operating profits (\$ millions)	32	16	20	2	35	51	58	71
Net earnings (\$ millions)	18	5	11	7	18	31	34	46
Basic earnings per share (\$)	0.29	0.07	0.17	(0.11)	0.29	0.50	0.55	0.74

METALS SERVICE CENTERS

a) *Description of operations*

We provide processing and distribution services to a broad base of approximately 33,000 end users through a network of 47 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.

b) *Metals service centers segment results -- Three and Nine Months Ended September 30, 2020 compared to September 30, 2019*

<i>(millions)</i>	Three months ended September 30			Nine months ended September 30		
	2020	2019	Change	2020	2019	Change
Financial Highlights						
Revenue	\$ 393	\$ 474	(17%)	\$ 1,203	\$ 1,546	(22%)
Gross margin (\$)	82	88	(7%)	253	291	(13%)
Gross margin (%)	20.8%	18.5%		21.0%	18.8%	
Earnings from operations	26	16	69%	68	65	5%

Tons shipped in the third quarter of 2020 were approximately 7% lower than the third quarter of 2019 and year to date tons shipped were 10% lower than the nine months ended September 30, 2019. Tons shipped in the 2020 third quarter were 9% higher than the 2020 second quarter. During the three and nine months ended September 30, 2020 our reduction in tons shipped was lower than the average published by the Metals Service Center Institute as our operations maintained volumes better than our competitors. The average selling price per ton was 10% lower than the 2019 third quarter and year to date selling prices were 14% lower than the nine months ended September 30, 2019.

Gross margin as a percentage of revenues of 20.8% for the quarter ended September 30, 2020 was higher than the 18.5% in the same quarter last year. Gross margin as a percentage of revenues of 21.0% for the nine months ended September 30, 2020 compared favourably to the 18.8% for the same period in 2019. Our new \$4 million tube laser and bar storage facility in Trenton, Georgia was commissioned at the end of the quarter and will be fully operational in the fourth quarter.

Operating expenses for the 2020 third quarter of \$56 million were 23% lower than the \$72 million in the 2019 third quarter due to headcount reductions, work sharing arrangements and government employment incentives. On July 13, 2020 we launched our multi-year ERP upgrade project. Operating expenses relating to the new ERP project were \$2 million for the quarter ended September 30, 2020. For the three months ended September 30, 2020 operating expenses as a percentage of revenues were 14.1% compared to 15.2% in the same period of 2019.

Metals service centers operating profits for the three months ended September 30, 2020 of \$26 million were higher than the \$16 million reported for the same period in 2019. Operating profits for the nine months ended September 30, 2020 of \$68 million were higher than the \$65 million for the same period in 2019.

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 Texas, Oklahoma and Colorado. 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 50 Canadian and 21 U.S. facilities mainly to support our valve and fitting operations. 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.

b) Energy products segment results -- Three and Nine Months Ended September 30, 2020 compared to September 30, 2019

(millions)	Three months ended September 30			Nine months ended September 30		
	2020	2019	Change	2020	2019	Change
Financial Highlights						
Revenue	\$ 158	\$ 298	(47%)	\$ 622	\$ 968	(36%)
Gross margin (\$)	26	50	(48%)	99	178	(44%)
Gross margin (%)	16.5%	16.7%		16.0%	18.4%	
Earnings from operations	2	18	(90%)	4	71	(95%)

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. Reduced energy demand due to the pandemic has led to volatility in oil prices and reduced rig counts to historically lower levels.

Revenues in our energy products segment decreased by 47% in the 2020 third quarter compared to the 2019 third quarter. Revenues decreased 36% for the nine months ended September 30, 2020 compared to the same nine month period in 2019. Depressed oil prices resulted in reduced rig counts and delayed energy projects that caused a significant decrease in revenues particularly for our line pipe and OCTG operations. In September 2020, average Canadian rig counts were 52 compared to 127 in September 2019. In September 2020, average U.S. rig counts were 256 compared to 860 in September 2019.

Gross margin as a percentage of revenues for the three months ended September 30, 2020 was 16.5% compared to 16.7% for the same period in 2019. For the nine months ended September 30, 2020 gross margin as a percentage of revenues was 16.0% compared to 18.4% for the same period of 2019. We incurred a net increase in our inventory valuation reserves of \$2 million in the 2020 third quarter related to our line pipe and OCTG operations.

