

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS FOR THE YEAR ENDED DECEMBER 31, 2022

This Management's Discussion and Analysis of Financial Condition and Results of Operations ("MD&A") of Russel Metals Inc. and its subsidiaries provides information to assist readers of our audited Consolidated Financial Statements for the year ended December 31, 2022, including the notes thereto and should be read in conjunction with these financial statements. All dollar references in our financial statements and in this report are in Canadian dollars unless otherwise stated.

Additional information related to Russel Metals Inc., including our Annual Information Form, may be obtained from SEDAR at www.sedar.com or on our website at www.russelmetals.com.

Unless otherwise stated, the discussion and analysis contained in this MD&A are as of February 9, 2023.

FORWARD-LOOKING STATEMENTS

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

We are subject to a number of risks and uncertainties which could have a material adverse effect on our future profitability and financial position, including the risks and uncertainties listed below, which are important factors in our business and the metals distribution industry. Such risks and uncertainties include, but are not limited to: volatility in metal prices; cyclical nature of the metals industry; volatility in energy industry; climate change; product claims; significant competition; sources of metals supply and supply chain disruptions; manufacturers selling directly; material substitution; credit risk; currency exchange risk; restrictive debt covenants; asset impairments; the unexpected loss of key individuals; decentralized operating structure; future acquisitions; the failure of our key computer-based systems; cybersecurity; labour interruptions; laws and governmental regulations; litigious environment; environmental liabilities; carbon emissions; health and safety laws and regulations and common share risk.

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

NON-GAAP MEASURES AND RATIOS

This MD&A includes a number of measures that are not prescribed by International Financial Reporting Standards ("IFRS" or "GAAP") and as such may not be comparable to similar measures presented by other companies. We believe these measures are commonly employed to measure performance in our industry and are used by analysts, investors, lenders and other interested parties to evaluate financial performance and our ability to incur and service debt to support our business activities. Investors may find these non-GAAP measures, which include non-GAAP financial measures and non-GAAP ratios as defined in *National Instrument 52-112 Non-GAAP and Other Financial Measures Disclosure*, useful in understanding how management views underlying business performance.

These measures and ratios are defined below and include EBIT, EBITDA, free cash flow, liquidity and inventory turns. We believe that these may be useful in assessing our operating performance and as an indicator of our ability to service or incur indebtedness, make capital expenditures and finance working capital. The items excluded in determining EBIT, EBITDA and free cash flow are significant in assessing operating results and liquidity. EBIT, EBITDA and free cash flow should not be considered in isolation or as an alternative to net income, cash flows generated by operating, investing or financing activities, or other financial statement data presented in accordance with GAAP. A reconciliation of EBITDA to net income in accordance with GAAP and a reconciliation of free cashflow to cash from operating activities before changes in non-cash working capital in accordance with GAAP are found below.

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

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

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

Gross Margin - represents revenues less cost of sales.

Gross Margin Percentage - represents gross margin over revenues.

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

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

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

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

RECONCILIATION OF NET EARNINGS TO EBITDA ¹

The following table provides a reconciliation of net earnings the years and quarters ended December 31, 2022, and 2021 to EBITDA ¹.

<i>(millions except per share data)</i>	Three Months Ended December 31		Year Ended December 31	
	2022	2021	2022	2021
Net earnings	\$ 57.9	\$ 102.2	\$ 371.9	\$ 432.2
Provision for income tax	16.1	38.3	115.6	147.9
Interest expense	5.4	6.6	25.3	26.0
EBIT ¹	79.4	147.1	512.8	606.1
Depreciation and amortization	18.0	14.6	66.1	57.9
EBITDA ¹	\$ 97.4	\$ 161.7	\$ 578.9	\$ 664.0
Net earnings per share	\$ 0.93	\$ 1.62	\$ 5.91	\$ 6.90

RECONCILIATION OF FREE CASH FLOW

<i>(millions)</i>	Three Months Ended December 31		Year Ended December 31	
	2022	2021	2022	2021
Cash from operating activities before non-cash working capital	\$ 83.9	\$ 155.9	\$ 524.3	\$ 638.5
Purchase of property, plant and equipment	(15.3)	(8.5)	(41.5)	(28.8)
Free cash flow ¹	\$ 68.6	\$ 147.4	\$ 482.8	\$ 609.7

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

OVERVIEW OF THE 2022 FOURTH QUARTER AND ANNUAL RESULTS

Our net earnings for the year ended December 31, 2022, were \$372 million or \$5.91 per share compared to net earnings of \$432 million or \$6.90 per share for 2021. Revenues for the year ended December 31, 2022, were \$5.1 billion compared to \$4.2 billion in 2021. EBITDA was \$579 million compared to \$664 million in 2021.

