



# Russel Metals

2016 ANNUAL REPORT



***FOCUSED***

# FOCUSED ON

## PROCESSING

We continue to focus on growing our value-added processing capabilities as we look to add more value to our product offerings. Our processes continue to grow in sophistication with the addition of fiber lasers, tube lasers, stretcher leveling, drilling, machining and other processes that add to our already extensive value-added services. Each market and customer base are typically unique. We serve as conduit from the manufacturers to the customer and add value through sophisticated processing to be a further link in the supply chain.



## EFFICIENCY

We manage our businesses on a decentralized basis by empowering local management to be accountable for their operations which fosters an entrepreneurial style throughout the organization. This culture is augmented and supported by centralized services such as information systems, legal, finance, purchasing and human resources which lead to an optimal and efficient use of resources.



## PROGRESSION

Customer focused, employee driven defines our philosophy and our vision of ensuring our strongest talent is in the right position. During 2016 we had our first Next Generation conference where our leaders of tomorrow came together to discuss our entrepreneurial culture, centralized services and future opportunities within the organization. In addition, we made several internal promotions to allow our best to grow, maintain and solidify our unique culture for the future to enable the organization to prosper.

## MODERNIZATION

Our processes have evolved; streamlining our operations through real time electronic invoicing and receiving on the plant floor. Our bar-coding functionality maintains real time traceability and processing of all materials, costs and shipments from the moment they arrive on site. We announced a major ERP modernization project that kicked off in January 2017 that will combine the functionality of our current system with modern code.

## TABLE OF CONTENTS

Financial Highlights.....	1
A Discussion with our Chair of the Board, CEO and President.....	2
Management's Responsibility for Financial Reporting.....	5
Management's Discussion and Analysis.....	6
Independent Auditor's Report.....	24
Consolidated Financial Statements.....	25

## FINANCIAL HIGHLIGHTS

	-----Years ended-----				
	2016	2015	2014	2013	2012
<b>OPERATING RESULTS (millions)</b>					
Revenues	\$2,578.6	\$3,111.6	\$3,869.3	\$3,187.8	\$3,000.1
Net earnings	62.8	(87.6)	123.6	83.3	97.9 (2)
EBIT	119.0	(86.1)	217.0	146.0	175.3 (2)
Adjusted EBIT (Note)	91.3 (1)	118.7 (1)	226.9 (1)	151.2 (1)	175.3 (2)
Adjusted EBIT as a % of revenue	3.5%	3.8%	5.9%	4.7%	5.8%
Adjusted EBITDA (Note)	126.4 (1)	153.8 (1)	261.7 (1)	184.8 (1)	200.8
EBITDA as a % of revenue	4.9%	4.9%	6.8%	5.8%	6.7%
Basic earnings per common share (\$)	\$1.02	(\$1.42)	\$2.01	\$1.37	\$1.63 (2)
<b>BALANCE SHEET INFORMATION (millions)</b>					
<b>Metals</b>					
Accounts receivable	\$358.9	\$333.4	\$566.6	\$455.9	\$455.6
Inventories	615.8	712.5	930.8	766.3	764.0
Prepaid expenses and other assets	8.5	10.7	11.6	5.9	7.1
Accounts payable and accruals	(276.3)	(269.7)	(486.0)	(383.7)	(381.5)
Net working capital - Metals	706.9	786.9	1,023.0	844.4	845.2
Fixed assets	239.7	267.8	249.8	228.4	225.3
Goodwill and intangibles	85.7	92.0	214.3	218.7	192.1
Net assets employed in metals operations	1,032.3	1,146.7	1,487.1	1,291.5	1,262.6
Other operating assets	(1.1)	(1.9)	1.5	10.1	16.0
Net income tax assets (liabilities)	(7.3)	25.4	(23.4)	(11.3)	(8.2)
Pension and benefit assets (liabilities)	(11.0)	(21.7)	(26.1)	(23.1)	(38.7)
Other corporate assets and liabilities	(38.5)	(33.1)	(42.3)	(42.6)	(47.3)
Total net assets employed	\$974.4	\$1,115.4	\$1,396.8	\$1,224.6	\$1,184.4
<b>CAPITALIZATION (millions)</b>					
Bank indebtedness, net of (cash)	\$(146.8)	\$(49.2)	\$(29.2)	\$(116.2)	\$(100.8)
Long-term debt (incl. current portion)	295.9	295.7	461.0	458.4	455.8
Total interest bearing debt, net of (cash)	149.1	246.5	431.8	342.2	355.0
Market capitalization	1,579.2	991.6	1,597.4	1,913.1	1,662.2
Total firm value	\$1,728.3	\$1,238.1	\$2,029.2	\$2,255.3	\$2,017.2
<b>OTHER INFORMATION (Notes)</b>					
Shareholders' equity (millions)	\$825.3	\$868.9	\$965.0	\$882.4	\$829.4
Book value per share (\$)	\$13.37	\$14.08	\$15.65	\$14.48	\$13.78
Free cash flow (millions)	\$77.4	\$0.6	\$124.8	\$92.0	\$99.4
Capital expenditures (millions)	\$16.7	\$38.3	\$48.2	\$27.2	\$33.7
Depreciation and amortization (millions)	\$35.1	\$35.1	\$34.8	\$33.6	\$25.5
Earnings multiple	25.1	nm	12.9	22.9	16.9
Firm value as a multiple of adjusted EBIT	18.9	10.4	8.9	14.9	11.5
Firm value as a multiple of adjusted EBITDA	13.7	8.0	7.8	12.2	10.0
Interest bearing debt/EBITDA	2.3	1.9	1.8	2.5	2.3
Debt as a % of capitalization	26%	25%	32%	34%	35%
Market capitalization as a % of book value	191%	114%	166%	217%	200%
Return on equity	8%	(10%)	13%	9%	12%
Return on capital employed	9%	11%	16%	12%	15%
<b>COMMON SHARE INFORMATION</b>					
Ending outstanding common shares	61,735,485	61,702,560	61,674,228	60,946,393	60,204,636
Average outstanding common shares	61,704,990	61,696,592	61,321,767	60,780,520	60,128,534
Dividend yield	5.9%	9.5%	5.9%	4.5%	5.1%
Dividend per share	\$1.52	\$1.52	\$1.52	\$1.40	\$1.40
Dividends paid as a % of free cash flow	121%	nm	72%	92%	82%
Share price - High	\$27.78	\$27.81	\$37.63	\$31.62	\$28.97
Share price - Low	\$13.95	\$14.36	\$25.07	\$23.23	\$22.52
Share price - Ending	\$25.58	\$16.07	\$25.90	\$31.39	\$27.61