Operating expenses for the 2020 third quarter of \$24 million were lower compared to \$32 million in the 2019 third quarter due to headcount reductions, work sharing arrangements and government employment incentives. For the nine months ended September 30, 2020 operating expenses were \$96 million compared to \$108 million for 2019.

Operating profits were \$2 million for the three months ended September 30, 2020 compared to \$18 million for the same period in 2019. Our field store operations generated an operating income of \$8 million in the quarter which was an increase compared to \$4 million in the 2020 second quarter, due to maintenance and other project work. Our line pipe and OCTG operations generated an operating loss of \$6 million in the quarter compared to an operating loss of \$8 million in the 2020 second quarter. Operating profits were \$4 million for the nine months ended September 30, 2020 compared to operating profits of \$71 million for the same period in 2019 due to lower demand, inventory provisions and 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 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.

b) Steel distributors segment results -- Three and Nine Months Ended September 30, 2020 compared to September 30, 2019

(millions)	Three months ended September 30			Nine months ended September 30		
	2020	2019	Change	2020	2019	Change
Financial Highlights						
Revenue	\$ 62	\$ 94	(34%)	\$ 188	\$ 315	(40%)
Gross margin (\$)	7	10	(32%)	22	41	(45%)
Gross margin (%)	11.1%	10.9%		11.8%	12.8%	
Earnings from operations	2	3	(52%)	4	19	(77%)

Revenues in our steel distributor operations were 34% lower in the 2020 third quarter compared to the same quarter in 2019 due to lower demand.

Gross margin as a percentage of revenues was 11.1% for the three months ended September 30, 2020 compared to 10.9% for the three months ended September 30, 2019 and 11.8% for the nine months ended September 30, 2020 compared to 12.8% for the same period in 2019 as lower demand resulted in a competitive price environment.

Operating expenses as a percentage of revenues for the third quarter of 2020 were 8.6% compared to 7.4% in the third quarter of 2019.

Operating profits for the three months ended September 30, 2020 of \$2 million were lower compared to \$3 million for the three months ended September 30, 2019 and for the nine months ended September 30, 2020 were \$4 million compared to \$19 million for the nine months ended September 30, 2019 due to reduced demand.

CORPORATE EXPENSES -- Three and Nine Months Ended September 30, 2020 compared to September 30, 2019

Corporate expenses of \$5 million for the quarter ended September 30, 2020 were higher than the \$4 million in the quarter ended September 30, 2019. This increase was due to the mark to market on previously granted stock-based compensation of \$2 million compared to \$nil in the same quarter in 2019 due to our improved share price in 2020. Corporate expenses for the nine months ended September 30, 2020 were 17% lower than the same period in 2019 due to lower variable compensation.

GAIN ON SALE OF ASSETS

During the 2020 third quarter, we completed the restructuring of our B.C. region. Prior to the 2020 third quarter we closed our Kitimat branch and during the 2020 third quarter we merged our Kelowna branch with our Vancouver branch. In September 2020, we sold the real estate associated with the Kitimat and Kelowna branches for net proceeds of \$10 million resulting in a gain on sale of \$6 million.

CONSOLIDATED RESULTS -- Three and Nine Months Ended September 30, 2020 compared to September 30, 2019

Operating profits of \$32 million for the three months ended September 30, 2020 compared to \$35 million for the same quarter of 2019. For the nine months ended September 30, 2020 operating profits were \$68 million compared to \$144 million in the same period last year.

INTEREST EXPENSE

Net interest expense of \$9 million was lower for the three months ended September 30, 2020 compared to \$10 million for the same quarter of 2019 due to lower net borrowings from cash generated from lower working capital levels. Net interest expense was \$28 million for the nine months ended September 30, 2020 and \$31 million for the same period in 2019.

INCOME TAXES

We recorded a provision for income taxes of \$5 million for the third quarter of 2020 compared to \$7 million for the third quarter of 2019 due to lower earnings. Our effective income tax rate for the three months ended September 30, 2020 of 21.2% was lower compared to 27.3% for the three months ended September 30, 2019 due to the utilization of capital losses in the third quarter. For the nine months ended September 30, 2020 our effective income tax rate was 17.8% compared to 26.3% for the same period in 2019.

NET EARNINGS

Net earnings for both the third quarter of 2020 and 2019 were \$18 million. Basic earnings per share was \$0.29 for both the third quarter of 2020 and 2019. Basic earnings per share for the nine months ended September 30, 2020 of \$0.54 compared to \$1.34 for the same period last year.

