

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS FOR THE SIX MONTHS ENDED JUNE 30, 2022

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 six months ended June 30, 2022, including the notes thereto, and the MD&A and the audited consolidated financial statements for the year ended December 31, 2021, 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 August 10, 2022.

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.

NON-GAAP MEASURES AND RATIOS

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. Investors may find these non-GAAP measures, which include non-GAAP financial measures and non-GAAP ratios as defined in *National Instrument 52-112 Non-GAAP and Other Financial Measures Disclosure*, useful in understanding how management views underlying business performance.

These measures and ratios are defined below and include EBIT, EBITDA, free cash flow, liquidity and inventory turns. We believe that these 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 EBIT, EBITDA and free cash flow are significant in assessing operating results and liquidity. EBIT, 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 to net income in accordance with GAAP and a reconciliation of free cashflow to cash from operating activities before changes in non-cash working capital in accordance with GAAP are found below.

EBIT or Operating Profits - represents net earnings before interest and income taxes.

EBITDA - represents net earnings before interest, income taxes, depreciation and amortization.

Free Cash Flow - represents cash from operating activities before changes in non-cash working capital less capital expenditures.

Gross Margin - represents revenues less cost of sales.

Gross Margin Percentage - represents gross margin over revenues.

Inventory Turns - represents annualized cost of sales divided by ending inventory.

Liquidity - represents cash on hand less bank indebtedness plus excess availability under our bank credit facility.

Selling Price per Ton - represents revenues divided by tons shipped.

Tons Shipped - represents revenue volumes in our standardized metal service center unit of measure, which is imperial tons.

ADJUSTED NON-GAAP MEASURES

We assess our results on a reported and adjusted basis and consider both as useful measures of performance. Adjusted measures include Adjusted Net Earnings, Adjusted EBITDA and Adjusted EBIT, in addition to other adjusted measures noted below. We remove items of note from reported results to calculate our adjusted results. Items of note include certain items of significance that arise from time to time which we believe are not reflective of our underlying business performance. We have assessed that long-lived asset impairment is an item of note. We believe that adjusted measures provide the reader with a better understanding of how we assess our underlying business performance which facilitates a more informed analysis of trends. While we believe that adjusted measures may facilitate comparisons between our results and those of some of our peer group, which may make similar adjustments in their public disclosure, it should be noted that there is no standardized meaning for adjusted measures under GAAP.

Adjusted Net Earnings - we adjust our reported net earnings to remove long-lived asset impairment, net of income taxes.

Adjusted Net Earnings per Share - we adjust our reported net earnings to remove the impact of long-lived asset impairment, net of income taxes, to calculate the adjusted net earnings per share.

Adjusted EBIT - we adjust our EBIT to remove the impact of long-lived asset impairment.

Adjusted EBITDA - we adjust our EBITDA to remove the impact of long-lived asset impairment.

OVERVIEW OF THE 2022 SECOND QUARTER

Our basic earnings per share of \$1.96 for the quarter ended June 30, 2022, was higher than the \$1.88 per share recorded in the second quarter of 2021 and the \$1.56 recorded in the 2022 first quarter. For the six months ended June 30, 2022, our basic earnings per share of \$3.53 compared to \$3.18 for the same period in 2021. Revenues of \$1.4 billion were higher than the \$1.1 billion experienced in second quarter of 2021. Our gross margins of 25.3% compared to 30.7% in the same quarter of 2021 and 21.7% in the 2022 first quarter. Our EBITDA for the quarter was \$189 million compared to EBITDA of \$178 million in the same quarter of 2021 and \$153 million in the first quarter of 2022. EBITDA in the second quarter of 2022 benefited by \$4 million related to the non-cash mark-to-market on our stock-based compensation compared to an EBITDA reduction of \$8 million in the 2021 second quarter and \$nil in the 2022 first quarter.

Summary Operating Results

In the 2022 second quarter, each of our business segments contributed to our record quarterly revenues and strong margins. Our metals service centers segment reported higher revenues and margins in the 2022 second quarter versus the 2022 first quarter due to higher average steel prices, consistent demand and the benefits from our value-added processing initiatives. Metals service centers realized an increase in selling price per ton of 31% compared to the 2021 second quarter and 6% compared to the 2022 first quarter. Tons shipped in metals service centers were consistent with the same period in 2021 and the 2022 first quarter. In our energy products segment, our revenues and margins increased in the 2022 second quarter versus the 2022 first quarter and the 2021 second quarter due to a continuation of the favourable trend in sector business activity. Our steel distributors segment benefited from continued high margins due to the favourable market conditions.

