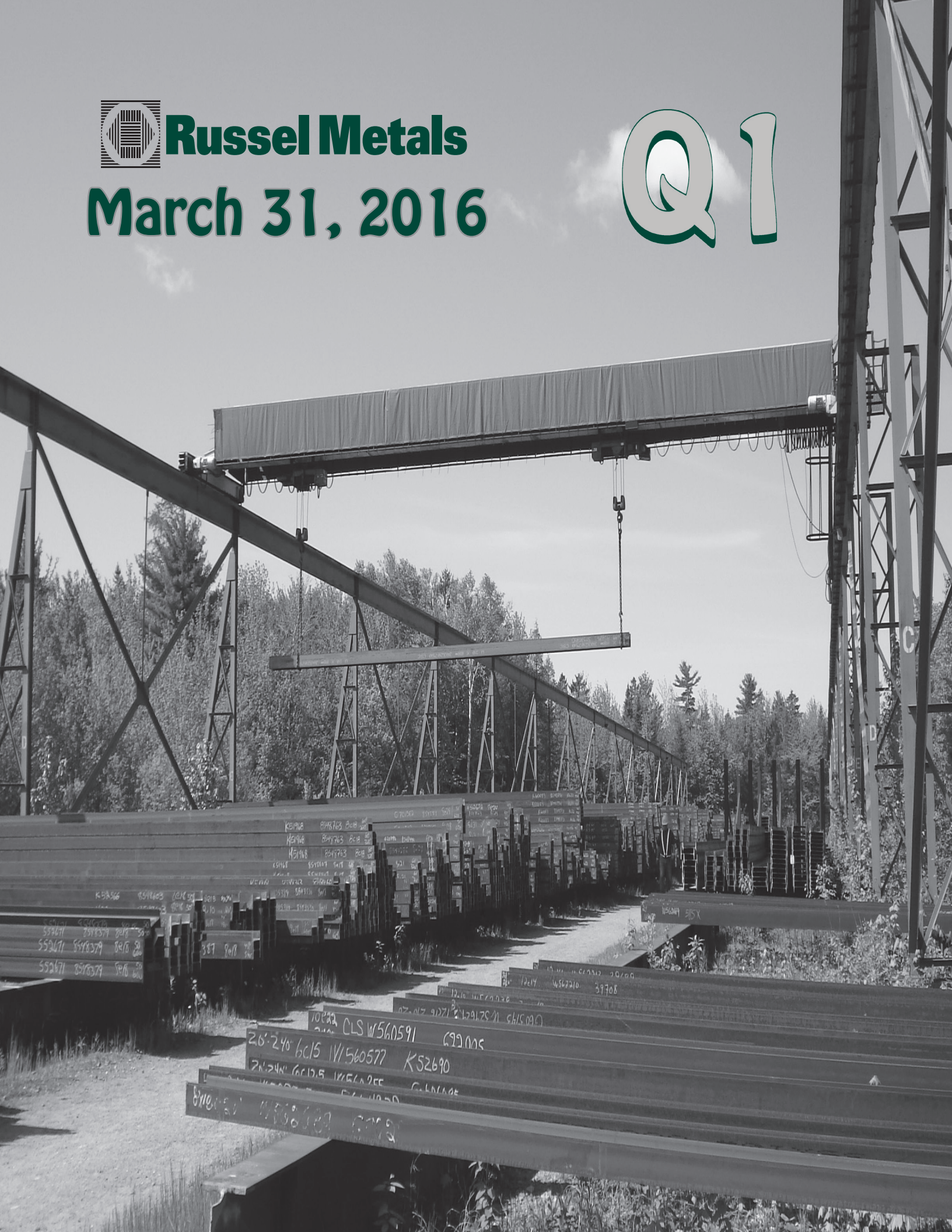




**Russel Metals**

**March 31, 2016**

**Q1**



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## **MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING**

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The accompanying condensed consolidated financial statements, Management's Discussion and Analysis of Financial Condition have been prepared by management and approved by the Audit Committee and the Board of Directors of the Company.

These condensed consolidated financial statements were prepared in accordance with International Financial Reporting Standards, as issued by the International Accounting Standards Board, and, where appropriate, reflect management's best estimates and judgements. Management is responsible for the accuracy, integrity and objectivity of the condensed consolidated financial statements and Management's Discussion and Analysis of Financial Condition within reasonable limits of materiality.

To assist management in the discharge of these responsibilities, the Company has developed, documented and maintained a system of internal controls in order to provide reasonable assurance that its assets are safeguarded; that only valid and authorized transactions are executed; and that accurate, timely and comprehensive financial information is prepared in accordance with International Financial Reporting Standards. In addition, the Company has developed and maintained a system of disclosure controls in order to provide reasonable assurance that the financial information is relevant, reliable and accurate.

The Company's Audit Committee is appointed annually by the Board of Directors. The Audit Committee, which is composed entirely of outside directors, meets with management to satisfy itself that management is properly discharging its financial reporting responsibilities and to review the condensed consolidated financial statements and the Management's Discussion and Analysis of Financial Condition. The Audit Committee reports its findings to the Board of Directors for consideration in approving the condensed consolidated financial statements and the Management's Discussion and Analysis of Financial Condition for presentation to the shareholders.

May 3, 2016



B. R. Hedges  
Chief Executive Officer



M. E. Britton  
Executive Vice President and  
Chief Financial Officer



# **RUSSEL METALS INC.**

## **MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS FOR THE THREE MONTHS ENDED MARCH 31, 2016**

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This Management's Discussion and Analysis of Financial Condition and Results of Operations (MD&A) of Russel Metals Inc. and its subsidiaries provides information to assist readers of, and should be read in conjunction with, the condensed consolidated financial statements for the three months ended March 31, 2016, including the notes thereto, and the MD&A and the audited consolidated financial statements for the year ended December 31, 2015, 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 May 3, 2016.

### **FORWARD-LOOKING STATEMENTS**

Certain statements contained in this MD&A constitute forward-looking statements or information within the meaning of applicable securities laws, including statements as to our future capital expenditures, our outlook, the availability of future financing and our ability to pay dividends. Forward-looking statements relate to future events or our future performance. All statements, other than statements of historical fact, are forward-looking statements. Forward-looking statements are often, but not always, identified by the use of words such as "seek", "anticipate", "plan", "continue", "estimate", "expect", "may", "will", "project", "predict", "potential", "targeting", "intend", "could", "might", "should", "believe" and similar expressions. Forward-looking statements are necessarily based on estimates and assumptions that, while considered reasonable by us, inherently involve known and unknown risks, uncertainties and other factors that may cause actual results or events to differ materially from those anticipated in such forward-looking statements, including the factors described below.

We are subject to a number of risks and uncertainties which could have a material adverse effect on our future profitability and financial position, including the risks and uncertainties listed below, which are important factors in our business and the metals distribution industry. Such risks and uncertainties include, but are not limited to: the volatility in metal prices; volatility in oil and natural gas prices; cyclical nature of the metals industry and the industries that purchase our products; decreased capital and other expenditures in the energy industry; product claims from customers; significant competition that could reduce our market share; the interruption in sources of metals supply; manufacturers selling directly to our customer base; material substitution; credit risk of our customers; lack of credit availability; change in our credit ratings; currency exchange risk; restrictive debt covenants; non-cash asset impairments; the loss of key individuals; decentralized operating structure; the integration of future acquisitions; the failure of our key computer-based systems, including our enterprise resource and planning systems; failure to renegotiate any of our collective agreements and work stoppages; litigious business environment; environmental liabilities; environmental concerns or changes in government regulations; proposed legislative changes on carbon emissions; changes in government regulations relating to workplace safety and worker health; fluctuation of our common share price; common share dilution; and variability of dividends.

While we believe that the expectations reflected in our forward-looking statements are reasonable, no assurance can be given that these expectations will prove to be correct, and our forward-looking statements included in this MD&A should not be unduly relied upon. These statements speak only as of the date of this MD&A and, except as required by law, we do not assume any obligation to update our forward-looking statements. Our actual results could differ materially from those anticipated in our forward-looking statements including as a result of the risk factors described above and under the heading "Risk" later in this MD&A, and under the heading "Risk Management and Risks Affecting Our Business" in our most recent Annual Information Form and are 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 Canadian generally accepted accounting principles (GAAP) and as such may not be comparable to similar measures presented by other companies. We believe these measures are commonly employed to measure performance in our industry and are used by analysts, investors, lenders and other interested parties to evaluate financial performance and our ability to incur and service debt to support our business activities. The measures we use are specifically defined where they are first used in this report.

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

## **OVERVIEW**

We are a large metals distribution company in North America. We conduct business primarily in three metals distribution segments: metals service centers, energy products, and steel distributors.

Our basic earnings per share were \$0.13 for the quarter ended March 31, 2016 compared to \$0.30 for the first quarter of 2015.

Steel prices stabilized and increased slightly in the quarter which led to stronger margins in our metals service centers and our steel distributors segments. Our earnings were adversely impacted by continued low oil prices resulting in reduced energy projects and drilling rates, which impacted both our energy products operations and our metals service centers in Western Canada. Year over year demand increased in our metals service centers in Eastern Canada.

Significant reductions in working capital and restructuring of our capital reduced interest expense from \$10 million in the 2015 first quarter to \$5 million in the 2016 first quarter.

## RESULTS OF OPERATIONS

The following table provides operating profits before interest, finance expense or income 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>           | <b>Quarters Ended March 31</b> |                 | change<br>as a %<br>of 2015 |
|--|--------------------------------|-----------------|-----------------------------|
|  | <b>2016</b>                    | 2015            |                             |
| <b>Segment Revenues</b>                            |                                |                 |                             |
| Metals service centers                             | \$ 341.1                       | \$ 400.4        | (15%)                       |
| Energy products                                    | 248.4                          | 384.9           | (35%)                       |
| Steel distributors                                 | 72.5                           | 118.5           | (39%)                       |
| Other  | 0.1                            | 0.1             |                             |
|  | <b>\$ 662.1</b>                | <b>\$ 903.9</b> | <b>(27%)</b>                |
| <b>Segment Operating Profits</b>                   |                                |                 |                             |
| Metals service centers                             | \$ 9.6                         | \$ 15.3         | (37%)                       |
| Energy products                                    | 6.8                            | 20.7            | (67%)                       |
| Steel distributors                                 | 7.1                            | 6.3             | 13%                         |
| Corporate expenses                                 | (5.9)                          | (4.3)           | (37%)                       |
| Other  | (1.0)                          | (1.4)           |                             |
| Operating profits                                  | <b>\$ 16.6</b>                 | <b>\$ 36.6</b>  | <b>(55%)</b>                |
| <b>Segment Gross Margin as a % of Revenues</b>     |                                |                 |                             |
| Metals service centers                             | 20.7%                          | 20.0%           |                             |
| Energy products                                    | 16.6%                          | 16.4%           |                             |
| Steel distributors                                 | 20.6%                          | 12.0%           |                             |
| Total operations                                   | <b>19.2%</b>                   | <b>17.4%</b>    |                             |
| <b>Segment Operating Profit as a % of Revenues</b> |                                |                 |                             |
| Metals service centers                             | 2.8%                           | 3.8%            |                             |
| Energy products                                    | 2.7%                           | 5.4%            |                             |
| Steel distributors                                 | 9.8%                           | 5.3%            |                             |
| Total operations                                   | <b>2.5%</b>                    | <b>4.0%</b>     |                             |

Results of our U.S. operations reported for the three months ended March 31, 2016 were converted at \$1.3748 per US\$1 compared to \$1.2411 per US\$1 for the three months ended March 31, 2015. The decline in the Canadian dollar in 2016 versus 2015 increased revenues, expenses and profits for our U.S. operations when translated to Canadian dollars. Our U.S. operations represented 28% of our total revenues. The exchange rate at March 31, 2016 used to translate the balance sheet was \$1.2971 per US\$1 versus \$1.3840 per US\$1 at December 31, 2015.