### Notes:

(1) Adjusted EBIT and EBITDA excludes the gain on sale of properties of \$27.7 million in 2016, goodwill and long-lived asset impairment charge of \$123.4 million in 2015, provision for product warranty of \$20 million in 2015 and inventory provision of \$61.3 million for 2015 and \$14.6 million for 2014, asset impairment charge of \$9.9 million in 2014, and a \$5.2 million in 2013.

(2) Restated due to adoption of IAS 19 (Amended 2011)

(3) This chart includes certain financial measures that are not prescribed by Canadian generally accepted accounting principles (GAAP) or have standardized meanings, and thus, may not be comparable to similar measures presented by other companies, for example EBIT and EBITDA and Other Information. Management believes that EBIT and EBITDA 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. EBIT and EBITDA should not be considered in isolation or as an alternative to cash from operating activities or other combined income or cash flow data. EBIT, EBITDA and a number of the ratios provided under Other Information are used by debt and equity analysts to compare our performance against other public companies. This terminology is defined on the inside back cover of our Annual Report. See financial statements for GAAP earnings.

## DISCUSSION WITH...

**JIM DINNING, CHAIR OF THE BOARD**

**BRIAN HEDGES, CHIEF EXECUTIVE OFFICER**

**JOHN REID, PRESIDENT AND CHIEF OPERATING OFFICER**

***Q. Your theme is "Focused"; can you explain why?***

John We are continually focusing on ways to improve the business both internally and externally. We constantly challenge ourselves to streamline our practices and lower costs. We have achieved this through automation on the shop floor, such as automated receiving, electronic invoicing and real-time warehouse inventory management. In addition, we continue to focus on adding value to our service centers through state-of-the-art, value-added processing equipment such as stretch levellers, lasers, tube lasers, thermal cutting and machining combinations.

Brian In a mature industry, a critical component of our corporate culture is to ensure that every employee understands and appreciates the discipline required to be focused on adding value and eliminating costs from every step of the process.

***Q. Your energy competitors lost money in 2016 whereas you didn't; to what do you attribute these positive results?***

Brian We have the best people in the industry, who maintain a disciplined approach to managing working capital and are focused on providing complete service offerings to their customers in Western Canada; where we have a leading market position.

John The addition of Apex has provided the intended stability. The MRO component of the business is less impacted by downturns in the energy sector as the existing wells must be maintained.

***Q. The challenges in the oil patch are well documented; when do you see a recovery on the horizon?***

Jim After 2015, I said "It's all in the recovery; 2016 simply had to be better." Turns out it was better despite headwinds in the first and second quarters. One quarter into 2017, we are confident that the worst is behind us. We are cautiously optimistic; albeit moderately.

John The recovery has started to take hold and will continue to improve. The pace of the recovery largely depends on the price of oil and the changing political climate in both North America and the OPEC Nations.

***Q. Much has been written about the oversupply of steel in the world market. The U.S. has tried to deal with this problem by way of trade actions. Is this strategy working and do you expect rising prices in 2017 as a consequence?***

John The trade actions taken in North America are having a positive impact and are a good first step in establishing fair trade in North America. The laws of economics, however, continue to create price pressure as we remain out of balance with supply in excess of demand.

Brian Late in 2016 prices started to recover but recent history suggests that these increases will be tempered later in 2017.



Jim Dinning  
Chair of the Board



Brian Hedges  
Chief Executive Officer



John Reid  
President & COO

**Q. *What are you excited about looking into next year?***

- Jim Our Russel team across the continent. These last two years were hard on our people but they showed their resilience and ability to rise to the challenge. They can hardly wait to show what they can do in a stronger economy; once again.
- Brian The energy market is improving with positive actions by the Canadian government and indications from the new administration in the U.S. The increased likelihood of merger activities as indicated by new opportunities will also allow us to return to our historical growth trends.
- John The continued improvement in the energy market.

**Q. *What is your biggest concern going into 2017?***

- Jim Walls and other barriers. People building walls to stop the free flow of people and goods.
- John The disruption of traditional trade lanes within the supply chain.
- Brian There is a strain on the variable compensation plans as the depressed energy market causes lower compensation resulting in a negative impact on morale.

**Q. *You have maintained a dividend policy for the last two years during the energy downturn. What is your view on the dividend policy in 2017?***

- Jim Russel is a dividend and growth story; "and"... not "or". We think this combination is good for shareholders and for business. Russel's operations generate a healthy cash flow. We will continue to grow the Company and pay the dividend at a rate we are confident we can afford over the economic cycle.
- Brian We see dividends as a way to reward our shareholders through a return of capital. In the current environment we have lower capital requirements, cash on hand and very modest and inexpensive long-term debt. We will maintain a conservative capital structure to allow us to grow working capital as the business volumes and revenues return to prior levels.

**Q. *Last year you indicated that the Company was well-positioned to take advantage of acquisitions as they present themselves; can you provide us with an update?***

- Brian Opportunities are presenting themselves and we evaluate them individually based on the long-term value-added opportunity for our shareholders. Our focus is on increasing shareholder value rather than growth at any cost which makes us both patient and disciplined acquirers.
- John We completed a small acquisition Jackson Pipe at the end of 2016, which adds processing capabilities and new customers to the JMS operations. We remain focused on growing our service center footprint in the U.S.

***Q. Your largest acquisition in the last number of years was Apex, which was in the energy sector; given the economic downturn - any regrets?***

- Jim None. We would do it over again. Apex is a good business delivering strong earnings. More importantly, with the acquisition of Apex we also acquired the best field team in the business.
- John I am extremely pleased. Historically Apex has performed well at each extreme of the energy cycle. This downturn has been no different.
- Brian The Apex management aggressively managed costs in this tough environment and generated one of the strongest returns on net assets of our business units.