Market Conditions

Steel market conditions rebounded late in the 2022 first quarter and remained favourable for most of the 2022 second quarter, albeit with price declines on certain products in the later part of the quarter. In addition, some of the supply chain issues that were experienced over the past several quarters have improved. The energy sector experienced improved demand with higher rig counts due to high oil and natural gas prices and the relatively mild spring break up in Canada, which led to improved operating conditions in what is typically a seasonally slow second quarter. At June 30, 2022, the Canadian rig counts were 154 compared to 126 in the 2021 second quarter and the U.S. rig counts were 753 compared to 470 at June 30, 2021.

Liquidity and Capital Structure

During the 2022 second quarter, we generated \$69 million of cash from operating activities and ended the quarter with total available liquidity of \$472 million.

Subject to approval from the Toronto Stock Exchange, we intend to initiate a normal course issuer bid to purchase for cancellation up to approximately 3.2 million of our common shares, representing 5% of our issued and outstanding shares, over the next 12 months.

On June 20, 2022, Moody's Investors Service upgraded our corporate credit rating from Ba2 to Ba1.

RECONCILIATION OF THE NET EARNINGS TO EBITDA

The following table provides a reconciliation of net earnings for the three and six months ended June 30, 2022, and 2021 to EBITDA.

(millions)	Three Months Ended June 30		Six Months Ended June 30	
	2022	2021	2022	2021
Net earnings	\$ 124.0	\$ 117.8	\$ 222.7	\$ 198.4
Provision for income taxes	42.1	39.2	74.0	66.7
Interest and finance expense	6.6	6.5	13.3	12.9
EBIT ¹	172.7	163.5	310.0	278.0
Depreciation and amortization	16.1	14.3	31.9	28.8
EBITDA ¹	\$ 188.8	\$ 177.8	\$ 341.9	\$ 306.8
Net earnings per share	\$ 1.96	\$ 1.88	\$ 3.53	\$ 3.18

¹ Refer to Non-GAAP Measures and Ratios and Adjusted Non-GAAP Measures on page 2

RECONCILIATION OF FREE CASH FLOW

<i>(millions)</i>	Three Months Ended June 30		Six Months Ended June 30	
	2022	2021	2022	2021
Cash from operating activities before non-cash working capital	\$ 180.7	\$ 172.0	\$ 321.6	\$ 295.1
Purchase of property, plant and equipment	(7.8)	(6.8)	(16.0)	(12.7)
Free cash flow ¹	\$ 172.9	\$ 165.2	\$ 305.6	\$ 282.4

QUARTERLY FINANCIAL HIGHLIGHTS

<i>(for the quarters ended)</i>	Jun 30 2022	Mar 31 2022	Dec 31 2021	Sep 30 2021	Jun 30 2021	Mar 31 2021	Dec 31 2020	Sep 30 2020
Revenues <i>(\$ millions)</i>	\$ 1,362	\$ 1,339	\$ 1,147	\$ 1,108	\$ 1,068	\$ 885	\$ 671	\$ 615
EBITDA ¹ <i>(\$ millions)</i>	189	153	162	196	178	129	11	47
Adjusted EBITDA ¹ <i>(\$ millions)</i>	189	153	164	196	178	129	41	47
Net earnings <i>(\$ millions)</i>	124	99	102	132	118	81	(9)	18
Basic earnings per share <i>(\$)</i>	1.96	1.56	1.62	2.10	1.88	1.29	(0.14)	0.29

¹ Refer to Non-GAAP Measures and Ratios and Adjusted Non-GAAP Measures on page 2

RESULTS OF OPERATIONS

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.