In the 2022 fourth quarter, our revenues, EBITDA and net earnings per share were \$1.1 billion, \$97 million and \$0.93 per share, respectively. Revenues during the quarter were lower than the 2021 fourth quarter due to the moderation of steel prices from the unusually high levels that were realized in the metals service centers and steel distributors segments in 2021 and early 2022. This decline was partially offset by continued improvement in our energy field stores business.

Our 2022 fourth quarter results illustrated the resiliency and reduced volatility that we can achieve across our portfolio over a cycle. In the quarter, we dealt with changes in market conditions, including the seasonal factors that are typical in the fourth quarter, and generated a consolidated gross margin of 20% and return on capital of 20%. In addition, we proactively managed inventories and generated \$146 million of cash flow from working capital in the 2022 fourth quarter.

During the 2022 fourth quarter, EBITDA was negatively impacted by an increase in inventory provisions of \$3 million, a non-cash charge of \$2 million related to mark-to-market on share-based compensation and a \$1 million accounting charge related to the annuitization of a significant portion of our defined benefit pension plan.

Market Conditions

Steel prices were volatile throughout 2022 but were higher than the long-term historical averages. In our metals service centers and steel distributors segments, customer demand remained active across most of our regions and end markets. Our energy field stores benefited from a rebound in the energy sector as the average Canadian rig counts were 175 in 2022 compared to 132 in 2021 and the average U.S. rig counts were 723 in 2022 compared to 478 in 2021.

Capital Investment Growth Initiatives

Our approach to capital investment growth initiatives includes: (i) value-added equipment projects; (ii) facility modernizations; and (iii) targeted acquisitions.

We have planned approximately \$30 million per year of discretionary investments related to value-added equipment projects. The investment approach has been underway for several years and we expect to continue for several more years as we identify new opportunities. In 2022, we spent \$42 million on capital expenditures including a flat laser in Arkansas and a tube laser in Quebec which are both operational. We also advanced our equipment projects for additional tube lasers in Saskatchewan and Arkansas, flat lasers in Alberta, Alabama and Arkansas, beam lines in North Carolina and Alberta, a slitter in Arkansas, a plasma table in Ohio and a press brake in British Columbia.

In terms of facility modernizations, we have planned \$50-70 million of investments in the coming years for projects focused on modernizing, consolidating and expanding our operations in certain locations. These projects will provide opportunities for growth, improve material handling efficiencies, improve health and safety practices, and in certain instances result in the monetization of redundant real estate at legacy locations. Over the past several months, we have approved projects at our Saskatoon, Saskatchewan and Joplin, Missouri locations. We are continuing to advance projects at other locations in both Canada and the U.S.

On acquisitions, the pipeline of potential opportunities remains active, and we continue to focus on opportunities that could fit our economic and operational criteria.

Returning Capital to Shareholders

We have adopted a more balanced approach to returning excess capital to shareholders through: (i) our ongoing dividend; and (ii) share buy backs.

In the third quarter we initiated a normal course issuer bid to purchase for cancellation up to 3.2 million of our common shares over 12 months, representing 5% of our issued and outstanding shares. In the last half of 2022 we purchased and cancelled 1.0 million shares for total consideration of \$28 million.

In 2022, we paid dividends of \$96 million or \$1.52 per common share. In addition, we declared a dividend of \$0.38 per share, payable on March 15, 2023, to shareholders of record at the close of business on February 28, 2023.

Liquidity and Capital Structure

During 2022, we generated \$360 million of cash from operating activities and ended the year with total available liquidity of \$743 million.

SUMMARIZED FINANCIAL INFORMATION

The following tables disclose selected information related to revenues, earnings and common shares over the last three years.

2022

<i>(in millions, except per share data and volumes)</i>	Quarters Ended				Year Ended
	Mar. 31	June 30	Sept. 30	Dec. 31	Dec. 31
Revenues	\$ 1,338.6	\$ 1,362.3	\$ 1,269.9	\$ 1,099.8	\$ 5,070.6
EBITDA ¹	153.1	188.8	139.6	97.4	578.9
Net earnings	98.7	124.0	91.3	57.9	371.9
Basic earnings per common share	\$ 1.56	\$ 1.96	\$ 1.45	\$ 0.93	\$ 5.91
Diluted earnings per common share	\$ 1.56	\$ 1.96	\$ 1.45	\$ 0.93	\$ 5.91
Total assets	\$ 2,353.7	\$ 2,531.5	\$ 2,598.9	\$ 2,506.9	\$ 2,506.9
Non-current financial liabilities	\$ 394.4	\$ 395.8	\$ 402.6	\$ 408.2	\$ 408.2
Dividends paid	\$ 0.38	\$ 0.38	\$ 0.38	\$ 0.38	\$ 1.52
Market price of common shares					
High	\$ 34.83	\$ 36.15	\$ 30.33	\$ 30.34	\$ 36.15
Low	\$ 29.38	\$ 24.65	\$ 23.80	\$ 24.53	\$ 23.80
Shares outstanding end of quarter	63,111,470	63,112,220	62,529,312	62,112,220	62,112,220
Average shares outstanding	63,105,300	63,111,940	62,997,539	62,358,711	62,891,611
Number of common shares traded on the TSX	15,752,821	14,540,380	13,675,814	16,297,478	60,266,493