***Q. In 2014 you anticipated potential new ERP software system; can you provide us with an update on the project?***

- Brian The decision to embark on modernization of our current system, which was launched in January 2017, was made after fully investigating other available options. We own the source code of our service center ERP system and feel the enhancements we have made provide us with a competitive advantage.
- John The modernization project will allow us to maintain our existing ERP advantages yet progress into modern code in order to take advantage of new technology in the future.

***Q. Your Board has a strong mix of business leaders with diverse skills; are there any changes that you would like to see in your Board composition in 2017 and beyond?***

- Jim We have got one of the strongest Boards of all Canadian public companies. In 2016, we recruited Barbara Jeremiah of Pittsburgh; she comes to us as a seasoned former executive at Alcoa. We will have some retirements in 2018 and beyond, so we will be in recruitment mode for the next couple of years. We aim to maintain a strong but practical governance style.

***Q. Have there been changes in the management ranks in 2016?***

- John The ultimate capstone to a successful management career is how a manager developed their people and ultimately their successors. Our culture has produced a unique group of leaders who have demonstrated the ability to develop our leaders of tomorrow. Our bias is to promote from within but, in certain circumstances, we have recruited some of the industry's best talent. John Maclean, a 30 year veteran of the steel industry, joined us three years ago and has recently been promoted to VP of Canadian Service Centers. Craig Bolton, with 19 years of service center experience, is now managing the British Columbia region. Internal service center appointments included Bruce Robb expanding his role to encompass Alberta, Manitoba and Saskatchewan. Mark Fine took the reins of Russel Metals Williams Bahcall; and Rocky Gannelli of Baldwin International.
- Brian In steel distributors, the talented Fernando Ferreira was promoted to President in anticipation of future leadership changes at Wirth. In the energy segment, Travis Peckham has been well prepared as successor to Bruce McBean, who retired from Triumph Tubulars in January 2017 after 40 years in the industry. Also, retiring in 2016 were service center leaders; Rod Smith at Russel Metals Williams Bahcall and Ed Weber at Baldwin International. I would like to thank each of these exceptional operators for their service to Russel and their personal friendship with me and the rest of our team.

## MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

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

These 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 consolidated financial statements and Management's Discussion and Analysis of Financial Condition within reasonable limits of materiality and for the consistency of financial data included in the text of the Annual Report with that contained in the consolidated financial statements.

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 has evaluated its internal and disclosure controls for the year ended December 31, 2016, and has disclosed the results of this evaluation in its Management Discussion and Analysis of Financial Condition.

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 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 consolidated financial statements and the Management's Discussion and Analysis of Financial Condition for presentation to the shareholders.

The consolidated financial statements have been audited on behalf of the shareholders by the external auditors, Deloitte LLP, in accordance with Canadian generally accepted auditing standards. Deloitte LLP has full and free access to the Audit Committee.

February 16, 2017



**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 YEAR ENDED DECEMBER 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 our audited Consolidated Financial Statements for the year ended December 31, 2016, 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](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 February 16, 2017.

### **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 unexpected loss of key individuals; decentralized operating structure; the availability of future acquisitions and their integration; 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; legislation on carbon emissions; workplace health and safety laws and regulations; significant changes in laws and governmental regulations; fluctuation of our common share price; 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 one of the largest metals distribution companies in North America. We conduct business primarily in three metals distribution segments: metals service centers, energy products, and steel distributors.

Our net earnings for 2016 were \$63 million compared to a loss of \$88 million in 2015. Earnings per share was \$1.02 for 2016 compared to a loss per share of \$1.42 for 2015.

Our 2016 and 2015 earnings were impacted by certain items that were non-recurring in nature. The following table highlights our operating results by removing these onetime charges:

<i>Earnings (loss) per share</i>	<b>2016</b>	2015
Net earnings (loss) per share	<b>\$ 1.02</b>	\$ (1.42)
Gain on sale of properties	<b>(0.27)</b>	-
Withholding tax	<b>0.03</b>	-
Asset impairments	-	1.87
Change in fair value of contingent consideration	-	(0.43)
Product warranty claim and other	-	0.29
Adjusted earnings per share	<b>\$ 0.78</b>	\$ 0.31

In 2016, we capitalized on the opportunity to sell our Blytheville, Arkansas property. We have entered into a 20 year lease to leaseback approximately one-third of the building space comprised of two buildings to house our JMS Russel Metals coil processing operation. In addition we sold redundant land in Quebec, entered into a sale and leaseback transaction in Ontario and closed one of our British Columbia branches and disposed of the property. These transactions resulted in a pre-tax gain of \$28 million.

Also in the 2016 fourth quarter, we repatriated US\$40 million to Canada and paid US\$2 million in non-deductible withholding tax. The repatriation of the funds, which were not required to fund our U.S. operations, allowed us to repay Canadian dollar bank borrowings and reduce interest costs.

Certain of the 2015 adjustments were a direct result of the economic slowdown in energy due to the weakness in the price of oil and natural gas affecting demand and product prices in our energy products segment. In the fourth quarter of 2015 we recorded a onetime charge of \$124 million related to the impairment of certain assets, goodwill and intangibles. The impairment test in the fourth quarter of 2016 determined that remaining goodwill was not impaired.

During 2015, we recorded finance income of \$27 million resulting from the reduction of the fair value of expected earnout payments under Apex Distribution and Apex Monarch acquisition agreements. The forecasted future earnings of these operations is not expected to result in any further earnout payments.

In 2015, we estimated a potential liability of \$20 million related to a customer claim. The customer alleged that the product was defective and that the manufacturer did not meet the specifications for the goods. Although primary responsibility of the alleged defective product lies with the manufacturer we were included in the claim. We are in the process of finalizing the settlement agreement and we believe that the provision recorded in 2015 is adequate to satisfy the obligation.