The following table provides segment information including segment revenues, gross margins and earnings before interest and income taxes. The corporate expenses included are not allocated to specific operating segments. Gross margins 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 June 30		Six Months Ended June 30	
	2022	2021	2022	2021
Segment Revenues				
Metals service centers	\$ 978.1	\$ 717.0	\$ 1,906.9	\$ 1,301.5
Energy products	230.7	205.3	440.7	431.4
Steel distributors	149.5	142.9	348.8	217.3
Other	4.0	3.0	4.5	3.4
	\$ 1,362.3	\$ 1,068.2	\$ 2,700.9	\$ 1,953.6
Segment Gross Margins ¹				
Metals service centers	\$ 235.9	\$ 235.6	\$ 438.6	\$ 425.8
Energy products	63.3	39.8	114.8	79.0
Steel distributors	41.2	49.6	76.8	74.9
Other	4.0	3.0	4.5	3.4
Total operations	\$ 344.4	\$ 328.0	\$ 634.7	\$ 583.1
Segment Operating Profits and EBIT ¹				
Metals service centers	\$ 120.4	\$ 135.8	\$ 215.6	\$ 241.6
Energy products	29.1	12.1	50.9	17.6
Steel distributors	28.4	31.6	52.5	47.4
Corporate expenses and other	(4.9)	(16.0)	(14.7)	(28.6)
Earnings (loss) from joint venture	(0.3)	-	5.7	-
Earnings before interest and income taxes	\$ 172.7	\$ 163.5	\$ 310.0	\$ 278.0
Segment Gross Margin as a % of Revenues ¹				
Metals service centers	24.1%	32.9%	23.0%	32.7%
Energy products	27.4%	19.4%	26.0%	18.3%
Steel distributors	27.6%	34.7%	22.0%	34.5%
Total operations	25.3%	30.7%	23.5%	29.8%
Segment Operating Profit and EBIT as a % of Revenues ¹				
Metals service centers	12.3%	18.9%	11.3%	18.6%
Energy products	12.6%	5.9%	11.5%	4.1%
Steel distributors	19.0%	22.1%	15.1%	21.8%
Total operations	12.7%	15.3%	11.5%	14.2%

Results of our U.S. operations reported for the six months ended June 30, 2022, were converted at \$1.2714 per US\$1 compared to \$1.2473 per US\$1 for the six months ended June 30, 2021. Our U.S. operations represented approximately 39% of our total revenues. The exchange rate on June 30, 2022, used to translate the balance sheet was \$1.2886 per US\$1 versus \$1.2678 per US\$1 on December 31, 2021.

¹ Refer to Non-GAAP Measures and Ratios and Adjusted Non-GAAP Measures on page 2

METALS SERVICE CENTERS

a) Description of operations

We provide processing and distribution services to a broad base of approximately 32,000 end users through a network of 46 Canadian locations and 22 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, except tons shipped in thousands)</i>	Three Months Ended June 30		Six Months Ended June 30	
	2022	2021	2022	2021
Financial Highlights				
Revenue	\$ 978	\$ 717	\$ 1,907	\$ 1,302
Tons shipped	335	330	671	651
Gross margin (\$) ¹	236	236	439	426
Gross margin (%) ¹	24.1%	32.9%	23.0%	32.7%
Operating profits ¹	120	136	216	242

Revenues in our metals service center operations increased 36% from the 2021 second quarter. Tons shipped in the second quarter of 2022 were consistent with the second quarter of 2021 and the first quarter of 2022. Year-to-date tons shipped were 3% higher than the six months ended June 30, 2021. The average selling price increased 31% compared to the 2021 second quarter, 6% compared to the 2022 first quarter and year-to-date average selling price was 39% higher than the six months ended June 30, 2021.

Gross margin as a percentage of revenues of 24.1% was lower than the 32.9% in the same quarter last year but higher than the 21.8% in the 2022 first quarter due to higher selling prices. Gross margin as a percentage of revenues of 23.0% for the six months ended June 30, 2022, compared to 32.7% for the same period in 2021.

Operating expenses were \$116 million compared to \$100 million in the 2021 second quarter due to the impact of the acquisition of Boyd Metals ("Boyd") and from higher delivery expenses. For the six months ended June 30, 2022, operating expenses of \$223 million were 21% higher than the same period of 2021 due to the impact from the acquisition of Boyd, higher volumes and delivery expenses.

Metals service centers operating profits for the three months ended June 30, 2022, were \$120 million which was lower than the record of \$136 million reported for the same period in 2021 but higher than the \$95 million in the 2022 first quarter. Operating profits for the six months ended June 30, 2022 of \$216 million were lower than the \$242 million for the same period of 2021.

ENERGY PRODUCTS

a) Description of operations

We distribute flanges, valves, fittings and tubular goods, primarily to the energy industry in Western Canada and the United States. We operate from 45 Canadian and 14 U.S. facilities in our operations. We purchase our products from the pipe division of North American steel mills, independent manufacturers of flanges, valves and fittings and tubular goods, international steel mills and other distributors.

