

# MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2021

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, 2021, including the notes thereto, and the MD&A and the audited consolidated financial statements for the year ended December 31, 2020, 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](http://www.sedar.com) or on our website at [www.russelmetals.com](http://www.russelmetals.com).

Unless otherwise stated, the discussion and analysis contained in this MD&A are as of November 4, 2021.

## 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; cyclical nature of the metals industry; volatility in oil and natural gas prices; capital budgets in the energy industry; 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](http://www.sedar.com).

## NON-GAAP MEASURES

This MD&A includes a number of measures that are not prescribed by International Financial Reporting Standards ("IFRS" or "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; Adjusted EBITDA which represents earnings before long-lived asset impairment charges, 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, Adjusted 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, Adjusted EBITDA and free cash flow are significant in assessing operating results and liquidity. EBITDA, Adjusted 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. A reconciliation of EBITDA and Adjusted EBITDA to net income in accordance with GAAP is found in the "Overview of the 2021 Third Quarter" section. A reconciliation of free cashflow to cash from operating activities before changes in working capital in accordance with GAAP is found in the "Liquidity" section.

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

## OVERVIEW OF THE 2021 THIRD QUARTER

Our basic earnings per share of \$2.10 for the quarter ended September 30, 2021 was a record and significantly higher than the \$0.29 per share recorded in the third quarter of 2020 and higher than the previous record of \$1.88 that was set in the second quarter of 2021. For the nine months ended September 30, 2021, our basic earnings per share of \$5.28 compared to the \$0.54 for the same period in 2020. Revenues of \$1.1 billion were higher than the \$615 million experienced in third quarter of 2020 and comparable to the \$1.1 billion in the 2021 second quarter. Our gross margin percentage improved to 29.8% compared to 19.0% in the same quarter of 2020 and was down slightly from the 30.7% in the 2021 second quarter.

Our EBITDA was \$196 million for the quarter compared to \$47 million in the same quarter of 2020 and \$178 million for the 2021 second quarter. During the 2021 third quarter, EBITDA benefited from a reversal of \$3 million related to the mark-to-market of non-cash stock-based compensation, due to the decreased share price during the quarter, as compared to an \$8 million expense in the 2021 second quarter. Also, EBITDA for the quarter included \$3 million in earnings from the TriMark joint venture, as it benefited from strong demand and product pricing.

Each of our business segments continued to generate strong operating profit as compared to the same quarter of 2020 and the 2021 second quarter. In the 2021 third quarter, our metals service centers segment reported near record operating profits and returns, as this segment continued to maximize margin opportunities from the strong market conditions and realized the benefits from our value-added processing initiatives. Our steel distributors segment continued to benefit from strong demand, higher steel prices and low inventories in the supply chain and reported growth in both revenues and operating profit. In our energy products segment, the continued recovery of oil and natural gas prices led to improved revenues from our field stores and supported the profitable liquidation of the U.S. OCTG/line pipe inventory as we exit this segment of the industry.

### *Market Conditions*

Steel prices continued to rise in the 2021 third quarter. Metals service centers experienced an increase in selling price per ton of 87% compared to the 2020 third quarter and 19% compared to the 2021 second quarter. Tons shipped in metals service centers increased 1% from the same period in 2020 but decreased by 12% from the 2021 second quarter, due to the seasonally slow summer months and the Quebec construction holiday. Steel distributors experienced an increase in demand and selling price per ton due to continued low inventory levels in the supply chain and product shortages. Demand in the energy products segment continues to recover.

### OCTG/Line Pipe Business Changes

In mid-2020, we began the process of lowering our exposure to the energy sector in order to reduce earnings volatility, improve margins and enhance our return on capital over the cycle. As of September 30, 2021, inventory at our OCTG/line pipe operations was \$9 million which was a reduction of \$262 million since June 30, 2020.

On July 6, 2021, we completed the transaction whereby we combined our Canadian OCTG/line pipe business with that of Marubeni-Itochu Tubulars America Inc. into a new joint venture called TriMark Tubulars Ltd. ("TriMark"). We contributed net assets with a book value of \$109 million and received consideration of: (i) cash of \$77 million; (ii) preferred shares with a face value of \$32 million and an annual dividend rate of 7%; and (iii) a 50% common equity interest in the joint venture. In addition, we retained our accounts receivable of approximately \$32 million, the vast majority of which was collected in the 2021 third quarter. In total, the transaction resulted in a cash realization of \$109 million.