## QUARTERLY FINANCIAL HIGHLIGHTS

| <i>(for the quarters ended)</i> | <b>Mar 31<br/>2016</b> | Dec 31<br>2015 | Sep 30<br>2015 | Jun 30<br>2015 | Mar 31<br>2015 | Dec 31<br>2014 | Sep 30<br>2014 | Jun 30<br>2014 |
|---------------------------------|------------------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|
| Revenues (\$ millions)          | <b>\$ 662</b>          | \$ 673         | \$ 773         | \$ 761         | \$ 904         | \$ 1,013       | \$ 1,039       | \$ 893         |
| Operating profits (\$ millions) | <b>17</b>              | (29)           | 19             | 31             | 37             | 54             | 63             | 56             |
| Net earnings (\$ millions)      | <b>8</b>               | (135)          | 13             | 16             | 19             | 31             | 33             | 31             |
| Basic earnings per share (\$)   | <b>0.13</b>            | (2.19)         | 0.21           | 0.27           | 0.30           | 0.50           | 0.54           | 0.50           |

## **METALS SERVICE CENTERS**

### **a) *Description of operations***

We provide processing and distribution services to a broad base of approximately 39,000 end users through a network of 51 Canadian locations and 13 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 and the Southeastern and Midwestern regions in the United States. Within Canada, our service centers operate under the names Russel Metals, Métaux Russel, A.J. Forsyth, Acier Leroux, Acier Loubier, Alberta Industrial Metals, B&T Steel, Leroux Steel, Mégantic Métal, Russel Metals Processing, Russel Metals Specialty Products, Métaux Russel Produits Spécialisés, McCabe Steel and York-Ennis. Our U.S. service centers operate under the names Russel Metals Williams Bahcall, JMS Russel Metals, Norton Metals and Baldwin International.

### **b) *Factors affecting results***

The following is a general discussion of the significant factors affecting our metals service centers results. More specific information on how these factors impacted the first quarter of 2016 and 2015 is found in the section that follows.

Steel prices fluctuate significantly throughout the steel cycle. Steel prices are influenced by overall international demand, trade sanctions, iron ore prices, scrap steel prices and product availability. Volatile metal prices cause fluctuations in our operating results. Steel prices softened in the second half of 2014 and continued to decline throughout 2015. Pricing stabilized during the first quarter of 2016 and steel mills announced price increases in the second half of the quarter.

Supply side management, practiced by steel producers in North America, and international supply and demand, which impact steel imports, affects product availability. Trade sanctions are initiated either by steel mills or by North American government agencies. During the second half of 2015, trade actions were initiated by the U.S. government to reduce imports to North America for all forms of carbon steel coils in response to concerns raised by U.S. mills. In addition, there are on-going investigations in 2016 for hollow structural sections and cut-to-length plate products.

Our operating results are affected by the inherent risk of the cyclical nature of the metals industry and the industries that purchase our products. Demand for our products is significantly affected by economic cycles. Revenues and operating profits fluctuate with the level of general business activity in the markets served. We are most impacted by the manufacturing, resource (including oil and gas), and construction segments of the North American economy.

Canadian service centers, which represent the majority of our metals service center operations, have operations in all regions of Canada and are affected by general regional economic conditions. Our large market share and diverse customer base of approximately 20,000 Canadian customers means that our results tend to mirror the performance of the regional economies of Canada. Our U.S. operations, which have approximately 19,000 customers, are also impacted by the local economic conditions in the regions that they serve.

Results of our Canadian operations can be affected by the U.S. dollar exchange rate since some products are sourced outside of Canada and are priced in U.S. dollars. Movement in the Canadian dollar has a short-term impact on inventory prices.

**c) *Metals service centers segment results -- Three Months Ended  
March 31, 2016 compared to March 31, 2015***

Revenues for the three months ended March 31, 2016 decreased 15% to \$341 million compared to the same period in 2015. Tons shipped in the metals service centers segment in the first quarter of 2016 were approximately 5% lower than the first quarter of 2015 and 9% higher than the fourth quarter of 2015. The decrease in tons shipped over the same quarter of last year was primarily due to lower volumes caused by slow economic activity in Western Canada, partially offset by volume increases in our Quebec and Atlantic regions. Our U.S. operations experienced a decline in tons that was slightly smaller than our Canadian operations. Average selling prices of metal continued to decline with the average selling price 11% below that of the same quarter in 2015 and 4% lower than the 2015 fourth quarter.

Gross margin as a percentage of revenues of 20.7% was higher than the same quarter last year at 20.0%, and 19.0% for the fourth quarter of 2015. Higher gross margins reflect mill price increases experienced in the first quarter.

The 2016 first quarter operating expenses decreased \$4 million or 6% from the first quarter of 2015. Operating expenses for the quarter were lower than 2015 mainly related to decreased activity, lower manpower levels, salary reductions and work share arrangements.

Metals service centers operating profits for the three months ended March 31, 2016 of \$10 million were 37% lower than the \$15 million reported for the same period in 2015 mainly related to lower demand in certain of our markets.

**ENERGY PRODUCTS**

**a) *Description of operations***

We distribute oil country tubular goods (OCTG), line pipe, tubes, valves and fittings, primarily to the energy industry in Western Canada and the United States. A significant portion of our business units are clustered in Alberta and Saskatchewan, Canada, and in the U.S., in Colorado and Texas. A large portion of our inventories are located in third party yards ready for distribution to customers throughout North America. In addition, we operate from 54 Canadian and 20 U.S. facilities mainly to support our valve and fitting operations. The majority of these facilities are oil field stores which form the Apex Distribution network. We purchase our products from the pipe division of North American steel mills, independent manufacturers of pipe, valves and fittings, international steel mills and other distributors. Our energy products segment operates under the names Apex Distribution, Apex Monarch, Apex Remington, Apex Western Fiberglass, Comco Pipe and Supply Company, Fedmet Tubulars, Triumph Tubular & Supply, Pioneer Pipe and Spartan Energy Tubulars.

**b) *Factors affecting results***

The following is a general discussion of the factors affecting our energy products segment operations. More specific information on how these factors impacted the first quarter of 2016 and 2015 is found in the section that follows.

The price of natural gas and oil can impact rig count and drilling activities, which affects demand for our products. Oil and gas prices started to fall in 2014 and continued to fall throughout 2015 leading to lower rig counts. This severe drop in the price of oil has caused our energy product customers to announce reductions in their capital projects and reduced rig activity. Many of our Canadian drilling customers elected to complete their first quarter 2015 drilling programs despite the oil price reduction. This led to stronger results in our 2015 first quarter than the oil price reduction would indicate. Late in 2015 and early 2016, select oil sands producers announced the deferral of additional phases of new or existing projects. This will have a negative impact on our Western Canadian energy results throughout 2016.

Prices for pipe products are influenced by overall demand, trade sanctions, product availability and metal prices. Trade sanctions are initiated either by steel mills or by government agencies in North America. Both the Canadian and U.S. governments have imposed duties on certain Chinese pipe, which remain in effect and reduce imports of these products. The U.S. government initiated reviews in 2014 and 2015 on pipe from a number of other countries and announced some additional duties, which have not significantly reduced the inflow of imported price products, mainly due to the strong U.S. dollar. Prices of valves and fittings are not as sensitive to steel price fluctuations because they are highly engineered value-added products.



Drilling activity in Western Canada historically peaks during the period from October to March; however, based on the price of oil the 2016 winter drilling season was weaker than the 2015 winter drilling season.

**c) *Energy products segment results -- Three Months Ended  
March 31, 2016 compared to March 31, 2015***

Revenues in our energy products segment decreased 35% to \$248 million for the first quarter of 2016 compared to the same period of 2015 due to lower activity at all operations in the segment. Our strong first quarter volume in 2015 reflected the fact that our Canadian customers elected to continue capital spending programs and finish the winter drilling season despite the decline in oil prices. In 2016, capital spending programs in our Canadian customers slowed consistent with oil price declines.

Gross margin as a percentage of revenues for the three months ended March 31, 2016 was 16.6% compared to 16.4% in the same period in 2015. All of our energy products operations experienced pricing pressure due to lower demand and excess inventories in the industry. Gross margin percentage was favourably impacted by product mix from our higher margin valve, fitting and specialty fiberglass pipe operations versus the distribution of lower margin pipe products.

Operating expenses decreased \$8 million or 19% compared to the same quarter last year due to lower employee costs, freight expense and other activity related costs. The number of employees at March 31, 2016 was 22% lower than the number of employees at March 31, 2015 on a same store basis due to headcount reductions.

This segment generated an operating profit of \$7 million for the three months ended March 31, 2016 compared to \$21 million for the same period in 2015, mainly related to decreased volumes.

**STEEL DISTRIBUTORS**

**a) *Description of operations***

Our steel distributors act as master distributors selling steel in large volumes to other steel service centers and equipment manufacturers mainly on an "as is" basis. Our U.S. operation has a cut-to-length facility operating under the name Arrow Steel, located in Houston, Texas where it processes coil for its customers. Our steel distributors source their steel both domestically and off shore.

The main steel products sourced by this segment are structural beam, plate, coils, pipe and tubing; however, product volumes vary based on the economy and trade actions in North America. Our steel distributors operate under the names Wirth Steel and Sunbelt Group. Arrow Steel processes and levels coil products.

**b) *Factors affecting results***

The following is a general discussion of the significant factors affecting our steel distributors. More specific information on how these factors impacted the first quarter of 2016 and 2015 is found in the section that follows.

Steel prices are influenced by overall demand, trade sanctions and product availability both domestically and worldwide. Trade sanctions are initiated either by steel mills or government agencies in North America. Trade actions currently exist on plate and pipe from specified countries. Additional trade actions were initiated by U.S. mills in the second half of 2015 and early 2016. Steel imports are affected both by mill capacity by product line in North America, as well as international supply and demand. These factors also significantly affect product availability in North America.

Demand for steel that is sourced off shore fluctuates significantly and is mainly driven by price and product availability in North America. Our steel distributors have a significant number of customers who buy product from them on a periodic basis which can result in large fluctuations in revenues reported from period to period.

**c) *Steel distributors segment results -- Three Months Ended  
March 31, 2016 compared to March 31, 2015***

Steel distributors revenues decreased 39% to \$73 million for the three months ended March 31, 2016 compared to the same period in 2015 mainly due to a reduction in end-user demand and lower prices caused by excess product in the market place.

Gross margin as a percentage of revenues was 20.6% for the three months ended March 31, 2016 compared to 12.0% for the three months ended March 31, 2015. Steel price increases in the 2016 first quarter resulted in increased margins primarily in our U.S. steel distribution operation due to increases in steel prices announced by steel mills.

Operating expenses for the first quarter of 2016 and 2015 were consistent at \$8 million.

Operating profits for the three months ended March 31, 2015 were \$7 million compared to \$6 million March 31, 2015 as a result of higher gross margins.

***CORPORATE EXPENSES -- Three Months Ended  
March 31, 2016 compared to March 31, 2015***

Corporate expenses were \$6 million for the three months ended March 31, 2016 compared to \$4 million in the first quarter of 2015. The \$2 million increase in corporate expense was due to higher share-based compensation as a result of share price increases in the 2016 first quarter for grants issued prior to 2016.