SHARES OUTSTANDING AND DIVIDENDS

The weighted average number of common shares outstanding for the third quarter of 2020 was 62,184,978 compared to 62,136,688 for the third quarter of 2019. The weighted average number of common shares outstanding for the nine months ended September 30, 2020 was 62,183,036 compared to 62,118,081 for the nine months ended September 30, 2019. Common shares outstanding at September 30, 2020 and November 4, 2020 were 62,184,978.

We paid common share dividends of \$24 million or \$0.38 per share in the third quarter of 2020 and 2019.

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. On October 1, 2020, we issued a redemption notice to redeem \$150 million of these notes on November 5, 2020. On October 13, 2020, we issued a conditional redemption notice to redeem the remaining \$150 million of these notes conditional on the closing of the new unsecured senior notes which closed on October 27, 2020.

On October 27, 2020, we issued \$150 million of 5.75% senior unsecured notes due October 27, 2025. The indenture for these senior notes contains restrictions on the payment of quarterly dividends in excess of \$1.60 per annum.

Under our syndicated bank facility, the payment of dividends is subject to excess borrowing base availability of not less than four times the declared dividend. We do not believe this requirement will restrict our ability to pay dividends.

EBITDA

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

<i>(millions)</i>	Quarters ended		Nine months ended	
	September 30		September 30	
	2020	2019	2020	2019
Net earnings	\$ 18.2	\$ 18.1	\$ 33.3	\$ 83.2
Provision for income taxes	4.9	6.8	7.2	29.8
Interest, net	9.1	10.0	27.7	31.0
Earnings before interest and income taxes (EBIT)	32.2	34.9	68.2	144.0
Depreciation and amortization	15.0	13.8	46.0	41.4
Earnings before interest, income taxes, depreciation and amortization (EBITDA)	\$ 47.2	\$ 48.7	\$ 114.2	\$ 185.4

CAPITAL EXPENDITURES

<i>(millions)</i>	Quarters ended September 30		Nine months ended September 30	
	2020	2019	2020	2019
Capital expenditures - property, plant and equipment	\$ 6	\$ 10	\$ 19	\$ 24
Additions - right-of-use assets	-	-	11	12
Depreciation - property, plant and equipment	8	8	25	24
Depreciation - right-of-use assets	4	4	13	13

We expect capital expenditures to be lower than depreciation on property, plant and equipment in 2020 as we reduce expenditures consistent with reduced business activity.

LIQUIDITY

During the cycle, we experience significant swings in working capital and as revenues decline, we generate cash from significant reductions 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.

At September 30, 2020, we had net cash, defined as cash less bank indebtedness, of \$122 million compared to net bank indebtedness of \$46 million at December 31, 2019. We generated cash of \$88 million from operations in the nine months ended September 30, 2020 and generated \$172 million from working capital reductions due to our counter-cyclical cash flows. We utilized \$19 million for capital expenditures and returned \$71 million to our shareholders in dividends.

Total assets were \$1.8 billion at September 30, 2020 and \$1.9 billion at December 31, 2019. At September 30, 2020, current assets, excluding cash, represented 70% of our total assets excluding cash compared to 71% at December 31, 2019.

Inventories were \$94 million lower than December 31, 2019 as operations reduced purchases in reaction to lower demand and we reduced our line pipe and OCTG inventories as part of our initiative to reduce capital allocated to those business units. Inventories represented 44% of our total assets at September 30, 2020 compared to 46% at December 31, 2019.

<i>Inventory by Segment (millions)</i>	Sept. 30 2020	June 30 2020	Mar. 31 2020	Dec. 31 2019	Sept. 30 2019
Metals service centers	\$ 267	\$ 297	\$ 320	\$ 295	\$ 334
Energy products	436	470	487	494	507
Steel distributors	87	95	100	95	123
Total	\$ 790	\$ 862	\$ 907	\$ 884	\$ 964

<i>Inventory Turns (quarters ended)</i>	Sept. 30 2020	June 30 2020	Mar. 31 2020	Dec. 31 2019	Sept. 30 2019
Metals service centers	4.7	4.0	4.3	4.5	4.6
Energy products	1.2	1.1	2.2	2.5	2.0
Steel distributors	2.5	2.4	2.2	3.3	2.7
Total	2.5	2.2	2.9	3.2	3.0

At September 30, 2020, our metals service centers had lower inventory tons than at September 30, 2019 as our operators reduced purchases in reaction to the economic downturn. Inventory levels in our energy products segment at September 30, 2020 decreased from the comparable 2019 quarter due to a reduction of purchases from slowing demand and reduced capital allocated to our line pipe and OCTG operations, partially offset by the inclusion of the City Pipe locations which were acquired on October 1, 2019. In steel distributors, the decrease in inventory value over the comparable quarter in 2019 was due to reduced purchases in reaction to lower demand.