### Liquidity and Capital Structure Improvements

During the 2021 third quarter, we generated \$106 million of cash from operating activities and ended the quarter with total available liquidity of \$602 million.

The improvements to our capital structure that were implemented in late 2020, in combination with cash realized from the monetization of the OCTG/line pipe businesses, contributed to an interest expense reduction of \$3 million in the 2021 third quarter compared to the 2020 third quarter.

### EBITDA

The following table shows the reconciliation of net earnings to EBITDA for 2021 and Adjusted EBITDA for 2020:

<i>(millions)</i>	Three Months Ended September 30		Nine Months Ended September 30	
	2021	2020	2021	2020
Net earnings	\$ 131.6	\$ 18.2	\$ 330.0	\$ 33.3
Provision for income taxes	42.9	4.9	109.6	7.2
Interest, net	6.5	9.1	19.4	27.7
Asset impairment	-	-	-	3.7
Earnings before, asset impairment, interest and income taxes	181.0	32.2	459.0	71.9
Depreciation and amortization	14.5	15.0	43.3	46.0
Earnings before interest, asset impairment, income taxes, depreciation and amortization	\$ 195.5	\$ 47.2	\$ 502.3	\$ 117.9

### QUARTERLY FINANCIAL HIGHLIGHTS

<i>(for the quarters ended)</i>	Sep 30 2021	Jun 30 2021	Mar 31 2021	Dec 31 2020	Sep 30 2020	Jun 30 2020	Mar 31 2020	Dec 31 2019
Revenues (\$ millions)	\$ 1,108	\$ 1,068	\$ 885	\$ 671	\$ 615	\$ 588	\$ 815	\$ 837
EBITDA (\$ millions)	196	178	129	11	47	32	36	18
Adjusted EBITDA (\$ millions)	196	178	129	41	47	32	39	18
Net earnings (\$ millions)	132	118	81	(9)	18	5	11	(7)
Basic earnings per share (\$)	2.10	1.88	1.29	(0.14)	0.29	0.07	0.17	(0.11)

## 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>	Three Months Ended September 30		Nine Months Ended September 30	
	2021	2020	2021	2020
<b>Segment Revenues</b>				
Metals service centers	\$ 749.6	\$ 393.3	\$ 2,051.1	\$ 1,202.6
Energy products	189.3	157.5	620.7	621.6
Steel distributors	165.4	61.9	382.7	188.3
Other	3.8	2.2	7.2	5.2
	\$ 1,108.1	\$ 614.9	\$ 3,061.7	\$ 2,017.7
<b>Segment Operating Profits</b>				
Metals service centers	\$ 132.0	\$ 26.2	\$ 373.6	\$ 68.3
Energy products	11.8	1.7	29.4	3.7
Steel distributors	37.9	1.6	85.3	4.3
Corporate expenses	(5.6)	(4.7)	(34.8)	(11.9)
Share of earnings from joint venture	2.8	-	2.8	-
Other	2.1	1.3	2.7	1.4
Gain on sale of assets	-	6.1	-	6.1
Asset impairment	-	-	-	(3.7)
Earnings before interest and income taxes	\$ 181.0	\$ 32.2	\$ 459.0	\$ 68.2
<b>Segment Gross Margin as a % of Revenues</b>				
Metals service centers	30.9%	20.8%	32.1%	21.0%
Energy products	21.4%	16.5%	19.3%	16.0%
Steel distributors	32.6%	11.1%	33.7%	11.8%
Total operations	29.8%	19.0%	29.8%	18.8%
<b>Segment Operating Profit as a % of Revenues</b>				
Metals service centers	17.6%	6.7%	18.2%	5.7%
Energy products	6.2%	1.1%	4.7%	0.6%
Steel distributors	22.9%	2.6%	22.3%	2.3%
Total operations	16.3%	5.2%	15.0%	3.4%

Results of our U.S. operations reported for the nine months ended September 30, 2021 were converted at \$1.2516 per US\$1 compared to \$1.3539 per US\$1 for the nine months ended September 30, 2020. Our U.S. operations represented approximately a third of our total revenues. The exchange rate used to translate the balance sheet at September 30, 2021 was \$1.2741 per US\$1 versus \$1.2732 per US\$1 at December 31, 2020.