***CONSOLIDATED RESULTS -- Three Months Ended  
March 31, 2016 compared to March 31, 2015***

Operating profits were \$17 million for the first quarter of 2016 compared to \$37 million for the first quarter of 2015 as a result of the decline in oil prices impacting demand and related activity in our energy products operations and Western Canadian metals service centers.

**INTEREST EXPENSE AND INCOME**

Net interest expense of \$5 million was lower than the \$10 million recorded in the 2015 first quarter due to lower debt and reduced interest costs as a result of the redemption of our 7.75% Convertible Debentures in the 2015 fourth quarter.

**OTHER FINANCE EXPENSE**

Other finance expense was zero in the 2016 first quarter compared to an expense of \$0.6 million for the first quarter of 2015. Other finance expense relates to the change in fair value of the contingent consideration associated with the Apex Distribution and Apex Monarch acquisitions. The expected future earnings of these two acquired businesses is expected to be lower than the threshold required for the payment of the contingent consideration under the applicable earnouts, resulting in no further obligation.

**INCOME TAXES**

We recorded a provision for income taxes of \$3 million for the first quarter of 2016 compared to \$8 million for the first quarter of 2015 due to lower pre-tax earnings. Our effective income tax rate for the three months ended March 31, 2016 was 30.4% compared to 30.2% for the three months ended March 31, 2015.

**NET EARNINGS**

Net earnings for the first quarter of 2016 was \$8 million compared to \$19 million in net earnings for the first quarter of 2015. Basic earnings per share for the first quarter of 2016 were \$0.13 per share compared to \$0.30 per share for the first quarter of 2015.

**SHARES OUTSTANDING AND DIVIDENDS**

The weighted average number of common shares outstanding for the first quarter of 2016 was 61,702,560 compared to 61,678,145 for the first quarter of 2015. Common shares outstanding at March 31, 2016 and May 3, 2016 were 61,702,560.

We paid common share dividends of \$23 million or \$0.38 per share in the first quarter of 2016 and 2015.

We have \$300 million 6% Senior Notes due April 19, 2022. The indenture for our Senior Notes has restrictions related to the payment of quarterly dividends in excess of \$0.35 per share. We currently have a basket of approximately \$195 million available for restricted payments, which is adjusted for 50% of our net earnings or losses on a quarterly basis. This basket is available for dividend payments greater than \$0.35 per share.

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 as our borrowing base, which is based on percentages of accounts receivable and inventories, has traditionally been in excess of our borrowings plus four times the current dividend. In addition, we believe we would be able to finance our short-term cash requirements with alternate financing structures and pay the dividend.

## EBITDA

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

| <i>(millions)</i>   | Quarters ended March 31 |         |
|---|-------------------------|---------|
|   | 2016                    | 2015    |
| Net earnings  | \$ 7.8                  | \$ 18.5 |
| Provision for income taxes  | 3.4                     | 8.0     |
| Interest and finance expense, net   | 5.4                     | 10.1    |
| Earnings before interest, finance and income taxes (EBIT)                               | 16.6                    | 36.6    |
| Depreciation and amortization   | 8.9                     | 8.7     |
| Earnings before interest, finance, income taxes, depreciation and amortization (EBITDA) | \$ 25.5                 | \$ 45.3 |

We believe that EBITDA, a non-GAAP measure, may be useful in assessing our operating performance and as an indicator of our ability to service or incur indebtedness, make capital expenditures and finance working capital requirements. The items excluded in determining EBITDA are significant in assessing our operating results and liquidity. Therefore, EBITDA should not be considered in isolation or as an alternative to cash from operating activities or other combined income or cash flow data prepared in accordance with GAAP.

## CAPITAL EXPENDITURES

Capital expenditures were \$3 million for the first quarter of 2016 compared to \$8 million in the first quarter of 2015. Economic conditions have caused us to lower our capital expenditures. We expect to spend less on capital expenditures than our projected depreciation expense in 2016. Depreciation expense was \$7 million for the first quarter of 2016 and 2015.

## LIQUIDITY

At March 31, 2016, we had net cash, defined as cash less bank indebtedness, of \$64 million compared to net cash of \$49 million at December 31, 2015.

We generated \$25 million from operations in the first quarter of 2016 and \$20 million from working capital, primarily due to decreased inventories. We utilized \$3 million for capital expenditures and \$23 million for dividends to shareholders.

Due to our cyclical business, we experience significant swings in working capital which impact cash flow. Our emphasis on the reduction of inventories led to generation of cash of \$21 million in the 2016 first quarter. Inventory and accounts receivable represent a large percentage of our total assets employed and vary throughout each cycle. Accounts receivable and inventory comprise our largest liquidity risks. Our customers are impacted by the economic climate and our strong collections experience might be negatively impacted should the economic conditions not improve leading to increased bad debts expense.

Total assets were \$1.5 billion at March 31, 2016 and \$1.6 billion at December 31, 2015. At March 31, 2016 and December 31, 2015 current assets excluding cash represented 74% of our total assets, excluding cash.

Decreases in inventory generated cash of \$21 million in the three months ended March 31, 2016 after the effects of foreign exchange. Inventories were reduced in our energy products segment. Inventories represented 44% of our total assets at March 31, 2016 and December 31, 2015.

| <i>Inventory by Segment (millions)</i> | <b>Mar. 31<br/>2016</b> | Dec. 31<br>2015 | Sept. 30<br>2015 | June 30<br>2015 | Mar. 31<br>2015 |
|--|-------------------------|-----------------|------------------|-----------------|-----------------|
| Metals service centers                 | \$ 235                  | \$ 225          | \$ 253           | \$ 284          | \$ 322          |
| Energy products                        | 353                     | 398             | 442              | 470             | 445             |
| Steel distributors                     | 90                      | 89              | 134              | 170             | 200             |
| <b>Total</b>                           | <b>\$ 678</b>           | <b>\$ 712</b>   | <b>\$ 829</b>    | <b>\$ 924</b>   | <b>\$ 967</b>   |

| <i>Inventory Turns (quarters ended)</i> | <b>Mar. 31<br/>2016</b> | Dec. 31<br>2015 | Sept. 30<br>2015 | June 30<br>2015 | Mar. 31<br>2015 |
|---|-------------------------|-----------------|------------------|-----------------|-----------------|
| Metals service centers                  | 4.6                     | 4.7             | 4.7              | 4.4             | 4.0             |
| Energy products                         | 2.3                     | 2.6             | 2.3              | 1.9             | 2.9             |
| Steel distributors                      | 2.5                     | 3.8             | 2.9              | 2.2             | 2.1             |
| <b>Total</b>                            | <b>3.2</b>              | <b>3.4</b>      | <b>3.1</b>       | <b>2.7</b>      | <b>3.1</b>      |

At March 31, 2016, our metals service centers had inventory tons 16% lower than March 31, 2015. Local metals service center management actively reduced their inventory exposure in response to reduced demand throughout 2015, resulting in improved turns.

Our energy products operations reduced inventory levels further during the first quarter of 2016 as these operations continued to reduce their inventory to correspond to lower energy activity levels. These operations will continue to monitor and manage inventory consistent with energy sector demand levels.

Lower demand at our steel distributors segment caused these operations to actively reduce inventory levels and inventory purchases in the last half of 2015 and into the 2016 first quarter.

Accounts receivable utilized cash of \$1 million in the first quarter of 2016. Accounts receivable represented 21% of our total assets at March 31, 2016 and December 31, 2015.

During the first quarter of 2016 we made income tax payments of \$2 million and received a refund of \$7 million relating to 2015, compared to a payment of \$25 million for the three months ended March 31, 2015.

The balances disclosed in our consolidated cash flow statements are adjusted to remove the non-cash component related to foreign exchange rate fluctuations impacting inventory, accounts receivable, accounts payable and income tax balances of our U.S. operations.

## FREE CASH FLOW

| <i>(millions)</i>  | Quarters ended March 31 |                |
|--|-------------------------|----------------|
|  | <b>2016</b>             | 2015           |
| Cash from operating activities before non-cash working capital | \$ 24.5                 | \$ 37.8        |
| Purchase of property, plant and equipment                      | (3.0)                   | (8.2)          |
|  | <b>\$ 21.5</b>          | <b>\$ 29.6</b> |

We believe that free cash flow may be useful in assessing our ability to pay dividends, reduce outstanding debt and fund working capital growth. Free cash flow is a non-GAAP measure regularly used by investors and analysts to evaluate companies.



## CASH, DEBT AND CREDIT FACILITIES

| <i>(millions)</i>                                 | <b>March 31<br/>2016</b> | December 31<br>2015 |
|---|--------------------------|---------------------|
| Long-term debt                                    |                          |                     |
| 6% \$300 million Senior Notes due April 19, 2022  | <b>\$ 295</b>            | \$ 295              |
| Finance leases obligations, maturing 2014 to 2018 | <b>1</b>                 | 1                   |
|   | <b>296</b>               | 296                 |
| Current portion                                   | <b>(1)</b>               | (1)                 |
|   | <b>\$ 295</b>            | \$ 295              |

| <i>Cash and Bank Credit Facilities<br/>As at March 31, 2016 (millions)</i> | Russel Metals<br>Facility | U.S. Subsidiary<br>Facility | Total        |
|--|---------------------------|-----------------------------|--------------|
| Bank loans   | \$ (82)                   | \$ -                        | \$ (82)      |
| Cash net of outstanding cheques  | 145                       | 1                           | 146          |
| Net cash   | 63                        | 1                           | 64           |
| Letters of credit  | (35)                      | -                           | (35)         |
|  | <b>\$ 28</b>              | <b>\$ 1</b>                 | <b>\$ 29</b> |
| Facilities   |                           |                             |              |
| Borrowings and letters of credit   | \$ 350                    | \$ 52                       | \$ 402       |
| Letters of credit  | 50                        | -                           | 50           |
| Facilities availability  | \$ 400                    | \$ 52                       | \$ 452       |
| Available line based on borrowing base                                     | \$ 400                    | \$ 52                       | \$ 452       |

We have a credit facility with a syndicate of Canadian and U.S. banks totaling \$400 million which expires September 21, 2019. The syndicated facility consists of availability of \$350 million under Tranche I to be utilized for borrowings and letters of credit, and \$50 million under Tranche II to be utilized only for letters of credit. Letters of credit are issued under Tranche II first and additional needs are issued under Tranche I. 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 \$400 million.

As of March 31, 2016, we were entitled to borrow and issue letters of credit totaling \$400 million under this facility. At March 31, 2016, we had \$82 million in borrowings compared to \$94 million at December 31, 2015. We had \$35 million in letters of credit at March 31, 2016 compared to \$29 million at December 31, 2015.

One of our U.S. subsidiaries has an additional bank facility primarily for letters of credit. The maximum borrowings under this facility, including letters of credit, are US\$40 million. At March 31, 2016 and December 31, 2015 our U.S. subsidiary had no borrowings or letters of credit under this facility.

At March 31, 2016, we were in compliance with all of our financial covenants.

With our cash, cash equivalents and our bank facilities we have access to approximately \$466 million of cash based on our March 31, 2016 balances. The use of our bank facilities has been predominantly to fund working capital requirements, acquisitions and trade letters of credit for inventory purchases. These lines may be used to support increased working capital needs when volumes and steel prices increase.