While not included in adjusted earnings per share in the above table, our operating results included inventory write-downs in 2016 and 2015. Inventory write-downs in 2016 were recorded primarily in our energy products segment due to lower demand and obsolescence concerns relating to older inventory at certain operations. In steel distributors, steel pricing recovered in early 2016 resulting in a reversal of previous net realizable value inventory provisions.

A summary of inventory write-downs and write-ups by segment is as follows:

<i>Segment (millions)</i>	<b>2016</b>	2015
Metals service centers	\$ 0.7	\$ 2.0
Energy products	<b>12.4</b>	37.3
Steel distributors	<b>(2.1)</b>	22.0
	<b>\$ 11.0</b>	\$ 61.3

## SUMMARIZED FINANCIAL INFORMATION

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

### 2016

<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	\$ 662.1	\$ 623.7	\$ 639.2	\$ 653.6	<b>\$ 2,578.6</b>
Earnings from operations	16.6	30.0	27.6	17.1	<b>91.3</b>
Net earnings	7.8	16.4	15.9	22.7	<b>62.8</b>
Basic earnings per common share	\$ 0.13	\$ 0.27	\$ 0.26	\$ 0.37	<b>\$ 1.02</b>
Diluted earnings per common share	\$ 0.13	\$ 0.27	\$ 0.26	\$ 0.36	<b>\$ 1.01</b>
Total assets	\$ 1,541.8	\$ 1,569.0	\$ 1,556.7	\$ 1,508.5	<b>\$ 1,508.5</b>
Non-current financial liabilities	\$ 295.4	\$ 295.6	\$ 295.7	\$ 295.8	<b>\$ 295.8</b>
Dividends paid	\$ 0.38	\$ 0.38	\$ 0.38	\$ 0.38	<b>\$ 1.52</b>
Market price of common shares					
High	\$ 20.19	\$ 24.89	\$ 24.92	\$ 27.78	<b>\$ 27.78</b>
Low	\$ 13.95	\$ 19.34	\$ 19.92	\$ 19.81	<b>\$ 13.95</b>
Shares outstanding end of quarter	61,702,560	61,703,560	61,703,560	61,735,485	<b>61,735,485</b>
Average shares outstanding	61,702,560	61,702,736	61,703,560	61,711,054	<b>61,704,990</b>
Number of common shares traded	19,655,847	16,045,311	7,357,465	9,655,118	<b>52,713,741</b>

## 2015

<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	\$ 903.9	\$ 761.3	\$ 773.4	\$ 673.0	\$ 3,111.6
Earnings (loss) from operations	36.6	31.1	19.0	(29.3)	57.4
Net earnings (loss)	18.5	16.4	12.8	(135.3)	(87.6)
Basic earnings (loss) per common share	\$ 0.30	\$ 0.27	\$ 0.21	\$ (2.19)	\$ (1.42)
Diluted earnings (loss) per common share	\$ 0.30	\$ 0.27	\$ 0.21	\$ (2.19)	\$ (1.42)
Total assets	\$ 1,981.8	\$ 1,901.2	\$ 1,877.3	\$ 1,607.0	\$ 1,607.0
Non-current financial liabilities	\$ 480.8	\$ 483.1	\$ 315.2	\$ 295.2	\$ 295.2
Dividends paid	\$ 0.38	\$ 0.38	\$ 0.38	\$ 0.38	\$ 1.52
Market price of common shares					
High	\$ 26.34	\$ 27.81	\$ 23.14	\$ 24.05	\$ 27.81
Low	\$ 22.39	\$ 22.35	\$ 18.23	\$ 14.36	\$ 14.36
Shares outstanding end of quarter	61,701,628	61,701,628	61,701,628	61,702,560	61,702,560
Average shares outstanding	61,678,145	61,701,628	61,701,628	61,702,226	61,696,592
Number of common shares traded	17,543,301	15,792,944	15,319,931	18,350,285	67,006,461

## 2014

<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	\$ 924.0	\$ 893.3	\$ 1,038.8	\$ 1,013.2	\$ 3,869.3
Earnings from operations	53.5	56.4	63.4	53.6	226.9
Net earnings	29.0	30.5	33.0	31.1	123.6
Basic earnings per common share	\$ 0.47	\$ 0.50	\$ 0.54	\$ 0.50	\$ 2.01
Diluted earnings per common share	\$ 0.46	\$ 0.48	\$ 0.52	\$ 0.49	\$ 1.95
Total assets	\$ 1,883.9	\$ 1,900.1	\$ 2,019.8	\$ 2,042.8	\$ 2,042.8
Non-current financial liabilities	\$ 489.6	\$ 490.0	\$ 493.5	\$ 487.8	\$ 487.8
Dividends paid	\$ 0.35	\$ 0.35	\$ 0.38	\$ 0.38	\$ 1.46
Market price of common shares					
High	\$ 31.50	\$ 34.43	\$ 37.63	\$ 35.11	\$ 37.63
Low	\$ 27.78	\$ 29.90	\$ 33.50	\$ 25.07	\$ 25.07
Shares outstanding end of quarter	61,026,590	61,414,260	61,632,896	61,674,228	61,674,228
Average shares outstanding	60,966,768	61,159,759	61,497,827	61,653,232	61,321,767
Number of common shares traded	9,008,334	9,379,761	10,266,671	18,618,067	47,272,833

## RESULTS OF OPERATIONS

The following table provides operating profits before interest, other finance expense or income, gain on sale of properties, asset impairments, product warranty claims 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 consolidated financial statements.