¹ Refer to Non-GAAP Measures and Ratios and Adjusted Non-GAAP Measures on page 2

b) Energy products segment results

(millions)	Three Months Ended June 30		Six Months Ended June 30	
	2022	2021	2022	2021
Financial Highlights				
Revenue	\$ 231	\$ 205	\$ 441	\$ 431
Gross margin (\$) ¹	63	40	115	79
Gross margin (%) ¹	27.4%	19.4%	26.0%	18.3%
Operating profits ¹	29	12	51	18

Revenues in our energy products segment increased by 12% in the 2022 second quarter compared to the 2021 second quarter despite the divestiture of our OCTG/line pipe businesses in July 2021. Our energy field store revenues increased 50% from the 2021 second quarter as a result of improved market conditions. In addition, we have strategically increased our field store footprint and market share in 2022 through organic expansion.

Gross margin as a percentage of revenues for the three months ended June 30, 2022, was 27.4% compared to 19.4% in the same period in 2021 and 24.5% for the first quarter of 2022. For the six months ended June 30, 2022, gross margin as a percentage of revenues was 26.0% compared to 18.3% in the same period in 2021. The divestiture of the lower margin OCTG/line pipe businesses, improved demand and higher product prices led to higher margins in this segment.

Operating expenses for the 2022 second quarter of \$34 million were higher compared to \$28 million in the 2021 second quarter due to higher activity and variable compensation. For the six months ended June 30, 2022, operating expenses were \$64 million compared to \$61 million for 2021.

Operating profits of \$29 million for the three months ended June 30, 2022, compared to \$12 million for the same period in 2021 and a \$22 million profit in the first quarter of 2022. Operating profits were \$51 million for the six months ended June 30, 2022, compared to operating profits of \$18 million for the same period in 2021.

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 primary 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

(millions)	Three Months Ended June 30		Six Months Ended June 30	
	2022	2021	2022	2021
Financial Highlights				
Revenue	\$ 150	\$ 143	\$ 349	\$ 217
Gross margin (\$) ¹	41	50	77	75
Gross margin (%) ¹	27.6%	34.7%	22.0%	34.5%
Operating profits ¹	28	32	53	47

Revenues at our steel distributors increased 5% compared to the 2021 second quarter. Strong customer demand and a reduction in port congestion led to increased business activity.

Gross margin as a percentage of revenues was 27.6% for the three months ended June 30, 2022, compared to 34.7% for the three months ended June 30, 2021, and 17.9% for the first quarter of 2022. The gross margin was 22.0% for the six months ended June 30, 2022, compared to 34.5% for the same period in 2021.

¹ Refer to Non-GAAP Measures and Ratios and Adjusted Non-GAAP Measures on page 2

Operating expenses were \$13 million for the second quarter of 2022 compared to \$18 million in 2021.

This segment generated operating profits for the three months ended June 30, 2022, of \$28 million compared to \$32 million for the three months ended June 30, 2021, and \$24 million for the first quarter of 2022. The operating profits for the six months ended June 30, 2022, were \$53 million compared to \$47 million for the six months ended June 30, 2021.

CORPORATE EXPENSES AND OTHER

Corporate expenses of \$7 million for the three months ended June 30, 2022, were lower than the \$18 million for three months ended June 30, 2021, and the \$10 million for the first quarter of 2022 primarily due to the expense reversal of \$4 million from the mark-to-market on previously granted stock-based compensation due to our lower share price. Corporate expenses for the six months ended June 30, 2022, of \$15 million, were lower than the \$29 million in the same period in 2021.

SHARE OF EARNINGS FROM JOINT VENTURE

We recorded income from our share of the earnings from the TriMark joint venture of \$8 million in the three months ended June 30, 2022, and \$14 million in the six months ended June 30, 2022. In addition, we recorded an accounting valuation loss on our TriMark preferred shares of \$8 million for the three and six months ended June 30, 2022. This accounting valuation adjustment was due to the increase in market-based interest rates and credit spreads. The net impact of the income from our share of earnings less the valuation adjustment is \$nil for the second quarter of 2022.

During July 2022, TriMark declared, and we received, preferred share dividends of \$2 million and common share dividends of \$12 million.

INTEREST EXPENSE

Net interest expense of \$7 million for the three months ended June 30, 2022, was consistent with 2021. Net interest expense was \$13 million for the six months ended June 30, 2022, and 2021. The rising interest rate environment has not led to increased interest expense due to the mostly fixed portion of debt in our capital structure.

INCOME TAXES

We recorded a provision for income taxes of \$42 million for the second quarter of 2022 compared to \$39 million for the second quarter of 2021. Our effective income tax rate for the three months ended June 30, 2022, was 25.3% compared to 24.9% for the three months ended June 30, 2021. For the six months ended June 30, 2022, our effective income tax rate was 24.9% compared to 25.2% for the same period in 2021.