## CONTRACTUAL OBLIGATIONS

As at March 31, 2016, we were contractually obligated to make payments as per the following table:

| <i>Contractual Obligations</i><br><i>(millions)</i> | Payments due in |                  |                  |                        | Total  |
|---|-----------------|------------------|------------------|------------------------|--------|
|   | 2016            | 2017<br>and 2018 | 2019<br>and 2020 | 2021 and<br>thereafter |        |
| Accounts payable                                    | \$ 302          | \$ -             | \$ -             | \$ -                   | \$ 302 |
| Debt  | -               | -                | -                | 300                    | 300    |
| Long-term debt interest                             | 18              | 36               | 36               | 28                     | 118    |
| Operating leases                                    | 18              | 34               | 19               | 26                     | 97     |
| Total   | \$ 338          | \$ 70            | \$ 55            | \$ 354                 | \$ 817 |

As part of the purchase consideration for Apex Distribution and Apex Monarch we agreed to pay additional contingent cash consideration during the five years ending 2017 and 2018, respectively, based on earnings before interest and taxes and return on net assets. The current price of oil and expected future activity levels in the areas served by these operations caused the fair value of these obligations to be reduced to zero. Improvements in the markets served may result in other finance expense and possible future contingent consideration payments.

We have obligations related to multiple defined benefit pension plans in Canada, as disclosed in Note 15 of our 2015 consolidated financial statements. During the first quarter of 2016, we contributed \$2 million to these plans. We expect to contribute approximately \$5 million to these plans during the remainder of the year. The defined benefit obligations reported in the consolidated financial statements use different assumptions than the going concern actuarial valuations prepared for funding. In addition, the actuarial valuations provide a solvency valuation, which is a valuation assuming the plan is wound up at the valuation date. Our reported funding obligations would increase by \$6 million on a solvency basis and thus additional funding could be required based on solvency if the plans were wound up. We estimate the impact of a 0.25% change in the discount rate on the solvency obligation would be approximately \$5 million. During the 2016 first quarter we received regulatory approval for the merger of certain of our plans which may result in additional funding.

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 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 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 net realizable value and obsolescence, useful lives of fixed assets, asset impairment, fair values, income taxes, pensions and benefits obligations, guarantees, decommissioning liabilities, contingencies, contingent consideration, litigation and assigned values on net assets acquired. We base our estimates on historical experience and on various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgements about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

Our most significant assets are accounts receivable and inventories.

### *Accounts Receivable*

An allowance for doubtful accounts is maintained for estimated losses resulting from the inability of our customers to make required payments. Assessments are based on aging of receivables, legal issues (bankruptcy status), past collection experience, current financials, credit agency reports and the experience of our credit personnel. Accounts receivable which we determine to be uncollectible are reserved in the period in which the determination is made. If the financial condition of our customers was to deteriorate, resulting in an impairment of their ability to make payments, additional allowances may be required. Our reserve for bad debts at March 31, 2016 was approximately \$1 million higher than our reserve at December 31, 2015. Bad debt expense for the first quarter of 2016 as a percentage of revenue was less than 1% and approximates that of 2015.

### *Inventories*

We review our inventories to ensure that the cost of inventories is not in excess of its estimated net realizable value and for obsolete and slow moving product. Inventory reserves or write-downs are recorded when cost exceeds the estimated selling price less cost to sell and when product is determined to be slow moving or obsolete. The inventory reserve level at March 31, 2016 was lower than the level at December 31, 2015 due to reductions in inventory.

Other areas involving significant estimates and judgements include:

### *Goodwill Impairment*

The determination of whether goodwill and intangibles are impaired requires the estimation of future cash flows and an appropriate discount rate to determine value in use. An impairment occurs when the book value of the assets associated with a particular cash generating unit is greater than the value in use. The assessment of future cash flows and a discount rate requires significant judgment.

### *Income Taxes*

We believe that we have adequately provided for income taxes based on all of the information that is currently available. The calculation of income taxes in many cases requires significant judgement in interpreting tax rules and regulations, which are constantly changing. Our tax filings are also subject to audits, which could materially change the amount of current and future income tax assets and liabilities. Any change would be recorded as a charge or reduction in income tax expense.

### *Business Combinations*

For each acquisition we review the fair value of assets acquired. Where we deem it appropriate, we hire outside business valuers to assist in the assessment of the fair value of property, plant, equipment, intangibles and contingent consideration of acquired businesses. The assessment of fair values for contingent consideration is completed quarterly and requires significant judgement.

### *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 loss. 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.

The Company and the manufacturer of certain energy products have received a customer claim of approximately \$90 million relating to product that was distributed by us from 2010 to 2012. The customer alleges that the product was defective and that the manufacturer did not meet the specifications for the goods. Although primary responsibility for the allegedly defective product lies with the manufacturer, we have been included in the claim. No proceedings have yet been commenced regarding this claim. We are continuing discussions to settle this claim and have estimated our potential liability to be \$20 million. We will vigorously defend against this claim and assert our rights against the manufacturer.

### *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 \$113 million in plan assets at March 31, 2016, which is an increase of approximately \$2 million from December 31, 2015. The discount rate used on the employee benefit plan obligation for the quarter ended March 31, 2016 was 3.75% which is 0.25% lower than the interest rate at December 31, 2015 resulting in an increase in our accrued benefit obligation of \$6 million.

## **CONTROLS AND PROCEDURES**

Disclosure controls and procedures are designed to provide reasonable assurance that all relevant information is gathered and reported to senior management on a timely basis so that appropriate decisions can be made regarding public disclosure.

The purpose of internal controls over financial reporting as defined by the Canadian Securities Administrators is to provide reasonable assurance that:

- (i) financial statements prepared for external purposes are in accordance with the Company's generally accepted accounting principles,
- (ii) transactions are recorded as necessary to permit the preparation of financial statements, and records are maintained in reasonable detail,
- (iii) receipts and expenditures of the Company are made only in accordance with authorizations of the Company's management and directors, and
- (iv) unauthorized acquisitions, uses or dispositions of the Company's assets that could have a material effect on the financial statements will be prevented or detected in order to prevent material error in financial statements.

The Chief Executive Officer and the Executive Vice President and Chief Financial Officer have caused management and other employees to design and document our disclosure controls and procedures and our internal controls over financial reporting. The design of internal controls was completed using the framework and criteria established in "Internal Control - Integrated Framework" issued by the Committee of Sponsoring Organizations of the Treadway Commission.

No changes were made in our disclosure controls and procedures of our internal controls over financial reporting during the first quarter of 2016 that have materially affected, or reasonably likely to materially affect, our internal control over financial reporting.

## **VISION AND STRATEGY**

The metals distribution business is a segment of a mature, cyclical industry. We strive to deal with the cyclical nature of the business by operating with the lowest possible net assets throughout the course of a cycle. This intensive asset management reduces borrowings and therefore interest expense in declining periods in the economic cycle. This in turn creates higher, more stable returns on net assets over a cycle. Our conservative management approach creates relatively stronger trough earnings but could cause potential peak earnings to be somewhat muted. Management believes that this strategy will result in higher profits throughout a cycle and we believe will have average earnings over the cycle in the top deciles of the industry.

We have significant investments in business units that service the oil and gas industry. We endeavour to manage the inventories and costs in these businesses to enable us to react to the variability of oil and gas prices.

Growth from selective acquisitions is also part of our strategy. We focus on investment opportunities in metals businesses that have strong market niches or provide mass to our existing operations. New acquisitions could be either major stand-alone operations or ones that complement our existing operations. We made small acquisitions in both 2014 and 2015 and we continue to review opportunities for acquisitions.



We believe that the steel-based pricing cycle will continue to be short and volatile, and a management structure and philosophy that allows the fastest reaction to changes that affect the industry will be the most successful. We will continue to invest in our business systems to enable faster reaction times to changing business conditions.

## **RISK**

The timing and extent of future price changes from steel producers and their impact on us cannot be predicted with any certainty due to the inherent cyclical nature of the steel industry and modest capacity utilization rates for North American steel producers and historically high import levels.

A large portion of our revenues are dependent on the oil and gas industry whose activity fluctuates with oil and gas prices. In addition, our acquisitions between 2012 and 2015 increased our exposure to the Western Canadian oil and gas segment. Management believes that the acquisition of the oil field operations of Apex Distribution provides a more stable stream of revenues and earnings for the energy products segment. The price of oil dropped significantly during 2015, continues to be low in 2016 and there is no certainty as to when the price of oil and natural gas will increase, driving demand for some of our products.

We have implemented an enterprise risk management program. The enterprise risk management program and a summary of the risks affecting our business is described under the heading "Risk Management and Risks Affecting Our Business" in our most recent Annual Information Form, which section is incorporated by reference in this "Risk" section of our MD&A.

## **OUTLOOK**

Steel pricing started to recover during the first quarter of 2016. This steel price stabilization and recovery will lead to improved margins in our metals service centers and steel distributors segments and we believe this will continue in the 2016 second quarter.

In our energy segment, volume and price pressures have continued into 2016. We expect that these difficult conditions will continue through the 2016 second quarter and lower activity, which is normal in the second quarter, will be exacerbated by the current economic conditions.

## CONDENSED CONSOLIDATED STATEMENTS OF EARNINGS (UNAUDITED)

| <i>(in millions of Canadian dollars, except per share data)</i>                 | Quarters ended March 31 |                 |
|---|-------------------------|-----------------|
|   | 2016                    | 2015            |
| <b>Revenues</b>   | <b>\$ 662.1</b>         | <b>\$ 903.9</b> |
| Cost of materials (Note 4)  | 535.3                   | 746.5           |
| Employee expenses (Note 13)   | 64.7                    | 71.9            |
| Other operating expenses (Note 13)  | 45.5                    | 48.9            |
| <b>Earnings before interest, finance expense and provision for income taxes</b> | <b>16.6</b>             | <b>36.6</b>     |
| Interest expense (Note 14)  | 5.4                     | 9.5             |
| Other finance expense (Note 14)   | -                       | 0.6             |
| <b>Earnings before provision for income taxes</b>                               | <b>11.2</b>             | <b>26.5</b>     |
| Provision for income taxes (Note 15)  | 3.4                     | 8.0             |
| <b>Net earnings for the period</b>  | <b>\$ 7.8</b>           | <b>\$ 18.5</b>  |
| <b>Basic earnings per common share (Note 12)</b>                                | <b>\$ 0.13</b>          | <b>\$ 0.30</b>  |
| <b>Diluted earnings per common share (Note 12)</b>                              | <b>\$ 0.13</b>          | <b>\$ 0.30</b>  |

## CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS) (UNAUDITED)

| <i>(in millions of Canadian dollars)</i>   | Quarters ended March 31 |                |
|--|-------------------------|----------------|
|  | 2016                    | 2015           |
| <b>Net earnings for the period</b>   | <b>\$ 7.8</b>           | <b>\$ 18.5</b> |
| Other comprehensive income   |                         |                |
| <b>Items that may be reclassified to earnings</b>  |                         |                |
| Unrealized foreign exchange (losses) gains on translation of foreign operations                          | (31.7)                  | 40.7           |
| <b>Items that may not be reclassified to earnings</b>  |                         |                |
| Actuarial losses on pension and similar obligations, net of taxes of \$1.1 million (2015: \$1.7 million) | (2.9)                   | (4.7)          |
| Other comprehensive income (loss)  | (34.6)                  | 36.0           |
| <b>Total comprehensive income (loss)</b>   | <b>\$ (26.8)</b>        | <b>\$ 54.5</b> |

The accompanying notes are an integral part of these condensed consolidated financial statements.

## CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION *(UNAUDITED)*

| <i>(in millions of Canadian dollars)</i>                      | <b>March 31<br/>2016</b> | December 31<br>2015 |
|---|--------------------------|---------------------|
| <b>ASSETS</b>   |                          |                     |
| <b>Current</b>  |                          |                     |
| Cash and cash equivalents                                     | \$ 140.7                 | \$ 143.4            |
| Accounts receivable   | 329.6                    | 333.5               |
| Inventories (Note 4)  | 678.3                    | 712.5               |
| Prepaid expenses  | 10.7                     | 10.7                |
| Income taxes receivable                                       | 15.0                     | 24.2                |
|   | 1,174.3                  | 1,224.3             |
| <b>Property, Plant and Equipment (Note 5)</b>                 | <b>255.0</b>             | <b>267.8</b>        |
| <b>Deferred Income Tax Assets</b>                             | <b>16.3</b>              | <b>15.8</b>         |
| <b>Financial and Other Assets</b>                             | <b>6.8</b>               | <b>7.1</b>          |
| <b>Goodwill and Intangibles (Note 6)</b>                      | <b>89.4</b>              | <b>92.0</b>         |
|   | <b>\$ 1,541.8</b>        | <b>\$ 1,607.0</b>   |
| <b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>                   |                          |                     |
| <b>Current</b>  |                          |                     |
| Bank indebtedness (Note 7)                                    | \$ 76.3                  | \$ 94.2             |
| Accounts payable and accrued liabilities                      | 301.8                    | 303.1               |
| Income taxes payable  | -                        | 0.4                 |
| Current portion long-term debt (Note 8)                       | 0.5                      | 0.5                 |
|   | 378.6                    | 398.2               |
| <b>Long-Term Debt (Note 8)</b>                                | <b>295.4</b>             | <b>295.2</b>        |
| <b>Pensions and Benefits (Note 9)</b>                         | <b>25.1</b>              | <b>21.7</b>         |
| <b>Deferred Income Tax Liabilities</b>                        | <b>13.8</b>              | <b>14.2</b>         |
| <b>Provisions and Other Non-Current Liabilities (Note 16)</b> | <b>10.0</b>              | <b>8.8</b>          |
|   | 722.9                    | 738.1               |
| <b>Shareholders' Equity (Note 10)</b>                         |                          |                     |
| Common shares   | 531.7                    | 531.7               |
| Retained earnings   | 173.6                    | 192.1               |
| Contributed surplus   | 15.4                     | 15.2                |
| Accumulated other comprehensive income                        | 98.2                     | 129.9               |
|   | 818.9                    | 868.9               |
| <b>Total Shareholders' Equity</b>                             | <b>818.9</b>             | <b>868.9</b>        |
| <b>Total Liabilities and Shareholders' Equity</b>             | <b>\$ 1,541.8</b>        | <b>\$ 1,607.0</b>   |

The accompanying notes are an integral part of these condensed consolidated financial statements.

ON BEHALF OF THE BOARD,

  
A. Laberge  
Director

  
J. A. Hanna  
Director

## CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOW (UNAUDITED)

| <i>(in millions of Canadian dollars)</i>                              | Quarters ended March 31 |                |
|---|-------------------------|----------------|
|   | 2016                    | 2015           |
| Operating activities  |                         |                |
| Net earnings for the period   | \$ 7.8                  | \$ 18.5        |
| Depreciation and amortization   | 8.9                     | 8.7            |
| Provision for income taxes  | 3.4                     | 8.0            |
| Interest expense  | 5.4                     | 9.5            |
| (Gain) loss on sale of property, plant and equipment                  | (0.3)                   | 0.1            |
| Share-based compensation  | 0.2                     | 0.3            |
| Difference between pension expense and amount funded                  | (0.4)                   | (0.6)          |
| Debt accretion, amortization and other                                | 0.2                     | 1.4            |
| Interest paid, net  | (0.7)                   | (8.7)          |
| Change in fair value of contingent consideration                      | -                       | 0.6            |
| <b>Cash from operating activities before non-cash working capital</b> | <b>24.5</b>             | <b>37.8</b>    |
| Changes in non-cash working capital items                             |                         |                |
| Accounts receivable   | (0.7)                   | 79.6           |
| Inventories   | 21.4                    | (12.7)         |
| Accounts payable and accrued liabilities                              | (1.0)                   | (85.5)         |
| Other   | (0.1)                   | 1.0            |
| <b>Change in non-cash working capital</b>                             | <b>19.6</b>             | <b>(17.6)</b>  |
| Income taxes refund (paid), net                                       | 4.9                     | (25.4)         |
| <b>Cash from (used in) operating activities</b>                       | <b>49.0</b>             | <b>(5.2)</b>   |
| Financing activities  |                         |                |
| (Decrease) increase in bank indebtedness                              | (17.9)                  | 7.7            |
| Issue of common shares  | -                       | 0.4            |
| Dividends on common shares  | (23.4)                  | (23.4)         |
| Issuance of long-term debt  | 0.2                     | -              |
| Repayment of long-term debt   | (0.2)                   | (0.1)          |
| <b>Cash used in financing activities</b>                              | <b>(41.3)</b>           | <b>(15.4)</b>  |
| Investing activities  |                         |                |
| Purchase of property, plant and equipment                             | (3.0)                   | (8.2)          |
| Proceeds on sale of property, plant and equipment                     | 4.7                     | 0.4            |
| Payment of contingent consideration                                   | (0.1)                   | (17.5)         |
| <b>Cash from (used in) investing activities</b>                       | <b>1.6</b>              | <b>(25.3)</b>  |
| <b>Effect of exchange rates on cash and cash equivalents</b>          | <b>(12.0)</b>           | <b>8.4</b>     |
| <b>Decrease in cash and cash equivalents</b>                          | <b>(2.7)</b>            | <b>(37.5)</b>  |
| Cash and cash equivalents, beginning of the period                    | 143.4                   | 53.4           |
| <b>Cash and cash equivalents, end of the period</b>                   | <b>\$ 140.7</b>         | <b>\$ 15.9</b> |

The accompanying notes are an integral part of these condensed consolidated financial statements.



## CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY *(UNAUDITED)*

| <i>(in millions of Canadian dollars)</i>                     | Common<br>Shares | Retained<br>Earnings | Contributed<br>Surplus | Accumulated<br>Other<br>Comprehensive<br>Income | Total           |
|--|------------------|----------------------|------------------------|---|-----------------|
| <b>Balance, January 1, 2016</b>                              | \$ 531.7         | \$ 192.1             | \$ 15.2                | \$ 129.9  | \$ 868.9        |
| Payment of dividends   | -                | (23.4)               | -                      | -   | (23.4)          |
| Net earnings for the period                                  | -                | 7.8                  | -                      | -   | 7.8             |
| Other comprehensive loss<br>for the period                   | -                | -                    | -                      | (34.6)  | (34.6)          |
| Recognition of share-based<br>compensation                   | -                | -                    | 0.2                    | -   | 0.2             |
| Transfer of net actuarial losses<br>on defined benefit plans | -                | (2.9)                | -                      | 2.9   | -               |
| <b>Balance, March 31, 2016</b>                               | <b>\$ 531.7</b>  | <b>\$ 173.6</b>      | <b>\$ 15.4</b>         | <b>\$ 98.2</b>                                  | <b>\$ 818.9</b> |

| <i>(in millions of Canadian dollars)</i>                     | Common<br>Shares | Retained<br>Earnings | Contributed<br>Surplus | Accumulated<br>Other<br>Comprehensive<br>Income | Equity<br>Component<br>of Convertible<br>Debentures | Total    |
|--|------------------|----------------------|------------------------|---|---|----------|
| Balance, January 1, 2015                                     | \$ 531.2         | \$ 344.0             | \$ 14.1                | \$ 47.1   | \$ 28.6   | \$ 965.0 |
| Payment of dividends   | -                | (23.4)               | -                      | -   | -   | (23.4)   |
| Net earnings for the period                                  | -                | 18.5                 | -                      | -   | -   | 18.5     |
| Other comprehensive income<br>for the period                 | -                | -                    | -                      | 36.0  | -   | 36.0     |
| Recognition of share-based<br>compensation                   | -                | -                    | 0.3                    | -   | -   | 0.3      |
| Share options exercised                                      | 0.5              | -                    | (0.1)                  | -   | -   | 0.4      |
| Transfer of net actuarial losses<br>on defined benefit plans | -                | (4.7)                | -                      | 4.7   | -   | -        |
| Balance, March 31, 2015                                      | \$ 531.7         | \$ 334.4             | \$ 14.3                | \$ 87.8   | \$ 28.6   | \$ 996.8 |

The accompanying notes are an integral part of these condensed consolidated financial statements.

## **NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)**

### **NOTE 1 GENERAL BUSINESS DESCRIPTION**

Russel Metals Inc. (the "Company"), a Canadian corporation with common shares listed on the Toronto Stock Exchange ("TSX"), is a metals distribution company operating in various locations within North America.

The Company's registered office is located at 6600 Financial Drive, Mississauga, Ontario, L5N 7J6.

These condensed consolidated financial statements were authorized for issue by the Board of Directors on May 3, 2016.

### **NOTE 2 BASIS OF PRESENTATION**

These condensed consolidated financial statements, including comparatives, have been prepared using the same accounting policies and methods as those used in the Company's consolidated financial statements for the year ended December 31, 2015. These condensed consolidated financial statements are in compliance with International Accounting Standard 34, Interim Financial Reporting ("IAS 34"). Accordingly, certain information and footnote disclosure normally included in annual financial statements prepared in accordance with International Financial Reporting Standards ("IFRS"), as issued by the International Accounting Standards Board ("IASB"), have been omitted or condensed. The preparation of financial statements in accordance with IAS 34 requires the use of certain critical accounting estimates. It also requires management to exercise judgement in applying the Company's accounting policies. The areas involving a higher degree of judgement or complexity or areas where assumptions and estimates are significant to the financial statements have been set out in the Company's consolidated financial statements for the year ended December 31, 2015. These condensed consolidated financial statements should be read in conjunction with the Company's consolidated financial statements for the year ended December 31, 2015.

These condensed consolidated financial statements have been prepared on a going concern basis under the historical cost convention, as modified by the revaluation of financial assets and financial liabilities (including derivative instruments) at fair value through the condensed consolidated statement of earnings. Historical cost is generally based on the fair value of the consideration given in exchange for assets at the time of the transaction.

These condensed consolidated financial statements are presented in Canadian dollars, which is the Company's functional currency.

### **NOTE 3 FUTURE ACCOUNTING CHANGES**

#### *IFRS 16 Leases*

In January 2016, the IASB issued *IFRS 16, Leases*, which sets out the principles for the recognition, measurement, presentation and disclosure of leases for both parties to a contract, i.e. the customer ("lessee") and the supplier ("lessor"). *IFRS 16* replaces the previous leases standard, IAS 17 Leases, and related interpretations. The most significant effect of the new requirements will be an increase in lease assets and financial liabilities as *IFRS 16* eliminates the classification of leases as either operating leases or finance leases for a lessee. All leases are 'capitalised' by recognising the present value of the lease payments and showing them either as lease assets (right-of-use assets) or together with property, plant and equipment. If lease payments are made over time, a company also recognises a financial liability representing its obligation to make future lease payments. *IFRS 16* is effective for annual periods beginning on or after January 1, 2019, with earlier adoption permitted. The Company is currently evaluating the impact of the adoption of this standard on its consolidated financial statements.

### **NOTE 4 INVENTORIES**

Inventories of \$0.5 billion (2015: \$0.7 billion) were expensed in cost of materials for the first quarter of 2016.

The Company did not record an inventory impairment charge during the quarter ended March 31, 2016 (2015: \$1.6 million). The Company did not have any reversals of previous inventory impairment charges taken during the quarters ended March 31, 2016 and 2015.