2021

<i>(in millions, except per share data and volumes)</i>	Quarters Ended				Year Ended
	Mar. 31	June 30	Sept. 30	Dec. 31	Dec. 31
Revenues	\$ 885.4	\$ 1,068.2	\$ 1,108.1	\$ 1,146.8	\$ 4,208.5
EBITDA ¹	129.0	177.8	195.5	161.7	664.0
Net earnings	80.6	117.8	131.6	102.2	432.2
Basic earnings per common share	\$ 1.29	\$ 1.88	\$ 2.10	\$ 1.62	\$ 6.90
Diluted earnings per common share	\$ 1.29	\$ 1.88	\$ 2.10	\$ 1.62	\$ 6.89
Total assets	\$ 1,793.5	\$ 1,987.9	\$ 2,216.1	\$ 2,314.5	\$ 2,314.5
Non-current financial liabilities	\$ 385.5	\$ 388.7	\$ 386.9	\$ 388.5	\$ 388.5
Dividends paid	\$ 0.38	\$ 0.38	\$ 0.38	\$ 0.38	\$ 1.52
Market price of common shares					
High	\$ 26.59	\$ 34.80	\$ 37.57	\$ 36.91	\$ 37.57
Low	\$ 22.33	\$ 25.00	\$ 30.22	\$ 30.29	\$ 22.33
Shares outstanding end of quarter	62,295,441	62,689,856	62,974,655	63,100,220	63,100,220
Average shares outstanding	62,295,441	62,488,175	62,636,187	63,039,225	62,667,618
Number of common shares traded on the TSX	17,879,841	22,108,258	14,020,122	11,042,773	65,050,994

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

2020

<i>(in millions, except per share data and volumes)</i>	Quarters Ended				Year
	Mar. 31	June 30	Sept. 30	Dec. 31	Ended Dec. 31
Revenues	\$ 814.7	\$ 588.1	\$ 614.9	\$ 670.5	\$ 2,688.3
EBITDA ¹	35.5	31.5	47.2	11.1	125.2
Net earnings (loss)	13.5	4.6	18.2	(8.8)	24.5
Basic and diluted earnings (loss) per common share	\$ 0.17	\$ 0.07	\$ 0.29	\$ (0.14)	\$ 0.39
Total assets	\$ 2,010.5	\$ 1,824.5	\$ 1,787.7	\$ 1,596.3	\$ 1,596.3
Non-current financial liabilities	\$ 542.7	\$ 538.1	\$ 536.0	\$ 382.5	\$ 382.5
Dividends paid	\$ 0.38	\$ 0.38	\$ 0.38	\$ 0.38	\$ 1.52
Market price of common shares					
High	\$ 23.00	\$ 18.29	\$ 19.71	\$ 23.09	\$ 23.09
Low	\$ 10.97	\$ 12.51	\$ 16.23	\$ 17.34	\$ 10.97
Shares outstanding end of quarter	62,184,978	62,184,978	62,184,978	62,295,441	62,295,441
Average shares outstanding	62,179,130	62,182,055	62,183,036	62,215,545	62,191,208
Number of common shares traded on the TSX	19,490,294	24,546,823	12,319,978	13,239,649	69,596,744

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

RESULTS OF OPERATIONS

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

The following table provides segment information including segment revenues, gross margins and earnings before interest and income taxes. The corporate expenses included are not allocated to specific operating segments. Gross margins as a percentage of revenues for the operating segments are also shown below. The table shows the segments as they are reported to management and are consistent with the segment reporting in our consolidated financial statements.

<i>(millions, except percentages)</i>	2022	2021
Segment Revenues		
Metals service centers	\$ 3,523.0	\$ 2,831.2
Energy field stores	903.0	813.7
Steel distributors	631.2	553.0
Other	13.4	10.6
	\$ 5,070.6	\$ 4,208.5
Segment Gross Margins ¹		
Metals service centers	\$ 748.4	\$ 862.2
Energy field stores	241.3	172.6
Steel distributors	123.4	167.0
Other	13.4	10.6
Total operations	\$ 1,126.5	\$ 1,212.4
Segment Operating Profits and EBIT ¹		
Metals service centers	\$ 321.5	\$ 482.9
Energy field stores	104.6	53.4
Steel distributors	77.0	110.0
Corporate expenses	(26.1)	(48.1)
Share of earnings from TriMark	31.0	6.1
Asset impairment	-	(2.6)
Other	4.8	4.4
Earnings before interest and income taxes	\$ 512.8	\$ 606.1
Segment Gross Margin as a % of Revenues ¹		
Metals service centers	21.2%	30.5%
Energy field stores	26.7%	21.2%
Steel distributors	19.6%	30.2%
Total operations	22.2%	28.8%
Segment Operating Profit and EBIT as a % of Revenues ¹		
Metals service centers	9.1%	17.1%
Energy field stores	11.6%	6.6%
Steel distributors	12.2%	19.9%
Total operations	10.1%	14.4%