NET EARNINGS

Net earnings for the second quarter of 2022 at \$124 million compared to \$118 million in the second quarter of 2021. Basic earnings per share for the second quarter of 2022 of \$1.96 compared to \$1.88 per share for the second quarter of 2021. Basic earnings per share for the six months ended June 30, 2022, of \$3.53 compared to \$3.18 for the same period last year.

SHARES OUTSTANDING AND DIVIDENDS

The weighted average number of common shares outstanding for the second quarter of 2022 was 63,111,940 compared to 62,488,175 for the second quarter of 2021. The weighted average number of common shares outstanding for the six months ended June 30, 2022, was 63,108,638 compared to 62,392,338 for the six months ended June 30, 2021. Common shares outstanding at June 30, 2022 and August 10, 2022 were 63,112,220.

We paid common share dividends of \$24 million or \$0.38 per share in the second quarter of 2022 and 2021.

We have \$150 million of 6% senior unsecured notes due March 16, 2026. These notes can be redeemed at 103.0% declining rateably on an annual basis to par on or after March 16, 2024. We have \$150 million of 5 ³/₄% senior unsecured notes due October 27, 2025. 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. These notes have restrictions on the payment of dividends which we do not believe will restrict our ability to pay dividends.

Under our syndicated bank facility, the payment of dividends are 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 Months Ended June 30		Six Months Ended June 30	
	2022	2021	2022	2021
Capital expenditures - property, plant and equipment	\$ 8	\$ 7	\$ 16	\$ 13
Additions - right-of-use assets	3	6	12	8
Depreciation - property, plant and equipment	9	8	18	16
Depreciation - right-of-use assets	4	4	8	8

LIQUIDITY

On June 30, 2022, we had net cash, defined as cash less bank indebtedness, of \$187 million, compared to \$133 million on December 31, 2021. We generated \$322 million from operating activities before non-cash working capital in the six months ended June 30, 2022 and utilized \$87 million for working capital. We utilized \$16 million for capital expenditures, \$123 million in income tax payments and \$48 million for dividends.

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.

Total assets were \$2.5 billion on June 30, 2022, and \$2.3 billion at December 31, 2021. On June 30, 2022, current assets excluding cash represented 74% of our total assets compared to 72% on December 31, 2021.

Inventories represented 44% of our total assets, excluding cash, on June 30, 2022, compared to 45% on December 31, 2021.

<i>Inventory by Segment</i> <i>(millions)</i>	June 30 2022	Mar 31 2022	Dec 31 2021	Sep 30 2021	Jun 30 2021
Metals service centers	\$ 683	\$ 611	\$ 639	\$ 535	\$ 401
Energy products	152	130	119	131	269
Steel distributors	190	153	228	121	103
Total	\$ 1,025	\$ 894	\$ 986	\$ 787	\$ 773

<i>Cost of Sale by Segment</i> <i>(millions)</i>	Jun 30 2022	Mar 31 2022	Dec 31 2021	Sep 30 2021	Jun 30 2021
Metals service centers	\$ 743	\$ 726	\$ 576	\$ 518	\$ 481
Energy products	167	158	140	149	166
Steel distributors	108	164	132	111	93
Total	\$ 1,018	\$ 1,048	\$ 848	\$ 778	\$ 740

<i>Inventory Turns</i> <i>(quarters ended)</i>	June 30 2022	Mar 31 2022	Dec 31 2021	Sep 30 2021	Jun 30 2021
Metals service centers	4.3	4.8	3.6	3.9	4.8
Energy products	4.4	4.9	4.7	4.6	2.5
Steel distributors	2.3	4.3	2.3	3.7	3.6
Total	4.0	4.7	3.4	4.0	3.8

Our inventory turns for the quarter ended June 30, 2022, increased over the same quarter in 2021 due in part to the divestiture of our OCTG/line pipe operations which turned inventory slower than our other energy products businesses. On June 30, 2022, our metals service centers inventory tonnage was 8% higher than March 31, 2022, and average cost was 4% higher. Inventory levels in our energy products segment increased from March 31, 2022, due to increased demand in the sector. In steel distributors, the increase in inventory over March 31, 2022, was due to higher tons on hand and higher average cost. Late in the quarter, our steel distributor operations received delayed shipments as port congestion started to ease. This inventory increase is temporary and expected to dissipate in the 2022 third quarter.