## NOTE 5 PROPERTY, PLANT AND EQUIPMENT

| <i>Cost (millions)</i>         | Land and Buildings | Machinery and Equipment | Leasehold Improvements | Total           |
|--------------------------------|--------------------|-------------------------|------------------------|-----------------|
| Balance, December 31, 2015     | \$ 261.8           | \$ 345.5                | \$ 27.0                | \$ 634.3        |
| Additions                      | 0.6                | 2.3                     | 0.1                    | 3.0             |
| Disposals                      | (4.7)              | (1.6)                   | (0.1)                  | (6.4)           |
| Foreign exchange               | (3.2)              | (5.4)                   | (0.2)                  | (8.8)           |
| <b>Balance, March 31, 2016</b> | <b>\$ 254.5</b>    | <b>\$ 340.8</b>         | <b>\$ 26.8</b>         | <b>\$ 622.1</b> |

| <i>Accumulated depreciation and amortization (millions)</i> | Land and Buildings | Machinery and Equipment | Leasehold Improvements | Total           |
|---|--------------------|-------------------------|------------------------|-----------------|
| Balance, December 31, 2015                                  | \$ 107.4           | \$ 237.7                | \$ 21.4                | \$ 366.5        |
| Depreciation and amortization                               | 2.0                | 5.2                     | 0.2                    | 7.4             |
| Disposals   | (0.5)              | (1.4)                   | (0.1)                  | (2.0)           |
| Foreign exchange  | (1.3)              | (3.3)                   | (0.2)                  | (4.8)           |
| <b>Balance, March 31, 2016</b>                              | <b>\$ 107.6</b>    | <b>\$ 238.2</b>         | <b>\$ 21.3</b>         | <b>\$ 367.1</b> |

### *Net Book Value (millions)*

|                       |                 |
|-----------------------|-----------------|
| December 31, 2015     | \$ 267.8        |
| <b>March 31, 2016</b> | <b>\$ 255.0</b> |

All items of property, plant and equipment are recorded and held at cost.

Land, included in land and buildings, was \$43.6 million (December 31, 2015: \$45.7 million).

For the quarter ended March 31, 2016, depreciation of \$2.1 million was included in cost of materials (2015: \$2.0 million) and depreciation of \$5.3 million (2015: \$5.0 million) was included in other operating expenses.

## NOTE 6 GOODWILL AND INTANGIBLES

| <i>(millions)</i> | March 31 2016  | December 31 2015 |
|-------------------|----------------|------------------|
| Goodwill          | \$ 26.8        | \$ 27.6          |
| Intangibles       | 62.6           | 64.4             |
|                   | <b>\$ 89.4</b> | <b>\$ 92.0</b>   |

### a) *Goodwill*

| <i>Goodwill (millions)</i>     | Total          |
|--------------------------------|----------------|
| Balance, December 31, 2015     | \$ 27.6        |
| Foreign exchange               | (0.8)          |
| <b>Balance, March 31, 2016</b> | <b>\$ 26.8</b> |

The entire goodwill balance relates to the metals service centers segment.

*b) Intangibles*

The continuity of intangibles, which are comprised of customer relationships and non-competition agreements acquired through business combinations, within the metals service centers and energy products segments, is as follows:

| <i>Cost (millions)</i>     | Metals Service Centers | Energy Products | Total   |
|----------------------------|------------------------|-----------------|---------|
| Balance, December 31, 2015 | \$ 18.1                | \$ 70.7         | \$ 88.8 |
| Foreign exchange           | (0.3)                  | -               | (0.3)   |
| Balance, March 31, 2016    | \$ 17.8                | \$ 70.7         | \$ 88.5 |

| <i>Accumulated amortization (millions)</i> | Metals Service Centers | Energy Products | Total     |
|--|------------------------|-----------------|-----------|
| Balance, December 31, 2015                 | \$ (8.4)               | \$ (16.0)       | \$ (24.4) |
| Amortization                               | (0.3)                  | (1.2)           | (1.5)     |
| Balance, March 31, 2016                    | \$ (8.7)               | \$ (17.2)       | \$ (25.9) |

**Carrying amount**

|                       |                |
|-----------------------|----------------|
| December 31, 2015     | \$ 64.4        |
| <b>March 31, 2016</b> | <b>\$ 62.6</b> |

The remaining amortization periods for customer relationships are 7 to 14 years and for non-competition agreements is one year.

**NOTE 7 REVOLVING CREDIT FACILITIES**

The Company has a credit facility with a syndicate of banks which provides \$400 million available for borrowings and letters of credit with a term to September 21, 2019. The syndicated facility consists of availability of \$350 million under Tranche I to be utilized for borrowings and letters of credit and \$50.0 million under Tranche II to be utilized only for letters of credit. Letters of credit are issued under Tranche II first and additional needs are issued under Tranche I. The borrowings and letters of credit are available on a revolving basis, up to an amount equal to the sum of specified percentages of the Company's eligible accounts receivable and inventories, to a maximum of \$400 million. The obligations of the Company under this agreement are secured by a pledge of trade accounts receivable and inventories of a significant portion of the Company's operations.

At March 31, 2016, the Company had borrowings of \$82.0 million (2015: \$94.0 million) and letters of credit of \$34.6 million (2015: \$29.1 million) under this facility.

One of the Company's U.S. subsidiaries has a credit facility of US\$40 million. At March 31, 2016 and December 31, 2015 this subsidiary had no borrowings and letters of credit of US\$0.5 million (2015: \$nil) under this facility.

The Company was in compliance with the financial covenants at March 31, 2016.

**NOTE 8 LONG-TERM DEBT**

| <i>(millions)</i>                                  | March 31 2016   | December 31 2015 |
|--|-----------------|------------------|
| 6.0% \$300 million Senior Notes due April 19, 2022 | \$ 295.3        | \$ 295.1         |
| Finance lease obligations                          | 0.6             | 0.6              |
| Less: current portion                              | (0.5)           | (0.5)            |
|  | <b>\$ 295.4</b> | <b>\$ 295.2</b>  |



a) On April 19, 2012, the Company issued through a private placement, \$300 million 6.0% Senior Notes (the "Notes") due April 19, 2022, for total net proceeds of \$293 million. Interest is due on April 19 and October 19 of each year.

Prior to April 19, 2017, the Company may redeem the Notes in whole or in part at an amount which is the greater of (i) the present value of future interest and principal payments based on Canada Bond Yield or (ii) 101% of the principal amount plus accrued and unpaid interest. After April 19, 2017, the Company may redeem the Notes in whole or in part at any time at 103% of the principal amount declining rateably to 100% of the principal amount on or after April 19, 2020.

The Notes contain certain restrictions on the payment of common share dividends in excess of \$0.35 per share per quarter. The Notes also contain certain covenants that limit the Company's ability to incur additional indebtedness. The Company was in compliance with these covenants at March 31, 2016. Fees associated with the issue of the debt are included in the carrying amount of debt and are amortized using the effective interest method.

## NOTE 9 PENSIONS AND BENEFITS

As at March 31, 2016, the Company determined its accrued benefit obligations related to the employee future benefit plans using a discount rate of 3.75% (December 31, 2015: 4.0%) and also determined the fair value of the defined benefit pension plan assets as at the statement of financial position date. The net change in the accrued benefit obligations less the fair value of the defined benefit plan assets resulted in an actuarial loss on employee future benefit plans of \$4.0 million for the three month period ended March 31, 2016 (2015: loss of \$6.4 million), which was recorded net of tax through other comprehensive income.

The benefit obligations and plan assets for the Company's pension and other post retirement benefit obligations are as follows:

| <i>(millions)</i>                                    | <b>March 31<br/>2016</b> | December 31<br>2015 |
|--|--------------------------|---------------------|
| Present value of defined benefit pension obligations | <b>\$ 133.5</b>          | \$ 128.0            |
| Fair value of plan assets                            | <b>112.6</b>             | 110.5               |
|  | <b>20.9</b>              | 17.5                |
| Other post retirement benefit obligations            | <b>4.2</b>               | 4.2                 |
| Defined benefit obligations, net                     | <b>\$ 25.1</b>           | \$ 21.7             |

The following table provides the defined benefit obligation for partially funded plans and unfunded plans.

| <i>(millions)</i>                 | Pension Plans            |                     | Other Benefit Plans      |                     |
|-----------------------------------|--------------------------|---------------------|--------------------------|---------------------|
|                                   | <b>March 31<br/>2016</b> | December 31<br>2015 | <b>March 31<br/>2016</b> | December 31<br>2015 |
| <b>Defined benefit obligation</b> |                          |                     |                          |                     |
| Partially funded plans            | <b>\$ 20.9</b>           | \$ 17.5             | <b>\$ -</b>              | \$ -                |
| Unfunded plans                    | <b>-</b>                 | -                   | <b>4.3</b>               | 4.2                 |
| Defined benefit obligation        | <b>\$ 20.9</b>           | \$ 17.5             | <b>\$ 4.3</b>            | \$ 4.2              |

## NOTE 10 SHAREHOLDERS' EQUITY

- a) At March 31, 2016 and 2015, the authorized share capital of the Company consisted of:
- (i) an unlimited number of common shares without nominal or par value;
  - (ii) an unlimited number of Class I preferred shares without nominal or par value, issuable in series; and
  - (iii) an unlimited number of Class II preferred shares without nominal or par value, issuable in series.

The Directors have the authority to issue the Class I and Class II preferred shares in series and fix the designation, rights, privileges and conditions to be attached to each series, except that the Class I shares shall be entitled to preference over the Class II shares with respect to the payment of dividends and the distribution of assets in the event of liquidation, dissolution or winding-up of the Company.

b) The number of common shares issued and outstanding was as follows:

|                                | Number<br>of Shares | Amount<br>(millions) |
|--------------------------------|---------------------|----------------------|
| Balance, December 31, 2015     | 61,702,560          | \$ 531.7             |
| Share options exercised        | -                   | -                    |
| <b>Balance, March 31, 2016</b> | <b>61,702,560</b>   | <b>\$ 531.7</b>      |

The continuity of contributed surplus is as follows:

(millions)

|                                  |                |
|----------------------------------|----------------|
| Balance, December 31, 2015       | \$ 15.2        |
| Share-based compensation expense | 0.2            |
| <b>Balance, March 31, 2016</b>   | <b>\$ 15.4</b> |

Dividends paid and declared are as follows:

|  | Quarters ended March 31 |         |
|--|-------------------------|---------|
|  | 2016                    | 2015    |
| Dividends paid (millions)  | \$ 23.4                 | \$ 23.4 |
| Dividends per share  | \$ 0.38                 | \$ 0.38 |
| Quarterly dividend per share declared on May 3, 2016 (May 5, 2015) | \$ 0.38                 | \$ 0.38 |

## NOTE 11 SHARE-BASED COMPENSATION

### Share Options

The Company has a shareholder approved share option plan, the purpose of which is to provide the employees of the Company and its subsidiaries with the opportunity to participate in the growth and development of the Company. The following is a continuity of options outstanding:

|                              | Number of Options |                     | Weighted Average<br>Exercise Price |                     |
|------------------------------|-------------------|---------------------|------------------------------------|---------------------|
|                              | March 31<br>2016  | December 31<br>2015 | March 31<br>2016                   | December 31<br>2015 |
| Balance, beginning of period | 2,226,728         | 2,019,307           | \$ 27.49                           | \$ 27.70            |
| Granted                      | 375,000           | 303,371             | 18.11                              | 25.36               |
| Exercised                    | -                 | (27,400)            | -                                  | 15.85               |
| Expired or forfeited         | (163,450)         | (68,550)            | 26.08                              | 28.71               |
| Balance, end of the period   | 2,438,278         | 2,226,728           | \$ 26.14                           | \$ 27.49            |
| Exercisable                  | 1,678,638         | 1,553,379           | \$ 27.74                           | \$ 27.63            |

The outstanding options had exercise price ranges as follows:

| (number of options) | March 31<br>2016 | December 31<br>2015 |
|---------------------|------------------|---------------------|
| \$ 29.00 - \$ 33.81 | 552,772          | 552,772             |
| \$ 25.37 - \$ 28.99 | 1,032,237        | 1,195,687           |
| \$ 16.58 - \$ 25.36 | 853,269          | 478,269             |
| Options outstanding | 2,438,278        | 2,226,728           |

The Black-Scholes option-pricing model assumptions used to compute compensation expense are as follows:

|  | March 31<br>2016 | December 31<br>2015 |
|--|------------------|---------------------|
| Dividend yield                                 | 5%               | 5%                  |
| Expected volatility                            | 26%              | 21%                 |
| Expected life                                  | 5 yrs            | 5 yrs               |
| Risk free rate of return                       | 2.22%            | 2.00%               |
| Weighted average fair value of options granted | \$ 2.16          | \$ 2.67             |

Expected volatility is based on historical volatility over the last five years.