Accounts receivable generated cash of \$122 million due to lower revenues in the nine months ended September 30, 2020. Accounts receivable represented 21% of our total assets, excluding cash, at September 30, 2020 compared to 24% as at December 31, 2019.

During the nine months ended September 30, 2020 we received income tax refunds of \$5 million compared to income tax payments of \$61 million for the nine months ended September 30, 2019. This reduction was due to lower earnings and final payments in early 2019 relating to high earnings in 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	
	2020	2019	2020	2019
Cash from operating activities before non-cash working capital	\$ 35.1	\$ 41.7	\$ 88.3	\$ 157.9
Purchase of property, plant and equipment	(6.4)	(9.7)	(18.8)	(23.6)
	\$ 28.7	\$ 32.0	\$ 69.5	\$ 134.3

DEBT

<i>(millions)</i>	September 30 2020	December 31 2019
Long-term debt		
6% \$300 million Senior Notes due April 19, 2022	\$ 299	\$ 298
6% \$150 million Senior Notes due March 16, 2026	147	147
	\$ 446	\$ 445

On October 1, 2020, we announced the redemption of \$150 million of our 6% senior unsecured notes due April 19, 2022 to be financed primarily by cash on hand with the remainder financed through our credit facility. On October 13, 2020, we announced that we entered into an underwriting agreement to sell \$150 million of 5.75% senior unsecured notes due 2025 and on October 27, 2020 the notes were issued. Concurrent with this announcement, we announced the conditional redemption of the remaining \$150 million of our 6% senior unsecured notes due April 19, 2022. The redemptions of the \$300 million 6% senior unsecured notes will be completed in November 2020.

CASH, DEBT AND CREDIT FACILITIES

<i>Cash Facilities (millions)</i>	September 30 2020	December 31 2019
Bank loans	\$ -	\$ (57)
Cash net of outstanding cheques	121	11
Net debt (bank indebtedness)	121	(46)
Letters of credit	(27)	(33)
	\$ 94	\$ (79)
Facilities		
Borrowings and letters of credit	\$ 400	\$ 400
Letters of credit	50	50
Facilities availability	\$ 450	\$ 450
Available line based on borrowing base	\$ 450	\$ 450

We have a committed credit facility with a syndicate of Canadian and U.S. banks that provides \$50 million for letters of credit and \$400 million which can be utilized for borrowings or additional letters of credit. On September 29, 2020, the facility was amended to provide additional borrowing base flexibility and other improvements and extended to expire on September 21, 2023. 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, 2020, we were entitled to borrow and issue letters of credit totaling \$450 million under this facility. At September 30, 2020, we had no borrowings compared to \$57 million December 31, 2019. We had \$27 million in letters of credit at September 30, 2020 compared to \$33 million at December 31, 2019.

At September 30, 2020, we were in compliance with all of our financial covenants.

With our cash, cash equivalents and our bank facilities we have access to approximately \$521 million of cash based on our September 30, 2020 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, 2020, we were contractually obligated to make payments as per the following table:

<i>Contractual Obligations</i> <i>(millions)</i>	Payments due in				Total
	2020	2021 and 2022	2023 and 2024	2025 and thereafter	
Accounts payable	\$ 271	\$ -	\$ -	\$ -	\$ 271
Debt	-	300	-	150	450
Long-term debt interest	9	44	18	14	85
Operating leases	6	43	32	66	147
Total	\$ 286	\$ 387	\$ 50	\$ 230	\$ 953

During October 2020, we issued redemption notices for our \$300 million 6% senior notes due April 19, 2022 and issued \$150 million 5.75% senior notes due October 27, 2025. The table above has not been updated to reflect these capital transactions. In addition to the bank loans noted in the above table we are obligated to pay \$27 million in letters of credit when they mature in 2020 and 2021.

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 2019 consolidated financial statements. During the nine months ended September 30, 2020, we contributed \$3 million to these plans. Except for our union plan, we do not expect additional contributions during the remainder of the year as our merged plan is in a surplus position. 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 \$6 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 only short-term and low value leases are off-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 September 30, 2020 approximated our reserve at December 31, 2019. Bad debt expense for the nine months ended September 30, 2020 as a percentage of revenue was less than 1% and approximates that of 2019.