<i>(in millions, except percentages)</i>	2016	2015	2016 change as a % of 2015
<b>Segment Revenues</b>			
Metals service centers	\$ 1,383.5	\$ 1,481.1	(7%)
Energy products	881.2	1,227.1	(28%)
Steel distributors	304.5	398.4	(24%)
Other	9.4	5.0	
	<b>\$ 2,578.6</b>	<b>\$ 3,111.6</b>	<b>(17%)</b>
<b>Segment Operating Profits</b>			
Metals service centers	\$ 58.1	\$ 41.9	39%
Energy products	18.9	33.0	(43%)
Steel distributors	29.0	(3.6)	
Corporate expenses	(18.6)	(12.5)	(49%)
Other	3.9	(1.4)	
Operating profits	<b>\$ 91.3</b>	<b>\$ 57.4</b>	<b>59%</b>
<b>Inventory Write-down, net</b>			
Metals service centers	\$ 0.7	\$ 2.0	
Energy products	12.4	37.3	
Steel distributors	(2.1)	22.0	
	<b>\$ 11.0</b>	<b>\$ 61.3</b>	
<b>Segment Gross Margin as a % of Revenues</b>			
Metals service centers	21.6%	19.1%	
Energy products	15.5%	14.5%	
Steel distributors	18.5%	5.1%	
Total operations	<b>19.5%</b>	<b>15.6%</b>	
<b>Segment Operating Profit as a % of Revenues</b>			
Metals service centers	4.2%	2.8%	
Energy products	2.1%	2.7%	
Steel distributors	9.5%	(0.9%)	
Total operations	<b>3.5%</b>	<b>1.8%</b>	

## ANNUAL FINANCIAL HIGHLIGHTS

<i>(in millions, except per share amounts)</i>	2016	2015	2014
Revenues	\$ 2,579	\$ 3,112	\$ 3,869
Operating profits	91	57	227
Net earnings (loss)	63	(88)	124
Basic earnings (loss) per share	1.02	(1.42)	2.01

Results of our U.S. operations for the year ended December 31, 2016 were converted at \$1.3256 per US\$1 compared to \$1.2788 per US\$1 for the year ended December 31, 2015. The decline of the average 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 approximately 31% of our total revenues. The exchange rate used to translate the balance sheet at December 31, 2016 was \$1.3427 per US\$1 versus \$1.3840 per US\$1 at December 31, 2015.

## **METALS SERVICE CENTERS**

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

We provide processing and distribution services to a broad base of approximately 43,000 end users through a network of 50 Canadian locations and 14 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 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. During the first half of 2016, steel prices rose but due to an absence of demand to support the mill increases, they declined in the third quarter of 2016. Partly due to increased dumping duties reducing imports as a result of affirmative trade actions, steel price increases were announced during the 2016 fourth quarter that resulted in higher steel prices at year end and into the first quarter of 2017. Steel prices declined for most of 2015 resulting in steel prices at lower levels than the industry had seen since the early 2000's.

Supply side management, practiced by steel producers in North America, and international supply and demand, which impact steel imports, affect product availability. Trade sanctions are initiated either by steel mills or by government agencies in North America. During 2016, the U.S. Department of Commerce issued an affirmative ruling on trade cases of various products including cold rolled coil, coated coils, hollow structural sections, hot rolled coil and cut-to-length plate from various countries. On January 18, 2017, the U.S. Department of Commerce announced its affirmative final determination on cut-to-length plate from China. All of these rulings were positive for U.S. steel mills and steel prices.

In the second half of 2016 an investigation was initiated on Vietnamese cold rolled and coated steel products which were converted from hot rolled steel produced in China. The U.S. producers claimed that the process of cold rolling does not represent a substantial transformation required in order to change the country of origin. A favourable ruling would provide further support to steel prices.

Our operating results are affected by the inherent risk of the cyclicity of the metals industry and the industries that purchase our products. Demand for our product 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 revenues, have operations in most regions of Canada and are affected by general regional economic conditions. Our large market share and diverse customer base of approximately 26,000 Canadian customers mean that our results tend to mirror the performance of the regional economies of Canada. Our U.S. operations, which have approximately 17,000 customers, are 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 -- 2016 compared to 2015***

Revenues for 2016 decreased 7% to \$1.4 billion compared to 2015 revenues of \$1.5 billion. Tons shipped in the metals service centers segment in 2016 were approximately 2% lower than 2015. We experienced volume increases in 2016 in our British Columbia and Quebec regions. Shipments decreased in Alberta due to the continued decreased activity related to energy industry customers. Our U.S. operations and our other Canadian regions had shipments slightly lower than 2015. The average selling price of metal for 2016 was approximately 4% lower than the average selling price for 2015. Average selling prices improved during the second half of 2016 but still remained below the 2015 average price.

Gross margin as a percentage of revenues was 21.6% which was higher than 2015 gross margins of 19.1%. The increased gross margin percentage resulted from our continued growth in value-added processing.

Our average revenue per invoice for 2016 was approximately \$1,497 compared to \$1,714 for 2015, reflecting smaller order size caused by the slowing economy. We handled approximately 3,670 transactions per day in 2016 compared to 3,460 per day in 2015, an increase of 6%.

Operating expenses for 2016 decreased \$1 million from 2015, mainly related to lower manpower levels, salary reductions and work share arrangements due to weaker demand in Western Canada. Adjusting for the translation of our U.S. operations to Canadian dollars, the decrease was \$2 million compared to 2015. We reduced our workforce by approximately 1% in 2016 and 8% in 2015.

Metals service centers operating profits for 2016 were \$58 million compared to \$42 million for 2015; this increase mainly related to improved gross margins.

## **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 49 Canadian and 19 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 2016 and 2015 is found in the section that follows.

The price of oil and natural gas can impact rig counts and drilling activities, which affects demand for our products. Oil and gas prices which had declined since 2014, stabilized in 2016. This severe drop and continued low level of the price of oil caused a reduction in capital spending projects and rig activity of our energy product customers during 2015 and 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 2015 and 2016 on pipe from a number of other countries. Due to the overstocked inventory position of the industry and low demand, prices remained under pressure for most of 2016 despite the trade sanctions put in place. During the fourth quarter of 2016 and into early 2017, price increases have been announced. 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.

### **c) Energy products segment results -- 2016 compared to 2015**

Revenues in our energy products segment decreased 28% to \$0.9 billion for 2016, compared to \$1.2 billion for 2015 due to lower activity at all operations in the segment. Revenues from our Canadian operations servicing oil and gas drilling decreased 37% compared to 2015.