## METALS SERVICE CENTERS

### a) Description of operations

We provide processing and distribution services to a broad base of approximately 31,000 end users through a network of 46 Canadian locations and 17 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

<i>(millions)</i>	Three Months Ended September 30		Nine Months Ended September 30	
	2021	2020	2021	2020
<b>Financial Highlights</b>				
Revenue	\$ 750	\$ 393	\$ 2,051	\$ 1,203
Gross margin (\$)	232	82	658	253
Gross margin (%)	30.9%	20.8%	32.1%	21.0%
Earnings from operations	132	26	374	68

Revenues in our metals service center operations increased 91% from the 2020 third quarter. Tons shipped in the third quarter of 2021 were approximately 1% higher than the third quarter of 2020 and 12% lower than the second quarter of 2021. Year to date tons shipped were 10% higher than the nine months ended September 30, 2020. The average selling price per ton was 87% higher compared to the 2020 third quarter and 19% higher than the second quarter of 2021. Year to date selling prices were 56% higher than the nine months ended September 30, 2020.

Gross margin as a percentage of revenues of 30.9% was higher than the 20.8% in the same quarter last year and down slightly from the 32.9% in the second quarter of 2021. Gross margin as a percentage of revenues of 32.1% for the nine months ended September 30, 2021 compared favourably to the 21.0% for the same period in 2020.

Operating expenses were \$100 million in both the second and third quarter of 2021 compared to \$56 million in the 2020 third quarter. The increase is due to higher variable compensation and other costs from increased business activity. For the nine months ended September 30, 2021 operating expenses of \$284 million were 54% higher than the same period of 2020.

Metals service centers operating profits for the three months ended September 30, 2021 of \$132 million were higher than the \$26 million reported for the same period in 2020 and down slightly from the record \$136 million that was generated in the second quarter of 2021. Year to date operating profit of \$374 million compared to \$68 million for the nine months ended September 30, 2020.

## ENERGY PRODUCTS

### a) Description of operations

We distribute tubes, valves, fittings, OCTG and line pipe, primarily to the energy industry in Western Canada and the United States. We operate from 46 Canadian and 14 U.S. facilities in 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

<i>(millions)</i>	Three Months Ended September 30		Nine Months Ended September 30	
	2021	2020	2021	2020
<b>Financial Highlights</b>				
Revenue	\$ 189	\$ 158	\$ 621	\$ 622
Gross margin (\$)	41	26	120	99
Gross margin (%)	21.4%	16.5%	19.3%	16.0%
Earnings from operations	12	2	29	4

Revenues in our energy products segment increased by 20% in the 2021 third quarter compared to the 2020 third quarter and declined 8% compared to the second quarter of 2021 due to the sale of our Canadian OCTG/line pipe operation. In September 2021, average Canadian rig counts were 153 compared to 60 in September 2020 while the average U.S. rig counts were 508 compared to 256 in September 2020. Revenues for the nine months ended September 30, 2021 were consistent with the same nine month period in 2020.

Gross margin as a percentage of revenues for the three months ended September 30, 2021 improved to 21.4% compared to 16.5% for the same period in 2020 and 19.4% in the second quarter of 2021. For the nine months ended September 30, 2021 gross margin as a percentage of revenues was 19.3% compared to 16.0% for the same period of 2020. The improvement was due to better market conditions and the monetization of the lower margin OCTG/line pipe businesses.

Operating expenses for the 2021 third quarter of \$29 million were higher compared to \$24 million in the 2020 third quarter and \$28 million in the 2021 second quarter, due to increased business activity and variable compensation that was somewhat offset by the sale of the OCTG/line pipe operation. For the nine months ended September 30, 2021 operating expenses were \$90 million compared to \$96 million for 2020.