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. During the quarter ended September 30, 2020, we incurred a net increase in our energy products segment inventory valuation reserves of \$2 million.

Other areas involving significant estimates and judgements include:

Long-lived Asset Impairment

The determination of whether long-lived assets, including 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 judgement.

As at March 31, 2020, we concluded that the rapid deterioration of the North American economic environment resulted in a triggering event and the need to perform impairment testing of our long-lived assets including goodwill and intangibles. We forecasted future cash flows by considering the reduced activity to determine recoverable amounts and determined that the right-of-use assets at our U.S. line pipe operation in our energy products segment was impaired and recorded an impairment of \$4 million in the first quarter. For the quarters ended June 30, 2020 and September 30, 2020, we re-forecasted future cash flows and the recoverable amounts at all of our other operations were greater than the carrying amount of the cash generating units and resulted in no further impairment of long-lived assets, goodwill and intangibles. There is no certainty that there will not be a future impairment should the economic markets in which we operate continue to deteriorate.

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 \$153 million in plan assets at September 30, 2020, and December 31, 2019. The discount rate used on the employee benefit plan obligation for the quarter ended September 30, 2020 was 2.75% which is 25 basis points lower than the discount rate at December 31, 2019.

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 third quarter of 2020 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. We completed the acquisition of the operating assets and facilities of DuBose Steel in 2018 which adds a new geographic area to our U.S. service center operations. We completed the acquisition of City Pipe & Supply Corp. in 2019 which added energy field service facilities 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 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

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.

The pandemic has created uncertainty in the health and welfare of the communities where we operate and resulted in temporary business closures including certain of our customers, lower demand and reduced economic activity. We have no assurance when the uncertainty caused by the virus will cease and business conditions will return to normal levels.

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 changing import levels and tariffs. Future tariff changes to country or product exemptions may impact steel prices and product availability.

We are one of the largest energy services companies in Canada. A significant percentage of our revenues are dependent on the oil and gas industry whose activity fluctuates with oil and gas prices. The oversupply of oil has resulted in reduced drilling and lower demand for OCTG and line pipe. In addition, certain pipe manufacturers have attempted to bypass distributors which has further exacerbated the price competitive environment. Our strategy includes a reduction of the capital allocated to our OCTG and line pipe operations. 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.

The continued impact of the pandemic and prevailing oil price conditions may lead to changes in estimates in our financial statements and the effect of such changes could be material and result in impairments of long-lived assets, including goodwill and intangibles, provisions for inventory and credit losses.

The USMCA replaced NAFTA on July 1, 2020. It is expected that this agreement will have a positive effect on the post pandemic demand for North American sourced metal products such as steel and aluminum.

On February 25, 2020, the U.S. International Trade Commission issued a final determination that fabricated structural steel imports from Canada, China and Mexico do not materially injure the U.S. fabricated steel industry. Therefore, no anti-dumping or countervailing duties will be applied on imports from these countries. This ruling should lead to increased steel fabrication in Canada which should benefit our customer base.

On March 13, 2020, the Canadian Industrial Trade Tribunal (CITT) issued a report concluding that hot rolled plate products from Brazil, Denmark, Indonesia, Italy, Japan and Korea would continue to be dumped into the Canadian marketplace if current orders were lifted and that such actions would likely result in injury to the industry. The Tribunal continued its previous finding for an additional five years in respect to the subject goods.

On October 9, 2020, the Canada Border Services Agency (CBSA) made a preliminary determination that imports of hot rolled plate products from Taiwan, Germany and Turkey were harmful to the Canadian market and set provisional duties ranging from 3% to 97%. On the same date, the CBSA terminated its dumping investigation on hot rolled plate imports from South Korea and Malaysia.

On October 13, 2020, the U.S. Department of Commerce imposed additional requirements on the importation of steel products. The importer must now identify both the country or origin of the steel product as well as where the steel used in the manufacture of the steel product was melted and poured when applying for an import license.

OUTLOOK

The pandemic in Canada and the U.S. caused a decline in economic activity towards the end of the 2020 first quarter and the early part of the 2020 second quarter. Since that time, there has been a gradual but uneven recovery across our segments, which we expect to continue over the near term. We will continue to focus on cost containment and inventory control initiatives, as well as consider selected value-added capital investment projects and targeted acquisition opportunities. The recent improvements in our capital structure has strengthened our balance sheet and will reduce interest expense.