Gross margin as a percentage of revenue was 15.5% for 2016 compared to 14.5% in 2015. All of our energy products operations experienced pricing and margin pressure due to lower demand and excess inventories in the industry. We recorded inventory write-downs of \$12 million in 2016 compared to \$37 million in 2015. The 2016 write-downs related primarily to obsolescence concerns on older inventory in line pipe and OCTG. The 2015 write-downs primarily related to net realizable value issues due to the slowdown in the energy sector.

Operating expenses were \$118 million or 27% lower for 2016 compared to 2015 due to cost containment measures such as reduced manpower, variable compensation programs and other cost reductions consistent with the activity in the segment. During the year we reduced our workforce by approximately 12% in addition to the 17% reduction in 2015.

This segment generated lower operating profits of \$19 million for 2016 compared to \$33 million for 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 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, coil and pipe from specified countries. Additional duties have been levied by the U.S. government in 2016. Steel imports are affected both by mill capacity by product line in North America, as well as international supply and demand. These factors 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 -- 2016 compared to 2015***

Steel distributors revenues decreased 24% to \$305 million for 2016 compared to \$398 million in 2015 mainly due to lower demand.

Gross margin as a percentage of revenues was 18.5% for 2016 compared to 5.1% for 2015. In 2015 declining steel prices resulted in lower margins than historical norms leading to inventory write-downs of \$22 million. In 2016, rising prices resulted in a higher gross margin percentage and a reversal of \$2 million in previous inventory provisions.

Operating expenses for 2016 were \$28 million compared to \$24 million in 2015 mainly due to higher variable compensation and the translation of our U.S. operations due to the stronger U.S. dollar.

Steel distributors operating income was \$29 million compared to an operating loss of \$4 million in 2015 as a result of stronger gross margins.

### ***CORPORATE EXPENSES -- 2016 COMPARED TO 2015***

Corporate expenses were \$19 million in 2016 compared to \$13 million in 2015 due to higher share-based compensation as a result of the increase in share price. During 2016 the share price increased to \$25.58 from \$16.07 at December 31, 2015 which resulted in an expense of \$4 million in 2016 compared to income of \$3 million in 2015 due to the mark to market on certain share-based compensation.

### ***CONSOLIDATED RESULTS -- 2016 COMPARED TO 2015***

Operating profits were \$91 million in 2016 compared to \$57 million in 2015.

### ***GAIN ON SALE OF PROPERTIES***

In December 2016 we closed the sale of the Blytheville, Arkansas property. We entered into a 20 year lease for approximately one third of the square footage to house our JMS Russel Metals coil processing operation. In addition, we sold excess land in Quebec, entered into a sale and leaseback transaction for the Comco Pipe branch in Ontario and closed and sold our branch in Campbell River, British Columbia. These transactions resulted in a pre-tax gain of \$28 million or \$0.27 per share.

### ***ASSET IMPAIRMENT***

During 2015, we recorded asset impairment charges of \$2 million for fixed assets, \$19 million for intangibles and \$103 million for goodwill.

The drop in the price of oil throughout 2015 resulted in lower activity levels at both Apex Distribution and Apex Monarch which were acquired in 2012 and 2013, respectively. Both of these operations remain profitable; however, based on forecasts of expected future cash flows we recorded a write-down of \$90 million of goodwill and \$17 million of intangible assets related to these energy product segment acquisitions.

The metals service centers segment recorded asset impairment charges of \$2 million for fixed assets, \$2 million for intangibles and \$13 million for goodwill related to lower demand and reduced steel prices.

### ***INTEREST EXPENSE AND INCOME***

Net interest expense was \$22 million for 2016 compared to \$41 million for 2015. Interest expense for 2015 included a non-cash charge of \$5 million on the redemption of our convertible debentures on November 4, 2015. The redemption of the convertible debentures resulted in lower debt levels and lower corresponding interest expense in 2016.

### ***OTHER FINANCE EXPENSE AND INCOME***

We recorded finance income of \$27 million in 2015 related to the lower fair value of the contingent consideration associated with the Apex Distribution and Apex Monarch acquisitions. The forecasted future earnings of these two operations are not expected to result in a payment under the applicable earnouts, which expire in 2017 and 2018 respectively.



## INCOME TAXES

We recorded a provision for income taxes of \$35 million in 2016 compared to a tax recovery of \$12 million for 2015. Our effective income tax rate for 2016 was 35.5% compared to 12.4% for 2015. The effective tax rate for 2016 was higher due to higher U.S. corporate tax rates on the property sale in Arkansas and the non-recoverable withholding tax of US\$2 million on the repatriation of US\$40 million to Canada. The 2015 rate was impacted by non-taxable items such as goodwill impairment and contingent consideration.

## NET EARNINGS

Net earnings for 2016 was \$63 million compared to a net loss of \$88 million in 2015. Basic earnings per share for 2016 was \$1.02 per share compared to basic loss per share of \$1.42 per share in 2015.

## SHARES OUTSTANDING AND DIVIDENDS

The weighted average number of common shares outstanding for 2016 was 61,704,990 compared to 61,696,592 for 2015. The weighted average number of common shares outstanding increased as a result of the exercise of options. Common shares outstanding at December 31, 2016 and February 16, 2017 were 61,735,485.

We paid common share dividends of \$94 million or \$1.52 per share in 2016 and 2015.

We have \$300 million 6.0% 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 \$217 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 which, at the current dividend rate, utilizes approximately \$7 million per annum of the restricted payment basket.

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, if our excess borrowing base were to be below four times our dividend, we believe we would be able to obtain a waiver or 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 adjusted EBITDA:

<i>(millions)</i>	2016	2015
Net earnings (loss)	\$ 62.8	\$ (87.6)
Provision for (recovery of) income taxes	34.5	(12.4)
Interest and finance expense, net	21.7	13.9
Gain on sale of properties	(27.7)	-
Asset impairment charges and other	-	143.5
Adjusted earnings before interest, finance and income taxes (adjusted EBIT)	91.3	57.4
Depreciation and amortization	35.1	35.1
Adjusted earnings before interest, finance, income taxes, depreciation and amortization (adjusted EBITDA)	\$ 126.4	\$ 92.5

We believe that adjusted 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 adjusted EBITDA are significant in assessing our operating results and liquidity. Adjusted 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 \$17 million in 2016 compared to \$38 million in 2015. Depreciation expense was \$29 million in 2016 and \$28 million in 2015.