Results of our U.S. operations for the year ended December 31, 2022, were converted at \$1.3017 per US\$1 compared to \$1.2537 per US\$1 for the year ended December 31, 2021. Our U.S. operations represented approximately 39% of our total revenues. The exchange rate used to translate the balance sheet on December 31, 2022, was \$1.3544 per US\$1 versus \$1.2678 per US\$1 at December 31, 2021.

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

METALS SERVICE CENTERS

a) Description of operations

We provide processing and distribution services to a broad base of approximately 35,000 end users through a network of 46 Canadian locations and 23 U.S. locations. Our metals service centers carry a broad line of products in a wide range of sizes, shapes and specifications, including carbon hot rolled and cold finished steel, pipe and tubular products, stainless steel and aluminum. We purchase these products primarily from steel producers in North America and process and package them in accordance with end user specifications. We service all major geographic regions of Canada as well as the Southeastern and Midwestern regions in the United States.

b) Metals service centers segment results -- 2022 compared to 2021

	2022	2021
Financial Highlights		
Revenues (\$ millions)	\$ 3,523	\$ 2,831
Tons shipped (thousands of imperial tons)	1,282	1,224
Gross margin (\$ millions) ¹	748	862
Gross margin (%) ¹	21.2%	30.5%
Operating profits (\$ millions) ¹	322	483

Revenues in our metals service center operations increased 24% from 2021. Tons shipped in 2022, were approximately 5% higher than 2021 primarily due to the impact from the Boyd Metals acquisition in late 2021. On a same store basis, tons decreased by 5%, which approximates the average industry decline as published by the Metals Service Center Institute. The average selling price per ton of \$2,748 was 19% higher in 2022 than the \$2,313 realized in 2021. The average selling price in the 2022 fourth quarter decreased 7% over the 2022 third quarter due to price decreases.

Gross margin as a percentage of revenues was 21.2% for the year ended December 31, 2022, which was lower than the 30.5% in 2021 due to falling steel prices, offset by higher margins from our value-added processing initiatives. However, the gross margin per ton of \$584 was higher than the historical average, as we benefited from relatively high steel prices and the continuation of our value-added initiatives.

Operating expenses as a percentage of revenues improved to 12.1% compared to 13.4% in 2021. Operating expenses for 2022 were \$427 million, which was 13% higher than the \$379 million in 2021 due to higher delivery costs and the impact of the Boyd Metals acquisition in late 2021.

Metals service centers operating profits for the year ended December 31, 2022, of \$322 million were strong but lower than the record \$483 million reported for 2021.

ENERGY FIELD STORES

a) Description of operations

We distribute flanges, valves, fittings and other products, primarily to the energy industry in Western Canada and the United States. We operate from 44 Canadian and 15 U.S. facilities in our operations. We purchase our products from the pipe division of North American steel mills, independent manufacturers of flanges, valves, fittings and other products, international steel mills and other distributors.

b) Energy field stores segment results -- 2022 compared to 2021

(millions)	2022	2021
Financial Highlights		
Revenues	\$ 903	\$ 814
Gross margin (\$) ¹	241	173
Gross margin (%) ¹	26.7%	21.2%
Operating profits ¹	105	53

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

Revenues in our energy field stores segment increased by 11% in 2022 compared to 2021. However, our same store sales increased by 40%, after excluding the impact of the OCTG/line pipe operations that we divested in mid-2021.

Gross margin as a percentage of revenues improved to 26.7% compared to 21.2% in 2021 and compared to 22.7% on a same store basis.

Operating expenses for the year ended 2022 were \$137 million compared to \$119 million in 2021 as a result of higher variable compensation expenses.

This segment generated operating profits of \$105 million for 2022 compared to \$53 million for 2021.

STEEL DISTRIBUTORS

a) *Description of operations*

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

The main steel products sourced by this segment are structural beam, plate, coils, pipe and tubing; however, product volumes vary based on the economy and trade actions in North America.

b) *Steel distributors segment results -- 2022 compared to 2021*

<i>(millions)</i>	2022	2021
Financial Highlights		
Revenues	\$ 631	\$ 553
Gross margin (\$) ¹	123	167
Gross margin (%) ¹	19.6%	30.2%
Operating profits ¹	77	110

Revenues in our steel distributors were 14% higher in 2022 compared to 2021 due to higher selling prices.