This segment generated operating profits of \$12 million for the three months ended September 30, 2021 compared to \$2 million for the same period in 2020 and \$12 million in the second quarter of 2021. Operating profits were \$29 million for the nine months ended September 30, 2021 compared to operating profits of \$4 million for the same period in 2020.

## 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

<i>(millions)</i>	Three months ended September 30		Nine months ended September 30	
	2021	2020	2021	2020
<b>Financial Highlights</b>				
Revenue	\$ 165	\$ 62	\$ 383	\$ 188
Gross margin (\$)	54	7	129	22
Gross margin (%)	32.6%	11.1%	33.7%	11.8%
Earnings from operations	38	2	85	4

Revenues in our steel distributor operations were 167% higher in the 2021 third quarter compared to the same quarter in 2020 and 15% higher than the second quarter of 2021 due to increased demand and higher steel prices.

Gross margin as a percentage of revenues was 32.6% for the three months ended September 30, 2021 compared to 11.1% for the three months ended September 30, 2020 and 34.7% in the second quarter of 2021. The gross margin was 33.7% for the nine months ended September 30, 2021 compared to 11.8% for the same period in 2020 due to higher selling prices.

Operating expenses were \$16 million for the third quarter of 2021 compared to \$5 million 2020 and \$18 million in the second quarter of 2021. Stronger operating profits has led to higher variable compensation.

This segment generated operating profits for the three months ended September 30, 2021 of \$38 million compared to \$2 million for the three months ended September 30, 2020 and \$32 million for the second quarter of 2021. Operating profits for the nine months ended September 30, 2021 were \$85 million compared to \$4 million for the nine months ended September 30, 2020.

## **CORPORATE EXPENSES**

Corporate expenses of \$6 million for the three months ended September 30, 2021 were comparable to the \$5 million in the three months ended September 30, 2020 but lower than the \$18 million in the second quarter of 2021. The decrease from the second quarter of 2021 was due to changes in the mark-to-market on previously granted stock-based compensation. Corporate expenses for the nine months ended September 30, 2021 were \$35 million compared to \$12 million in the same period in 2020 due to higher variable and stock-based compensation.

## **SHARE OF EARNINGS FROM JOINT VENTURE**

We recorded income from the TriMark joint venture of \$3 million in the quarter ended September 30, 2021.

## **INTEREST EXPENSE**

Net interest expense of \$6 million for the three months ended September 30, 2021 compared to \$9 million for the same quarter of 2020. Net interest expense was \$19 million for the nine months ended September 30, 2021 and \$28 million for the same period in 2020.

## **INCOME TAXES**

We recorded a provision for income taxes of \$43 million for the third quarter of 2021 compared to \$5 million for the third quarter of 2020. Our effective income tax rate for the three months ended September 30, 2021 of 24.6% was higher compared to 21.2% for the three months ended September 30, 2020. For the nine months ended September 30, 2021 our effective income tax rate was 24.9% compared to 17.8% for the same period in 2020.

## **NET EARNINGS**

Net earnings for the third quarter of 2021 at \$132 million compared to \$18 million in the third quarter of 2020. Basic earnings per share for the third quarter of 2021 of \$2.10 compared to \$0.29 per share for the third quarter of 2020. Basic earnings per share for the nine months ended September 30, 2021 of \$5.28 compared to \$0.54 for the same period last year.

## **SHARES OUTSTANDING AND DIVIDENDS**

The weighted average number of common shares outstanding for the third quarter of 2021 was 62,636,186 compared to 62,184,978 for the third quarter of 2020. The weighted average number of common shares outstanding for the nine months ended September 30, 2021 was 62,542,388 compared to 62,183,036 for the nine months ended September 30, 2020. Common shares outstanding at September 30, 2021 and November 4, 2021 were 62,974,655. We issued 285,069 common shares in the 2021 third quarter due to the exercise of share options.

We paid common share dividends of \$24 million or \$0.38 per share in the third quarter of 2021 and 2020.

We have \$150 million of 6% senior unsecured 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 104.5% anytime after March 16, 2021 and declining rateably to par on or after March 16, 2024.

We have \$150 million of 5 <sup>3</sup>/<sub>4</sub>% 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. These notes can be redeemed at 102.9% on or after October 27, 2022 and declining rateably to par on or after October 27, 2024.