#### *Deferred Share Units (DSU)*

At March 31, 2016, there were 173,635 DSUs outstanding (2015: 161,127). The liability and fair value of DSUs was \$3.4 million at March 31, 2016 (2015: \$2.6 million). Dividends declared on common shares accrue to units in the DSU plan in the form of additional DSUs.

#### *Restricted Share Units (RSU)*

The Company has a RSU Plan for eligible employees as designated by the Board of Directors. Continuity of RSUs outstanding is as follows:

| <i>(number of units)</i>         | March 31<br>2016 | December 31<br>2015 |
|----------------------------------|------------------|---------------------|
| Balance, beginning of the period | 344,115          | 197,269             |
| Granted                          | 13,477           | 214,800             |
| Paid out                         | (58,019)         | (67,954)            |
| Balance, end of the period       | 299,573          | 344,115             |

The RSU liability at March 31, 2016 was \$4.1 million (2015: \$3.7 million). The fair value of RSUs was \$5.9 million at March 31, 2016 (2015: \$5.5 million). Dividends declared on common shares accrue to units in the RSU plan in the form of additional RSUs.

## **NOTE 12 EARNINGS PER SHARE**

The net income used in the calculation of basic and diluted earnings per share for March 31, 2016 was \$7.8 million (2015: \$18.5 million).

In determining the diluted weighted average shares outstanding for the quarter ended March 31, 2015, 6,770,757 shares related to convertible debentures, which were redeemed in 2015, were excluded since the effect was anti-dilutive. Interest and accretion related to convertible debentures for the quarter ended March 31, 2015 were excluded from net earnings used in the calculation of diluted earnings per share.

| <i>(number of shares)</i>                   | Quarters ended March 31 |            |
|---|-------------------------|------------|
|   | 2016                    | 2015       |
| Weighted average shares outstanding         | 61,702,560              | 61,678,145 |
| Dilution impact of share options            | -                       | 45,403     |
| Diluted weighted average shares outstanding | 61,702,560              | 61,723,548 |

## NOTE 13 EXPENSES

| <i>(millions)</i>                                    | Quarters ended March 31 |                |
|--|-------------------------|----------------|
|  | 2016                    | 2015           |
| <b>Employee Expenses</b>                             |                         |                |
| Wages and salaries                                   | \$ 54.0                 | \$ 60.1        |
| Other employee related costs                         | 10.7                    | 11.8           |
|  | <b>\$ 64.7</b>          | <b>\$ 71.9</b> |
| <b>Other Operating Expenses</b>                      |                         |                |
| Plant and other expenses                             | \$ 29.6                 | \$ 26.5        |
| Delivery expenses                                    | 10.5                    | 12.2           |
| Repairs and maintenance                              | 2.5                     | 3.3            |
| Selling expenses                                     | 2.1                     | 3.0            |
| Professional fees                                    | 1.2                     | 1.5            |
| (Gain) loss on sale of property, plant and equipment | (0.3)                   | 0.1            |
| Foreign exchange (gain) losses                       | (0.1)                   | 2.3            |
|  | <b>\$ 45.5</b>          | <b>\$ 48.9</b> |

## NOTE 14 FINANCE EXPENSE

| <i>(millions)</i>                        | Quarters ended March 31 |                |
|--|-------------------------|----------------|
|  | 2016                    | 2015           |
| Interest on 6.0% Senior Notes            | \$ 4.6                  | \$ 4.6         |
| Interest on 7.75% Convertible Debentures | -                       | 4.5            |
| Other interest expense                   | 0.8                     | 0.4            |
| Interest expense                         | 5.4                     | 9.5            |
| Other finance expense                    | -                       | 0.6            |
| Finance expense, net                     | <b>\$ 5.4</b>           | <b>\$ 10.1</b> |

Interest expense on long-term debt is comprised of the interest calculated on the face value of long-term debt, issue costs and accretion of the carrying value of the long-term debt. Interest expense on long-term debt is charged to earnings using the effective interest method. Debt accretion and issue cost amortization for the quarter ended March 31, 2016 was \$0.2 million (2015: \$1.4 million).

## NOTE 15 INCOME TAXES

The consolidated effective tax rates for the quarters ended March 31, 2016 and March 31, 2015 were 30.4% and 30.2% respectively.

## NOTE 16 PROVISIONS AND OTHER NON-CURRENT LIABILITIES

| <i>(millions)</i>                             | March 31       | December 31   |
|---|----------------|---------------|
|   | 2016           | 2015          |
| Provision for decommissioning liabilities     | \$ 3.2         | \$ 3.4        |
| Deferred compensation and employee incentives | 6.8            | 5.4           |
| Product warranty provision (Note 19)          | 20.0           | 20.0          |
|   | <b>30.0</b>    | <b>28.8</b>   |
| Less: current portion                         | <b>(20.0)</b>  | <b>(20.0)</b> |
|   | <b>\$ 10.0</b> | <b>\$ 8.8</b> |

a) The Company is currently in discussions to settle a product warranty claim and has estimated the potential liability to be \$20 million.

b) Deferred compensation includes the RSU and DSU liabilities. The RSU liabilities that will be paid in 2017 amounting to \$0.7 million were reclassified to current accrued liabilities.

## **NOTE 17      SEGMENTED INFORMATION**

For the purpose of segment reporting, operating segments are identified as a component of an entity:

- ◆ that engages in business activities from which it may earn revenues and incur expenses;
- ◆ whose operating results are regularly reviewed by the Company's Chief Executive Officer to make decisions about resources to be allocated to the segment and assess its performance; and
- ◆ for which discrete financial information is available.

Accordingly, the Company conducts business in Canada and the U.S. in three reportable segments.

*i)          Metals service centers*

The Company's network of metals service centers provides processing and distribution services on a broad line of metal 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 aluminium. The Company services all major geographic regions of Canada and certain regions in the Southeastern and Midwestern regions in the United States.

*ii)         Energy products*

The Company's energy products operations distribute oil country tubular products, line pipe, tubes, valves, flanges and fittings, primarily to the energy industry in Western Canada and the United States.

*iii)        Steel distributors*

The Company's steel distributors act as master distributors selling steel to customers in large volumes, mainly on an "as is" basis. Steel distributors source their steel domestically and off shore.

The Company has segmented its operations on the basis of management reporting and geographic segments in which it operates. For the quarter ended March 31, 2016 the inter-segment revenues from steel distributors to metals service centers were \$8.1 million (2015: \$13.8 million). These revenues, which are at market rates, are eliminated in the following table.

a) *Results by business segment:*

| <i>(millions)</i>                                | Quarters ended March 31 |                 |
|--|-------------------------|-----------------|
|  | 2016                    | 2015            |
| <b>Segment Revenues</b>                          |                         |                 |
| Metals service centers                           | \$ 341.1                | \$ 400.4        |
| Energy products                                  | 248.4                   | 384.9           |
| Steel distributors                               | 72.5                    | 118.5           |
|  | <b>662.0</b>            | 903.8           |
| Other  | 0.1                     | 0.1             |
|  | <b>\$ 662.1</b>         | <b>\$ 903.9</b> |
| <b>Segment Operating Profits</b>                 |                         |                 |
| Metals service centers                           | \$ 9.6                  | \$ 15.3         |
| Energy products                                  | 6.8                     | 20.7            |
| Steel distributors                               | 7.1                     | 6.3             |
|  | <b>23.5</b>             | 42.3            |
| Corporate expenses                               | <b>(5.9)</b>            | (4.3)           |
| Other expense                                    | <b>(1.0)</b>            | (1.4)           |
|  | <b>16.6</b>             | 36.6            |
| Earnings before finance expense and income taxes | <b>(5.4)</b>            | (10.1)          |
| Finance expense, net                             | <b>(3.4)</b>            | (8.0)           |
| Provision for income taxes                       |                         |                 |
| Net earnings                                     | <b>\$ 7.8</b>           | <b>\$ 18.5</b>  |
| <b>Capital Expenditures</b>                      |                         |                 |
| Metals service centers                           | \$ 2.5                  | \$ 6.3          |
| Energy products                                  | 0.4                     | 1.8             |
| Steel distributors                               | 0.1                     | 0.1             |
|  | <b>\$ 3.0</b>           | <b>\$ 8.2</b>   |
| <b>Depreciation Expense</b>                      |                         |                 |
| Metals service centers                           | \$ 6.0                  | \$ 5.6          |
| Energy products                                  | 1.2                     | 1.3             |
| Steel distributors                               | 0.2                     | 0.1             |
|  | <b>\$ 7.4</b>           | <b>\$ 7.0</b>   |



| <i>(millions)</i>  | March 31<br>2016  | December 31<br>2015 |
|--|-------------------|---------------------|
| <b>Current Identifiable Assets</b>                       |                   |                     |
| Metals service centers                                   | \$ 410.1          | \$ 382.9            |
| Energy products  | 488.1             | 555.3               |
| Steel distributors                                       | 120.9             | 119.9               |
|  | <b>1,019.1</b>    | <b>1,058.1</b>      |
| <b>Non-Current Identifiable Assets</b>                   |                   |                     |
| Metals service centers                                   | 256.5             | 264.7               |
| Energy products  | 80.1              | 86.7                |
| Steel distributors                                       | 6.9               | 7.5                 |
| Total identifiable assets included in segments           | <b>1,362.6</b>    | <b>1,417.0</b>      |
| Assets not included in segments                          |                   |                     |
| Cash and cash equivalents                                | 140.7             | 143.4               |
| Income tax assets  | 31.3              | 40.0                |
| Deferred financing charges                               | 1.6               | 1.7                 |
| Other assets   | 5.2               | 5.4                 |
| Corporate and other operating assets                     | 0.4               | (0.5)               |
| Total assets   | <b>\$ 1,541.8</b> | <b>\$ 1,607.0</b>   |
| <b>Liabilities</b>                                       |                   |                     |
| Metals service centers                                   | \$ 161.9          | \$ 127.2            |
| Energy products  | 90.4              | 130.7               |
| Steel distributors                                       | 11.4              | 11.8                |
| Liabilities by segment                                   | <b>263.7</b>      | <b>269.7</b>        |
| Liabilities not included in segments                     |                   |                     |
| Bank indebtedness  | 76.3              | 94.2                |
| Income taxes payable and deferred income tax liabilities | 13.8              | 14.6                |
| Long-term debt   | 295.9             | 295.7               |
| Pension and benefits                                     | 25.1              | 21.7                |
| Corporate and other liabilities                          | 48.1              | 42.2                |
| Total liabilities  | <b>\$ 722.9</b>   | <b>\$ 738.1</b>     |