Gross margin as a percentage of revenues was 19.6% for the year ended December 31, 2022, compared to 30.2% for the year ended December 31, 2021, due to the higher cost of inventory.

Operating expenses decreased to \$46 million in 2022 from \$57 million in 2021 primarily due to lower variable compensation expenses that are tied to financial results.

Operating profits for 2022 of \$77 million were lower than the \$110 million for 2021 due to lower margins as a result of the higher cost of inventory.

CORPORATE EXPENSES -- 2022 COMPARED TO 2021

Corporate expenses of \$26 million in 2022 were lower than the \$48 million in 2021, partially due to a non-cash stock-based compensation expense recovery of \$2 million in 2022 compared to an expense of \$10 million in 2021.

EARNINGS FROM TRIMARK

We recorded income from our share of the earnings from TriMark of \$28 million for the year ended December 31, 2022, compared to \$6 million for the year ended December 31, 2021. We recorded income from preferred share dividends received of \$3 million for the year ended December 31, 2022, compared to \$nil in 2021.

We received cash from preferred share dividends of \$3 million and common share dividends of \$19 million during the year ended 2022.

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

INTEREST EXPENSE

Net interest expense was \$25 million for 2022 compared to \$26 million for 2021.

INCOME TAXES

We recorded a provision for income taxes of \$116 million for 2022 compared to a provision of \$148 million for 2021. Our effective income tax rate for 2022 was 23.7% compared to 25.5% for 2021.

NET EARNINGS

Net earnings for 2022 were \$372 million compared to \$432 million in 2021. Basic earnings per share for 2022 was \$5.91 per share compared to \$6.90 per share in 2021.

SHARES OUTSTANDING AND DIVIDENDS

In 2022, we initiated a normal course issuer bid to purchase for cancellation up to 3.2 million of our common shares over 12 months. During 2022, we repurchased and cancelled 1,000,000 common shares for total consideration of \$28 million. Common shares outstanding on December 31, 2022, and February 9, 2023, were 62.1 million compared to 63.1 million on December 31, 2021, due to the share repurchases. The weighted average number of common shares outstanding for 2022 increased to 62.9 million compared to 62.7 million for 2021 primarily as a result of the exercise of stock options in 2021.

We paid common share dividends of \$96 million or \$1.52 per share in 2022 and \$95 million or \$1.52 per share in 2021.

We have \$150 million of 6% senior unsecured notes due March 16, 2026, and \$150 million of 5 ¾% senior unsecured notes due October 27, 2025. These notes have restrictions on the payment of dividends which we do not believe will restrict our ability to pay dividends.

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

CAPITAL EXPENDITURES

(millions)

	2022	2021
Capital expenditures - property, plant and equipment	\$ 42	\$ 29
Additions - right-of-use assets	17	12
Depreciation - property, plant and equipment	38	33
Depreciation - right-of-use assets	17	16

LIQUIDITY

On December 31, 2022, we had net cash, defined as cash less bank indebtedness, of \$363 million compared to \$133 million on December 31, 2021. We generated cash of \$524 million from operating activities before non-cash working capital and generated \$18 million from a reduction in working capital. We utilized \$42 million for capital expenditures, \$182 million in income tax payments, \$28 million to repurchase shares and returned \$96 million for dividends. The \$182 million in income tax payments in 2022 included the final payments for 2021.

During the cycle, we experience significant swings in working capital. Inventory and accounts receivable represent a large percentage of our total assets employed and fluctuate throughout each cycle. Accounts receivable and inventory comprise our largest liquidity risks.

Total assets were \$2.5 billion on December 31, 2022, compared to \$2.3 billion on December 31, 2021. On December 31, 2022, current assets, excluding cash, represented 70% of our total assets compared to 72% on December 31, 2021.

Inventories represented 45% of our total assets, excluding cash, on December 31, 2022, and December 31, 2021.

Inventory by Segment (millions)	Dec 31 2022	Sep 30 2022	Jun 30 2022	Mar 31 2022	Dec 31 2021
Metals service centers	\$ 585	\$ 673	\$ 683	\$ 611	\$ 639
Energy field stores	206	166	152	130	119
Steel distributors	166	211	190	153	228
Total	\$ 957	\$ 1,050	\$ 1,025	\$ 894	\$ 986

Cost of Sales by Segment (millions)	Dec 31 2022	Sep 30 2022	Jun 30 2022	Mar 31 2022	Dec 31 2021
Metals service centers	\$ 615	\$ 691	\$ 743	\$ 726	\$ 576
Energy field stores	153	183	167	158	140
Steel distributors	114	122	108	164	132
Total	\$ 882	\$ 996	\$ 1,018	\$ 1,048	\$ 848

Inventory Turns ¹ (quarters ended)	Dec 31 2022	Sep 30 2022	Jun 30 2022	Mar 31 2022	Dec 31 2021
Metals service centers	4.2	4.1	4.3	4.8	3.6
Energy field stores	3.0	4.4	4.4	4.9	4.7
Steel distributors	2.7	2.3	2.3	4.3	2.3
Total	3.7	3.8	4.0	4.7	3.4

On December 31, 2022, our metals service center tons were approximately 8% lower than our tons on December 31, 2021, and tons for steel distributors were approximately 36% lower. The average cost of inventory in our metals service centers on December 31, 2022, was approximately 4% lower than 2021. Inventory levels in our energy field stores increased year over year in order to meet increased demand.