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.

## CAPITAL EXPENDITURES

<i>(millions)</i>	Three Month Ended September 30		Nine Months Ended September 30	
	2021	2020	2021	2020
Capital expenditures - property, plant and equipment	\$ 8	\$ 6	\$ 20	\$ 19
Additions - right-of-use assets	1	-	9	11
Depreciation - property, plant and equipment	8	8	25	25
Depreciation - right-of-use assets	4	4	12	13

## LIQUIDITY

At September 30, 2021, we had net cash, defined as cash less bank indebtedness, of \$337 million compared to \$26 million at December 31, 2020. We generated cash of \$483 million from operations in the nine months ended September 30, 2021 and utilized \$122 million for working capital. We utilized \$20 million for capital expenditures, \$50 million in income tax payments and \$71 million for dividends. We generated \$77 million from the sale of our Canadian OCTG/line pipe business.

During the cycle, 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 in the current environment.

Total assets were \$2.2 billion at September 30, 2021 and \$1.6 billion at December 31, 2020. At September 30, 2021, current assets excluding cash represented 72% of our total assets compared to 70% at December 31, 2020.

Inventories represented 36% of our total assets at September 30, 2021 compared to 46% at December 31, 2020.

<b><i>Inventory by Segment</i></b> <i>(millions)</i>	Sept 30 2021	June 30 2021	Mar 31 2021	Dec 31 2020	Sept 30 2020
Metals service centers	\$ 535	\$ 401	\$ 329	\$ 279	\$ 267
Energy products	131	269	317	373	436
Steel distributors	121	103	74	64	87
Total	\$ 787	\$ 773	\$ 720	\$ 716	\$ 790

<b><i>Inventory Turns</i></b> <i>(quarters ended)</i>	Sept 30 2021	June 30 2021	Mar 31 2021	Dec 31 2020	Sept 30 2020
Metals service centers	3.9	4.8	4.8	4.5	4.7
Energy products	4.6	2.5	2.4	1.7	1.2
Steel distributors	3.7	3.6	2.7	3.9	2.5
Total	4.0	3.8	3.5	3.0	2.5

At September 30, 2021, inventory tons in our metals service centers were approximately 20% higher than tons at September 30, 2020 and tons for steel distributors were approximately 3% lower. At September 30, 2021, the average cost of inventory in our metals service centers was 67% higher than September 30, 2020.

Inventory levels in our energy products segment at September 30, 2021 decreased from the comparable 2020 quarter and compared to the 2021 second quarter reflecting our strategic initiative of reducing capital employed in OCTG/line pipe.

Accounts receivable utilized cash of \$206 million due to higher revenues in the nine months ended September 30, 2021. Accounts receivable represented 29% of our total assets, excluding cash, at September 30, 2021 compared to 22% as at December 31, 2020.

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>	Three Months Ended September 30		Nine Months Ended September 30	
	2021	2020	2021	2020
Cash from operating activities before non-cash working capital	\$ 187.6	\$ 35.1	\$ 482.7	\$ 88.3
Purchase of property, plant and equipment	(7.6)	(6.4)	(20.3)	(18.8)
	\$ 180.0	\$ 28.7	\$ 462.4	\$ 69.5

## DEBT

<i>Long-term Debt</i> <i>(millions)</i>	September 30 2021	December 31 2020
5 ¾% \$150 million Senior Notes due October 27, 2025	\$ 147	\$ 147
6% \$150 million Senior Notes due March 16, 2026	148	147
	\$ 295	\$ 294

## CASH, DEBT AND CREDIT FACILITIES

<i>Cash Facilities</i> <i>(millions)</i>	September 30 2021	December 31 2020
Bank loans	\$ -	\$ -
Cash net of outstanding cheques	337	26
Net cash	337	26
Letters of credit	(176)	(68)
	\$ 161	\$ (42)
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. 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, 2021, we were entitled to borrow and issue letters of credit totaling \$450 million under this facility. At September 30, 2021 and December 31, 2020, we had no borrowings. We had \$176 million in letters of credit at September 30, 2021 compared to \$68 million at December 31, 2020. Shortages of inventory in the market has resulted in increased demand for product and increased utilization of letters of credit as our Canadian steel distributor operations sources inventory from international markets. Supply chain delays such as congested ports and vessel shortages led to letters of credit remaining open for longer periods than expected.