*b) Results by geographic segment:*

| <i>(millions)</i>                | Quarters ended March 31 |                     |
|----------------------------------|-------------------------|---------------------|
|                                  | 2016                    | 2015                |
| <b>Segment Revenues</b>          |                         |                     |
| Canada                           | \$ 476.4                | \$ 636.3            |
| United States                    | 185.6                   | 267.5               |
|                                  | <b>\$ 662.0</b>         | <b>\$ 903.8</b>     |
| <b>Segment Operating Profits</b> |                         |                     |
| Canada                           | \$ 19.0                 | \$ 34.9             |
| United States                    | 4.5                     | 7.4                 |
|                                  | <b>\$ 23.5</b>          | <b>\$ 42.3</b>      |
|                                  | <b>\$ 23.5</b>          | <b>\$ 42.3</b>      |
| <i>(millions)</i>                | March 31<br>2016        | December 31<br>2015 |
| <b>Identifiable Assets</b>       |                         |                     |
| Canada                           | \$ 983.8                | \$ 1,021.0          |
| United States                    | 378.8                   | 396.0               |
|                                  | <b>\$ 1,362.6</b>       | <b>\$ 1,417.0</b>   |

## NOTE 18 FINANCIAL INSTRUMENTS AND RELATED RISK MANAGEMENT

### a) *Financial assets and liabilities*

Financial assets and liabilities are as follows:

| <i>March 31, 2016 (millions)</i>          | Loans and<br>Receivables | Other<br>Financial<br>Liabilities | Total             |
|---|--------------------------|-----------------------------------|-------------------|
| Cash and cash equivalents                 | \$ 140.7                 | \$ -                              | \$ 140.7          |
| Accounts receivable                       | 329.6                    | -                                 | 329.6             |
| Financial assets                          | 1.6                      | -                                 | 1.6               |
| Bank indebtedness                         | -                        | (76.3)                            | (76.3)            |
| Accounts payables and accrued liabilities | -                        | (301.8)                           | (301.8)           |
| Current portion of long-term debt         | -                        | (0.5)                             | (0.5)             |
| Long-term debt                            | -                        | (295.4)                           | (295.4)           |
| <b>Total</b>                              | <b>\$ 471.9</b>          | <b>\$ (674.0)</b>                 | <b>\$ (202.1)</b> |

| <i>December 31, 2015 (millions)</i>       | Loans and<br>Receivables | Other<br>Financial<br>Liabilities | Total             |
|---|--------------------------|-----------------------------------|-------------------|
| Cash and cash equivalents                 | \$ 143.4                 | \$ -                              | \$ 143.4          |
| Accounts receivable                       | 333.5                    | -                                 | 333.5             |
| Financial assets                          | 1.7                      | -                                 | 1.7               |
| Bank indebtedness                         | -                        | (94.2)                            | (94.2)            |
| Accounts payables and accrued liabilities | -                        | (303.1)                           | (303.1)           |
| Current portion of long-term debt         | -                        | (0.5)                             | (0.5)             |
| Long-term debt                            | -                        | (295.2)                           | (295.2)           |
| <b>Total</b>                              | <b>\$ 478.6</b>          | <b>\$ (693.0)</b>                 | <b>\$ (214.4)</b> |

The impact of fair value gains and losses from derivative financial instruments on the condensed consolidated statements of earnings was as follows:

| <i>(millions)</i>    | Quarters ended March 31 |          |
|----------------------|-------------------------|----------|
|                      | 2016                    | 2015     |
| Embedded derivatives | \$ (2.5)                | \$ (0.2) |
| Forward contracts    | 1.7                     | (0.3)    |

### b) *Fair Value*

The fair value of cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities approximate their carrying amounts because of the short-term maturity of these instruments.

The fair values of long-term debt are set forth below.

#### *Carrying Amounts*

Amounts recorded in the condensed consolidated statement of financial position are referred to as "carrying amounts". The carrying amounts of primary debt are reflected in "Long-term debt" and "Current portion long-term debt".

#### *Fair Value*

The Company records its debt at amortized cost using the effective interest method. The fair value of long-term debt as at March 31, 2016 and December 31, 2015 was estimated based on the last quoted trade price, where it exists, or based on current rates available to the Company for similar debt with the same period to maturity.

The following summary reflects the fair value of the long-term debt:

|  | Primary Debt Instrument |                    |
|--|-------------------------|--------------------|
|  | Carrying Amount         | Fair Value Level 2 |
| <b>March 31, 2016 (millions)</b>                   |                         |                    |
| 6.0% \$300 million Senior Notes due April 19, 2022 | \$ 295.3                | \$ 289.5           |
| Finance lease obligations                          | 0.6                     | 0.6                |
| <b>Total</b>                                       | <b>\$ 295.9</b>         | <b>\$ 290.1</b>    |
| <b>Current portion</b>                             | <b>\$ 0.5</b>           |                    |
| <b>Long-term portion</b>                           | <b>\$ 295.4</b>         |                    |
| <b>December 31, 2015 (millions)</b>                |                         |                    |
| 6.0% \$300 million Senior Notes due April 19, 2022 | \$ 295.1                | \$ 288.0           |
| Finance lease obligations                          | 0.6                     | 0.6                |
| <b>Total</b>                                       | <b>\$ 295.7</b>         | <b>\$ 288.6</b>    |
| <b>Current portion</b>                             | <b>\$ 0.5</b>           |                    |
| <b>Long-term portion</b>                           | <b>\$ 295.2</b>         |                    |

*c) Credit risk*

Credit risk is the risk of financial loss to the Company if the counterparty to a financial instrument fails to meet its contractual obligation. Credit risk arises from cash and cash equivalents and derivative financial instruments, as well as credit exposure to customers including accounts receivable.

The Company attempts to minimize credit exposure as follows:

- ◆ Cash investments are placed with high-quality financial institutions with limited exposure to any one institution. At March 31, 2016, nearly all cash and cash equivalents held were issued by institutions that were R1 High by DBRS;
- ◆ Counterparties to derivative contracts are members of the syndicated banking facility (Note 7);
- ◆ Credit limits minimize exposure to any one customer; and
- ◆ The customer base is geographically diverse and in different industries.

No allowance for credit losses on financial assets was required as of March 31, 2016 and December 31, 2015, other than the allowance for doubtful accounts. As at March 31, 2016, trade accounts receivable greater than 90 days represented less than 3% of trade accounts receivable (2015: 5%).

*d) Interest rate risk*

Interest rate risk is the risk that the fair value of the future cash flows of a financial instrument will fluctuate because of changes in market rates of interest. The Company is not exposed to significant interest rate risk. The Company's long-term debt is at fixed rates. The Company's bank borrowings, net of cash and cash equivalents used to finance working capital which is short-term in nature, is at floating interest rates.

*e) Foreign exchange risk*

Foreign exchange risk is the risk that the fair value of the future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Company uses foreign exchange contracts with maturities of less than a year to manage foreign exchange risk on certain future committed cash outflows. As at March 31, 2016, the Company had outstanding forward foreign exchange contracts in the amount of US\$16.1 million maturing in 2016 (2015: US\$54.1 million). A 1% change in foreign exchange rates would not result in a significant increase or decrease in accounts payable or net earnings.

f) *Liquidity risk*

Liquidity risk is the risk that the Company will not meet its financial obligations when due. Liquidity adequacy is assessed in view of seasonal needs, growth requirements, capital expenditures, and the maturity profile of indebtedness. Cash is managed by the centralized treasury function and is invested in money market instruments or bank deposits, with durations ranging up to sixty days. A centralized treasury function ensures that the Company maintains funding flexibility by assessing future cash flow expectations and by maintaining its committed borrowing facilities.

As at March 31, 2016, the Company was contractually obligated to make payments under its financial liabilities that come due during the following periods:

| <i>(millions)</i> | Accounts Payable | Long-Term Debt Maturities | Long-Term Debt Interest | Operating Lease Obligations | Total    |
|-------------------|------------------|---------------------------|-------------------------|-----------------------------|----------|
| 2016              | \$ 301.8         | \$ -                      | \$ 18.0                 | \$ 18.0                     | \$ 337.8 |
| 2017              | -                | -                         | 18.0                    | 19.4                        | 37.4     |
| 2018              | -                | -                         | 18.0                    | 15.1                        | 33.1     |
| 2019              | -                | -                         | 18.0                    | 10.5                        | 28.5     |
| 2020              | -                | -                         | 18.0                    | 8.3                         | 26.3     |
| 2021 and beyond   | -                | 300.0                     | 27.9                    | 25.9                        | 353.8    |
| Total             | \$ 301.8         | \$ 300.0                  | \$ 117.9                | \$ 97.2                     | \$ 816.9 |

At March 31, 2016, the Company was contractually obligated to repay its letters of credit under its bank facilities at maturity (Note 7).

g) *Capital management*

The Company manages capital in order to safeguard its ability to continue as a going concern, provide returns to shareholders through its dividend policy and provide the ability to finance future growth. Capital includes shareholders' equity, long-term debt and bank indebtedness, net of cash and cash equivalents. The Company manages its capital structure and may make adjustments to the amount of dividends paid to shareholders, purchase shares for cancellation pursuant to issuer bids, issue new shares, issue new debt, repurchase existing debt and extend or amend its banking facilities.

## **NOTE 19 CONTINGENCIES, COMMITMENTS AND GUARANTEES**

a) *Lawsuits and legal claims*

The Company recognizes contingent loss provisions for losses that are probable when management is able to reasonably estimate the loss. When the estimated loss lies within a range, the Company records a contingent loss provision based on its best estimate of the probable loss. If no particular amount within that range is a better estimate than any other amount, the minimum amount is recorded. Estimates of losses may be developed significantly before the ultimate loss is known, and are revalued each accounting period as additional information becomes known. In instances where the Company is unable to develop a reasonable loss estimate, no contingent loss provision is recorded at that time. A contingent loss provision is recorded when a reasonable estimate can be made. Estimates are reviewed quarterly and revised when expectations change. An outcome that deviates from the Company's estimate may result in an additional expense or income in a future accounting period.

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 the Company's financial position, cash flows or operations.

The Company and the manufacturer of certain energy products have received a customer claim of approximately \$90 million relating to product that was distributed by the Company from 2010 to 2012. The customer alleges that the product was defective and that the manufacturer did not meet the specifications for the goods. Although primary responsibility for the allegedly defective product lies with the manufacturer, the Company has been included in the claim. No proceedings have yet been commenced regarding this claim. The Company is continuing its discussions to settle this claim and has estimated the Company's potential liability to be \$20 million. The Company will vigorously defend against this claim and to assert its rights against the manufacturer.

The Company has also entered into other agreements that provide indemnifications to counterparties in certain transactions including underwriting agreements. These indemnifications generally require the Company to indemnify the counterparties for costs incurred as a result of losses from litigation that may be suffered by counterparties arising from those transactions except in the case of gross negligence by the counterparties.

*b) Decommissioning liability*

The Company is incurring site cleanup and restoration costs related to properties not utilized in current operations. Remedial actions are currently underway at two sites. Decommissioning liabilities have been estimated using discounted cash flow valuation techniques for cleanup costs based on management's best estimates of the amount required to settle the liability.

The Company has asset retirement obligations relating to the land lease for its Thunder Bay Terminal operation whose lease term expires in 2031. The landlord has the option to retain the equipment or to require the Company to remove it. In addition, the Company has end-of-lease obligations in certain service center operations.

*c) Business combinations and investments*

The Company has a contractual obligation to pay additional consideration for its acquisitions of Apex Distribution and Monarch which is based upon the achievement of performance measures during the first five years of ownership. The Company has estimated this liability to be \$nil based on expected future earnings.



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