Accounts receivable utilized cash of \$104 million due to higher revenues in the six months ended June 30, 2022. Accounts receivable represented 28% of our total assets, excluding cash, on June 30, 2022, compared to 25% on December 31, 2021.

During the six months ended June 30, 2022, we made income tax payments of \$123 million compared to \$31 million for the six months ended June 30, 2021.

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.

DEBT

<i>Long-term Debt</i> (millions)	June 30 2022	December 31 2021
5 ¾% \$150 million Senior Notes due October 27, 2025	\$ 147	\$ 147
6% \$150 million Senior Notes due March 16, 2026	148	148
	\$ 295	\$ 295

CASH AND CREDIT FACILITIES

<i>Cash Facilities</i> (millions)	June 30 2022	December 31 2021
Bank loans	\$ -	\$ -
Cash net of outstanding cheques	187	133
Net cash	187	133
Letters of credit	(134)	(78)
	\$ 53	\$ 55
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 June 30, 2022, we were entitled to borrow and issue letters of credit totaling \$450 million under this facility. On June 30, 2022, and December 31, 2021, we had no borrowings. We had \$134 million in letters of credit on June 30, 2022, compared to \$78 million on December 31, 2021.

On June 30, 2022, we were in compliance with all of our financial covenants.

With our cash, cash equivalents and our bank facilities we have access to approximately \$472 million of cash based on our June 30, 2022, 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

On June 30, 2022, we were contractually obligated to make payments as per the following table:

<i>Contractual Obligations</i> (millions)	Payments due in				Total
	2022	2023 and 2024	2025 and 2026	2027 and thereafter	
Accounts payable	\$ 629	\$ -	\$ -	\$ -	\$ 629
Debt	-	-	300	-	300
Long-term debt interest	9	35	22	-	66
Operating leases	12	43	34	68	157
Total	\$ 650	\$ 78	\$ 356	\$ 68	\$ 1,152

In addition, we are obligated to pay \$134 million in letters of credit when they mature in 2022.

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 17 of our 2021 consolidated financial statements. During the six months ended June 30, 2022, we contributed \$1 million to these plans, and we do not expect to contribute to these plans during the remainder of 2022. 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 \$5 million.

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

OFF-BALANCE SHEET ARRANGEMENTS

Our off-balance sheet arrangements consist of the letters of credit disclosed in the bank credit facilities table and short-term and low value operating lease obligations disclosed in the contractual obligations table.

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 on June 30, 2022, approximated our reserve on December 31, 2021. Bad debt expense for the six months ended June 30, 2022, as a percentage of revenue was less than 1% and approximates that of 2021.

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 June 30, 2022, a rise in net realizable value of 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 judgment.

During the quarter ended June 30, 2022, 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, if any, of acquired businesses.

Investment in TriMark Joint Venture

The investment in the preferred shares of the joint venture is accounted for at fair value using the Dividend Discount Model. The determination of the required rate of return in the model takes significant judgement. The investment in common shares of the joint venture is accounted using the equity method and tested for impairment if indications of impairment exist. The determination of whether this investment is impaired requires significant judgement and the actual cash received from a future sale of the joint venture may be materially different from these 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 \$156 million in plan assets on June 30, 2022, which is a decrease of approximately \$23 million from December 31, 2021. The discount rate used on the employee benefit plan obligation for the quarter ended June 30, 2022, was 5.00% which is 200 basis points higher than the discount rate used on December 31, 2021.

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 second quarter of 2022 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 a basis 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.

We believe that the steel pricing cycle will continue to be highly volatile, and that our decentralized management structure and philosophy 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 created uncertainty in the health and welfare of the communities where we operated 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 activity fluctuates with oil and gas prices. Our strategy included a reduction of the capital allocated to operations that do not provide adequate returns. Our oil field store operations provide a stable stream of earnings as their products are used in maintenance and repair as well as new drilling activity and large energy projects.

The continued impact of the pandemic, inflation, rising interest rates, prevailing oil price conditions and other macro-economic factors 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

Over the past several months, steel prices have moderated but demand remains steady across most of our operating regions. We expected steel prices to continue to exhibit volatility over the near term, particularly as industry-wide inventory levels adjust to more historical levels. As a result of the lag effect that steel price declines have on the cost of goods sold in our metals service centers and steel distributors segments, we expect the recent steel price moderations to reduce our near-term gross margins from the high levels that were generated in the second quarter of 2022. In our energy segment, we expect a continuation of the improving trend in operating conditions through the balance of 2022.