At September 30, 2021, we were in compliance with all of our financial covenants.

With our cash, cash equivalents and our bank facilities we have access to approximately \$602 million of cash based on our September 30, 2021 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> (millions)	Payments due in				Total
	2021	2022 and 2023	2024 and 2025	2026 and thereafter	
Accounts payable	\$ 562	\$ -	\$ -	\$ -	\$ 562
Debt	-	-	150	150	300
Long-term debt interest	4	36	35	5	80
Operating leases	6	41	31	68	146
Total	\$ 572	\$ 77	\$ 216	\$ 223	\$ 1,088

In addition, we are obligated to pay \$176 million in letters of credit when they mature in 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 16 of our 2020 consolidated financial statements. During the nine months ended September 30, 2021, we contributed \$2 million to these plans and we do not expect to contribute to these plans during the remainder of 2021. 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. We do not have additional funding obligations on a solvency basis and no additional funding would 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.

## 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, 2021 approximated our reserve at December 31, 2020. Bad debt expense for the nine months ended September 30, 2021 as a percentage of revenue was less than 1% and approximates that of 2020.

### *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, 2021 the rise in steel prices and the reduction of our OCTG/line pipe inventory resulted in a reduction of inventory reserves.

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.

During the quarter ended September 30, 2021, no long-lived asset impairments were recorded. There is no certainty that there will not be a future impairment should the economic markets in which we operate deteriorate.

### *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.

### *Investment in TriMark Joint Venture*

The investment in the preferred shares are accounted for at fair value and the investment in common shares of the joint venture are accounted using the equity method. The determination of fair value takes significant judgement and the actual cash received from a future sale of the joint venture investment might be materially different from estimates.

### *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 \$171 million in plan assets at September 30, 2021, which is an increase of approximately \$12 million from December 31, 2020. The discount rate used on the employee benefit plan obligation for the quarter ended September 30, 2021 was 3.25% which is 75 basis points higher than the discount rate at December 31, 2020.

### *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 President & Chief Executive Officer and the Executive Vice President & 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 2021 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 mature and cyclical industry. We believe we enhance returns by managing costs and working capital throughout the cycle. Capital allocation priorities and limits are managed centrally with day-to-day decision making delegated to the various operations. Furthermore, our variable compensation model is based on the return on net assets for each business unit, which provides our business managers an incentive to proactively adjust costs and working capital to local market conditions. 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 businesses that have strong market niches or provide scale 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.

Divestitures or a reduction of capital employed in businesses that do not provide adequate returns is also part of our strategy. The sale of our Canadian OCTG/line pipe operation in the 2021 third quarter reduced our exposure to the part of the energy products segment with inadequate returns.

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 and reduced economic activity. While COVID related restrictions in many of the markets where we operate have eased, we continue to remain vigilant with our safety protocols to ensure the health and safety of our employees, customers and suppliers.

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, capacity utilization rates for North American steel producers and changing import levels and tariffs. Future tariff changes to country or product exemptions, including possible modifications to the section 232 trade actions, may impact steel prices and product availability.

A portion of our revenues are dependent on the oil and gas industry whose volatile activity fluctuates with oil and gas prices. Our strategy for dealing with the risks in this area was to reduce the capital allocated to our OCTG/line pipe operations, including the creation of a joint venture with our Canadian OCTG/line pipe operations and a controlled liquidation of our U.S. OCTG/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 impact of the pandemic and the volatility of oil prices 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.

## **OUTLOOK**

Steel availability has improved modestly and inventory in the supply chain has increased early in the fourth quarter, as steel mills return from their maintenance outage period. We expect this modest improvement to continue for the balance of the quarter. Demand is expected to remain strong for the remainder of 2021 and thereby result in a favourable supply and demand balance. We expect margins to retreat modestly in the fourth quarter of 2021 as a result of higher average cost of inventories. The energy sector activity is expected to continue to improve as a result of the recovery in oil and natural gas prices.