## LIQUIDITY

At December 31, 2016, we had net cash, defined as cash less bank indebtedness, of \$147 million compared to \$49 million at December 31, 2015.

We generated cash of \$94 million from operations during 2016 equal to our dividend payments. In addition, we generated cash of \$81 million from working capital reductions. We utilized cash of \$17 million for capital expenditures. Due to our revenue decline we determined that our existing capital infrastructure was adequate to meet the current needs of our customers resulting in lower capital expenditures in 2016. We expect future capital expenditures to approximate depreciation.

Due to our cyclical business, we experience significant swings in working capital which impact cash flow. 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 current economic climate and our strong collections experience might be negatively impacted should the economic conditions not improve, leading to increased bad debt expense. The cyclical nature of our business leads to significant price fluctuations that may result in inventory provisions.

Total assets were \$1.5 billion at December 31, 2016 compared to \$1.6 billion at December 31, 2015. At December 31, 2016 current assets excluding cash represented 75% of our total assets excluding cash versus 74% at December 31, 2015.

Inventory reductions generated cash of \$93 million in 2016. Inventories were reduced in our energy products and steel distributor segments during 2016. Inventories represented 41% of our total assets at December 31, 2016 compared to 44% at December 31, 2015.

<i>Inventory by Segment (millions)</i>	<b>Dec. 31 2016</b>	Sept. 30 2016	June 30 2016	Mar. 31 2016	Dec. 31 2015
Metals service centers	<b>\$ 252</b>	\$ 249	\$ 260	\$ 235	\$ 225
Energy products	<b>288</b>	302	340	353	398
Steel distributors	<b>76</b>	84	81	90	89
<b>Total</b>	<b>\$ 616</b>	\$ 635	\$ 681	\$ 678	\$ 712

  

<i>Inventory Turns (quarters ended)</i>	<b>Dec. 31 2016</b>	Sept. 30 2016	June 30 2016	Mar. 31 2016	Dec. 31 2015
Metals service centers	<b>4.2</b>	4.4	4.3	4.6	4.7
Energy products	<b>2.9</b>	2.4	1.7	2.3	2.6
Steel distributors	<b>3.5</b>	2.8	3.3	2.5	3.8
<b>Total</b>	<b>3.5</b>	3.2	2.9	3.2	3.4

At December 31, 2016, our metals service centers had higher inventory tons compared to 2015 at average prices similar to December 31, 2015. The expectation of future price increases resulted in slightly higher purchasing levels in the fourth quarter of 2016.

During 2016 our energy products operations continued to reduce inventory levels further to correspond to lower activity levels at our energy customers. During 2016 we recorded inventory write-downs of \$12 million primarily due to obsolescence concerns. We will continue to monitor our inventory levels based on energy customers' activity levels.

Lower demand at our steel distributors segment, along with import tariffs caused the operations in this segment to further reduce inventory levels and purchases in 2016.

Accounts receivable utilized cash of \$26 million in 2016 due to higher revenues in energy products and steel distributors operations in December 2016. Accounts receivable represented 27% of our total assets excluding cash at December 31, 2016 compared to 23% at December 31, 2015.

During 2016, we made income tax payments less recoveries of \$3 million compared to \$35 million for 2015. At December 31, 2015, we had a current income tax receivable of \$24 million due to installment overpayments and income taxes on losses which were recovered in 2016 on filing of the 2015 tax returns.

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

(millions)

	2016	2015
Cash from operating activities before non-cash working capital	\$ 94.1	\$ 38.9
Purchase of property, plant and equipment	(16.7)	(38.3)
	<b>\$ 77.4</b>	<b>\$ 0.6</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.

## DEBT

As at December 31 (millions)

	2016	2015
Long-term debt		
6.0% \$300 million Unsecured Senior Notes due April 19, 2022	\$ 296	\$ 295
Finance leases obligations, maturing 2016 to 2017	-	1
	<b>296</b>	<b>296</b>
Current portion	-	(1)
	<b>\$ 296</b>	<b>\$ 295</b>

On November 4, 2015, we redeemed our Convertible Debentures at par of \$174 million plus accrued interest.

## CASH AND BANK CREDIT FACILITY

As at December 31, 2016 (millions)

	Credit Facility
Bank loans	\$ (43)
Cash net of outstanding cheques	190
Net cash	147
Letters of credit	(39)
	<b>\$ 108</b>
Facility	
Borrowings and letters of credit	\$ 350
Letters of credit	50
Facility availability	<b>\$ 400</b>
Available line based on borrowing base	<b>\$ 400</b>

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 December 31, 2016, we were entitled to borrow and issue letters of credit totaling \$400 million under this facility. At December 31, 2016, we had \$43 million in borrowings and \$39 million of letters of credit outstanding. At December 31, 2015 we had \$94 million in borrowings and letters of credit of \$29 million.

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

With our cash, cash equivalents and our bank facility we have access to approximately \$497 million of cash based on our December 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 December 31, 2016, we were contractually obligated to make payments as per the following table:

<i>Contractual Obligations</i> <i>(millions)</i>	Payments due in				Total
	2017	2018 and 2019	2020 and 2021	2022 and thereafter	
Accounts payable	\$ 314	\$ -	\$ -	\$ -	\$ 314
Debt	-	-	-	300	300
Long-term debt interest	18	36	36	10	100
Operating leases	23	35	22	23	103
<b>Total</b>	<b>\$ 355</b>	<b>\$ 71</b>	<b>\$ 58</b>	<b>\$ 333</b>	<b>\$ 817</b>

As part of the purchase consideration for Apex Distribution and Apex Monarch we agreed to pay additional cash consideration during the five years ending 2017 and 2018, respectively, based on earnings before interest and taxes and return on net assets. Based on our assumptions of the expected future activity levels in the areas served by these operations we determined the fair value of future obligations to be 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 14 of our 2016 consolidated financial statements. During 2016, we contributed \$14 million to these plans including an additional \$8 million funding requirement due to the merger of certain of our pension plans. We expect to contribute approximately \$5 million to these plans during 2017. 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.