Accounts receivable generated cash of \$62 million in 2022 and represented 23% of our total assets, excluding cash, on December 31, 2022, compared to 25% on December 31, 2021.

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

DEBT

As of December 31 (millions)

	2022	2021
Long-term Debt		
5 ¾% \$150 million Senior Notes due October 27, 2025	\$ 148	\$ 147
6% \$150 million Senior Notes due March 16, 2026	148	148
	\$ 296	\$ 295

CASH AND BANK CREDIT FACILITY

(millions)

	2022	2021
Bank loans	\$ -	\$ -
Cash net of outstanding cheques	363	133
Net cash	363	133
Letters of credit	(45)	(78)
	\$ 318	\$ 55
Facility		
Borrowings and letters of credit	\$ 400	\$ 400
Letters of credit	50	50
Facility availability	\$ 450	\$ 450
Available line based on borrowing base	\$ 450	\$ 450

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

We have a committed credit facility with a syndicate of Canadian and U.S. banks that provides \$50 million for letters of credit and \$400 million which can be utilized for borrowings or additional letters of credit. The borrowings and letters of credit are available on a revolving basis, up to an amount equal to the sum of specified percentages of our eligible accounts receivable and inventories, to a maximum of \$450 million.

On December 31, 2022, we were entitled to borrow and issue letters of credit totaling \$450 million under this facility. On December 31, 2022, we had no borrowings and \$45 million of letters of credit outstanding. On December 31, 2021, we had no borrowings and letters of credit of \$78 million.

On December 31, 2022, we were in compliance with all of our financial covenants.

With our cash, cash equivalents and our bank facility we have access to approximately \$743 million of cash based on our December 31, 2022, balances. The use of our bank facilities has been predominantly to fund working capital requirements, acquisitions and trade letters of credit for inventory purchases.

CONTRACTUAL OBLIGATIONS

On December 31, 2022, we were contractually obligated to make payments as per the following table:

Contractual Obligations <i>(millions)</i>	Payments due in				Total
	2023	2024 and 2025	2026 and 2027	2028 and thereafter	
Accounts payable	\$ 482	\$ -	\$ -	\$ -	\$ 482
Debt	-	150	150	-	300
Long-term debt interest	18	35	5	-	58
Lease obligations	25	42	36	75	178
Total	\$ 525	\$ 227	\$ 191	\$ 75	\$ 1,018

We are obligated to pay \$45 million in letters of credit when they mature in 2023. We have outstanding US\$95 million (2021: US\$63 million) in forward exchange contracts that mature in 2023.

We provide defined contribution pension plans for a majority of our Canadian and U.S. employees; however, we have obligations related to multiple defined benefit pension plans in Canada, as disclosed in Note 17 of our 2022 consolidated financial statements. On October 4, 2022, we paid a premium of \$35 million to annuitize \$34 million of our defined benefit obligations, as measured on an accounting basis, through a buy-out transaction with an insurance company. On February 1, 2023, the insurance company commenced payment of the retiree benefits when our obligations to the affected retirees ceased. During 2022 we contributed \$2 million to these plans. We do not expect to contribute to these plans during 2023.

The defined benefit obligations reported in the consolidated financial statements use different assumptions than the going concern actuarial valuations prepared for funding. In addition, the actuarial valuations provide a solvency valuation, which is a valuation assuming the plan is wound up at the valuation date. We do not have additional funding obligations on a solvency basis and no additional funding would be required based on solvency if the plans were wound up. We estimate the impact of a 0.25% change in the discount rate on the solvency obligation would be approximately \$4 million.

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

OFF-BALANCE SHEET ARRANGEMENTS

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

ACCOUNTING ESTIMATES

The preparation of our consolidated financial statements requires management to make estimates and judgements that affect the reported amounts. On an ongoing basis, we evaluate our estimates, including those related to bad debts, inventory valuation, useful lives of fixed assets, asset impairment, fair values, income taxes, pensions and benefits obligations, guarantees, decommissioning liabilities, contingencies, litigation and assigned values on net assets acquired. We base our estimates on historical experience and on various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgements about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

Our most significant assets are accounts receivable and inventories.

Accounts Receivable

An allowance for doubtful accounts is maintained for estimated losses resulting from the inability of our customers to make required payments. Assessments are based on aging of receivables, legal issues (bankruptcy status), past collection experience, current financials, credit agency reports and the experience of our credit personnel. Accounts receivable which we determine to be uncollectible are reserved in the period in which the determination is made. If the financial condition of our customers was to deteriorate, resulting in an impairment of their ability to make payments, additional allowances may be required. Our reserve for bad debts on December 31, 2022, was \$1 million lower than our reserve level on December 31, 2021.

Inventories

We review our inventories to ensure that the cost of inventories is not in excess of its estimated net realizable value and for obsolete and slow-moving product. Inventory reserves or write-downs are recorded when cost exceeds the estimated selling price less cost to sell and when product is determined to be slow moving or obsolete. The inventory reserve level on December 31, 2022, was \$2 million higher than the level on December 31, 2021.

Other areas involving significant estimates and judgements include:

Long-lived Asset Impairment

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

During 2022, no long-lived asset impairments were recorded. There is no certainty that there will not be future impairments should the economic markets in which we operate deteriorate.

Income Taxes

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

Business Combinations

For each acquisition we review the fair value of assets acquired. Where we deem it appropriate, we hire outside business valuers to assist in the assessment of the fair value of property, plant, equipment, intangibles and contingent consideration of acquired businesses.

Investment in TriMark

The investment in the preferred shares of TriMark are accounted for at fair value using the Dividend Discount Model. The determination of the required rate of return in the model takes significant judgement. The investment in common shares of TriMark are accounted for using the equity method and tested for impairment if indications of impairment exist. The determination of whether this investment is impaired requires significant judgement and the actual cash received from a future sale of the joint venture may be materially different from these estimates.

Contingent Liabilities

Provisions for claims and potential claims are determined on a case-by-case basis. We recognize contingent loss provisions when it is determined that a loss is probable and when we are able to reasonably estimate the obligation. This determination takes significant judgement and actual cash outflows might be materially different from estimates. In addition, we may receive claims in the future that could have a material impact on our financial results.

The Company and certain of its subsidiaries have been named defendants in a number of legal actions. Although the outcome of these legal actions cannot be determined, management intends to defend all such legal actions and has recorded provisions, as required, based on its best estimate of the potential losses. In the opinion of management, the resolution of these legal actions is not expected to have a material adverse effect on our financial position, cash flows or operations.

Employee Benefit Plans

At least every three years, our actuaries perform a valuation for each defined benefit plan to determine the actuarial present value of the benefits. The valuation uses management's assumptions for the interest rate, rate of compensation increase, rate of increase in government benefits and expected average remaining years of service of employees. While we believe that these assumptions are reasonable, differences in actual results or changes in assumptions could materially affect employee benefit obligations and future net benefit plan cost. We account for differences between actual and assumed results by recognizing differences in benefit obligations and plan performance immediately in other comprehensive income.

The annuitization of a portion of our defined benefit pension obligation in October 2022, resulted in a reduction of plan assets of approximately \$35 million and a reduction in our benefit obligation of approximately \$34 million. We had approximately \$123 million in plan assets on December 31, 2022, which is a decrease of approximately \$56 million from December 31, 2021, of which \$35 million was due to the payment for the annuitization. The discount rate used on the employee benefit plan obligation for December 31, 2022, was 5.00%, which is 200 basis points higher than the discount rate on December 31, 2021.

Leases

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

CONTROLS AND PROCEDURES

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

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

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

The President & Chief Executive Officer and the Executive Vice President & Chief Financial Officer have caused management and other employees to design and document our disclosure controls and procedures and our internal controls over financial reporting. An evaluation of the design and operating effectiveness of the disclosure controls and internal controls over financial reporting was conducted as of December 31, 2022. The design and evaluation 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.

Based on our evaluation, we have concluded that our disclosure controls and procedures and our internal controls over financial reporting were effective to provide reasonable assurance that information related to our consolidated results and decisions to be made on those results were appropriate.

VISION AND STRATEGY

The metals distribution business is a mature and cyclical industry. We believe we enhance returns by managing costs and working capital throughout the cycle. In addition, our investment in facilities modernization and value-added processing initiatives will enable us to better service our customers and lead to enhanced margins. Capital allocation priorities and limits are managed centrally with day-to-day decision making delegated to the various operations. Furthermore, our variable compensation model is based on the return on net assets for each business unit, which provides our business managers a basis to proactively adjust costs and working capital to local market conditions. Management believes that this strategy will result in higher average profits and that we will generate earnings over the cycle in the top quartile of the industry.

In 2022, we commenced a facilities modernization initiative which, along with our multi-year expansion of our value-added processing equipment, will enhance our capabilities and provide improved service to our customer base.

Growth from selective acquisitions is also part of our strategy. We focus on investment opportunities in businesses that have strong market niches or provide scale to our existing operations. New acquisitions could be either major stand-alone operations or ones that complement our existing operations.

Returning capital to our shareholders through our ongoing dividends and opportunistic share buy backs is also part of our strategy.

RISK

A summary of the risks affecting our business is described under the heading "Risk Management and Risks Affecting Our Business" in our most recent Annual Information Form, which section is incorporated by reference in this "Risk" section of our MD&A.

The pandemic created uncertainty in the health and welfare of the communities where we operate and resulted in temporary business closures and reduced economic activity. While COVID related restrictions have eased, we continue to remain vigilant with our safety protocols to ensure the health and safety of our employees, customers and suppliers.

The timing and extent of future price changes from steel producers and their impact on us cannot be predicted with any certainty due to the cyclical nature of the steel industry, capacity utilization rates for North American steel producers and changing import levels and tariffs. Future tariff changes to country or product exemptions, including possible modifications to the section 232 trade actions, may impact steel prices and product availability.

A portion of our revenues are dependent on the oil and gas industry whose activity fluctuates with oil and gas prices. Our oil field stores provide a more stable stream of earnings as their products are used in maintenance and repair as well as new drilling activity and large energy products.

The continued impact of inflation, rising interest rates, prevailing oil price conditions, the Ukraine/Russia conflict, supply chain disruptions, recession risk, the pandemic and other macro-economic factors may lead to changes in estimates in our financial statements and the effect of such changes could be material and result in impairments of long-lived assets, including goodwill and intangibles, and provisions for inventory and credit losses.

FOURTH QUARTER RESULTS

Revenues in the fourth quarter of 2022 were 4% lower than the same quarter in 2021. Operating income was \$79 million in the fourth quarter of 2022 compared to \$147 million in 2021. During the quarter ended December 31, 2022, EBITDA was \$97 million compared to \$162 million in 2021.

Our net income for the quarter ended December 31, 2022, was \$58 million or \$0.93 per share compared to \$102 million or \$1.62 per share.

The following table provides revenues, gross margins and earnings before interest and income taxes in a format consistent with our annual results.

<i>(millions, except percentages)</i>	Quarters Ended December 31	
	2022	2021
Segment Revenues		
Metals service centers	\$ 750.6	\$ 780.1
Energy field stores	211.6	193.0
Steel distributors	134.8	170.3
Other	2.8	3.4
	\$ 1,099.8	\$ 1,146.8
Segment Gross Margins ¹		
Metals service centers	\$ 135.9	\$ 204.7
Energy field stores	58.7	53.0
Steel distributors	20.7	38.1
Other	2.8	3.4
Total operations	\$ 218.1	\$ 299.2
Segment Operating Profits (Loss) and EBIT ¹		
Metals service centers	\$ 38.9	\$ 109.3
Energy field stores	24.0	24.0
Steel distributors	11.2	24.7
Corporate expenses	(6.5)	(13.3)
Share of earnings from TriMark	10.4	3.3
Asset impairment	-	(2.6)
Other	1.4	1.7
Earnings before interest and income taxes	\$ 79.4	\$ 147.1
Segment Gross Margin as a % of Revenues ¹		
Metals service centers	18.1%	26.2%
Energy field stores	27.7%	27.5%
Steel distributors	15.4%	22.4%
Total operations	19.8%	26.1%
Segment Operating Profit and EBIT as a % of Revenues ¹		
Metals service centers	5.2%	14.0%
Energy field stores	11.3%	12.4%
Steel distributors	8.3%	14.6%
Total operations	7.2%	12.8%

Metals service centers revenues were 4% lower than the same quarter in 2021. Same store tons shipped in the fourth quarter of 2022 for metals service centers were 3% lower than the fourth quarter of 2021. Selling prices were 10% lower than the fourth quarter of 2021. Gross margin as a percentage of revenues decreased to 18.1% for the fourth quarter of 2022 from 26.2% for the fourth quarter of 2021.

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

In the fourth quarter of 2022, revenues at our energy field stores segment were 10% higher than 2021 due to stronger demand.

Our steel distributors reported operating profits in the 2022 fourth quarter of \$11 million compared to \$25 million in the 2021 fourth quarter.

Corporate expenses were lower than 2021 due to the mark-to-market on stock-based compensation.

OUTLOOK

Steel prices began to stabilize late in the 2022 fourth quarter and we have experienced modest price increases for certain key products in early 2023. We expect a continuation of this favourable trend over the near term as a result of modest inventory in the supply chain and a seasonal rebound in demand. In terms of demand, we experienced a normal seasonal slowdown in the 2022 fourth quarter, but expect to benefit from a rebound over the near term as both the metals service centers and energy field stores have favourable and broad-based customer activity levels.