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 facility 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 valuation, 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 December 31, 2016 of approximately \$5 million is approximately \$1 million lower than our reserve at December 31, 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 reserves of approximately \$40 million at December 31, 2016 were approximately \$28 million lower than the level at December 31, 2015 as inventory provisions have decreased as inventory levels were reduced.

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 the 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 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.

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 alleged that the product was defective and that the manufacturer did not meet the specifications for the goods. Although primary responsibility of the alleged defective product lies with the manufacturer we have been included in the claim. We are in the process of finalizing our settlement documentation on this claim. We believe that our \$20 million provision recorded in 2015 should be adequate to satisfy the obligation.

#### *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 \$129 million in plan assets at December 31, 2016, which is \$18 million higher than December 31, 2015. The discount rate used on the employee benefit plan obligation for December 31, 2016 was 3.75%, which is 0.25% lower than the discount rate at December 31, 2015.

## **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. An evaluation of the design and operating effectiveness of the disclosure controls and internal controls over financial reporting was conducted as at December 31, 2016. 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 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 through a cycle and we 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 2014, 2015 and 2016 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, 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. Our acquisitions between 2012 and 2015 of oil field store operations increased our exposure to the oil and gas industry; however, they have provided a more stable stream of earnings for the energy products segment. The price of oil dropped significantly during 2015 and remained at low levels in 2016 resulting in lower revenues in this segment. 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.

## FOURTH QUARTER RESULTS

The following table provides operating profit before interest, taxes and other income or expense in a format consistent with our annual results.

<i>(millions, except percentages)</i>	Quarters Ended December 31		2016 change as a % of 2015
	2016	2015	
<b>Segment Revenues</b>			
Metals service centers	\$ 329.5	\$ 326.3	1%
Energy products	241.7	274.1	(12%)
Steel distributors	79.3	71.5	11%
Other	3.1	1.1	
	<b>\$ 653.6</b>	<b>\$ 673.0</b>	<b>(3%)</b>
<b>Segment Operating Profits</b>			
Metals service centers	\$ 7.2	\$ 4.2	
Energy products	5.3	(14.5)	
Steel distributors	7.6	(17.9)	
Corporate expenses	(4.6)	-	
Other	1.6	(1.1)	
Operating profits	<b>\$ 17.1</b>	<b>\$ (29.3)</b>	
<b>Inventory Write-down, net</b>			
Metals service centers	\$ 0.4	\$ 0.5	
Energy products	4.7	27.0	
Steel distributors	0.5	19.3	
	<b>\$ 5.6</b>	<b>\$ 46.8</b>	
<b>Segment Gross Margin as a % of Revenues</b>			
Metals service centers	20.6%	18.8%	
Energy products	13.8%	6.7%	
Steel distributors	16.1%	(17.8%)	
Total operations	<b>17.9%</b>	<b>10.1%</b>	
<b>Segment Operating Profit as a % of Revenues</b>			
Metals service centers	2.2%	1.3%	
Energy products	2.2%	(5.3%)	
Steel distributors	9.6%	(25.0%)	
Total operations	<b>2.6%</b>	<b>(4.4%)</b>	

Revenues in the fourth quarter were down 3% from the same quarter in 2015. Operating income was \$17 million including inventory write-downs of \$6 million.

Tons shipped in the fourth quarter of 2016 for metals service centers were consistent with the fourth quarter of 2015 and selling prices were 1% higher than the fourth quarter of 2015. Gross margin as a percentage of revenues increased from 18.8% for the fourth quarter of 2015 to 20.6% for the fourth quarter of 2016 due to more stable steel prices in 2016 and continued growth in value-added processing.

The operating results of our energy products segment of \$5 million for the fourth quarter of 2016 were stronger compared to a loss of \$15 million in the same quarter last year. In the 2016 fourth quarter we recorded inventory provisions relating to obsolescence concerns on older inventory of \$5 million compared to net realizable value reserves of \$27 million in the fourth quarter of 2015.

Steel distributors operating results were positively affected by more stable steel prices in 2016. This segment reported operating income of \$8 million in the quarter compared to a loss of \$18 million in the same quarter last year due to higher gross margin percentage on higher revenues in 2016 and inventory write-downs of \$19 million in 2015.



During the 2016 fourth quarter we sold certain properties including our Arkansas property and completed the closure and sale of our Campbell River, British Columbia property for a pre-tax gain of \$28 million.

During the 2015 fourth quarter we recorded asset impairment charges of \$124 million and a charge of \$20 million for a product warranty claim. Also during the fourth quarter of 2015 we recorded finance income of \$21 million related to a reduction of our contingent consideration obligation.

Earnings per share for the fourth quarter of 2016 was \$0.37 compared to a loss per share of \$2.19 for the fourth quarter of 2015.

## **OUTLOOK**

The conditions experienced at the end of 2016 should positively impact the first quarter of 2017. Consequently we expect net income in the first quarter of 2017 to be higher than the 2016 first quarter. Metals service centers should benefit from rising steel prices, while we expect our energy segment to experience higher year over year demand during the quarter based on increased rig counts.

# INDEPENDENT AUDITOR'S REPORT

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To the Shareholders of Russel Metals Inc.

We have audited the accompanying consolidated financial statements of Russel Metals Inc., which comprise the consolidated statements of financial position as at December 31, 2016 and December 31, 2015, and the consolidated statements of earnings (loss), consolidated statements of comprehensive income (loss), consolidated statements of cash flow and consolidated statements of changes in equity for the years then ended, and a summary of significant accounting policies and other explanatory information.

## Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

## Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

## Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Russel Metals Inc. as at December 31, 2016 and December 31, 2015, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.



Deloitte LLP  
Chartered Professional Accountants  
Licensed Public Accountants

February 16, 2017  
Toronto, Ontario

## CONSOLIDATED STATEMENTS OF EARNINGS (LOSS)

<i>For the years ended December 31</i>		
<i>(in millions of Canadian dollars, except per share data)</i>		
	2016	2015
<b>Revenues</b>	<b>\$ 2,578.6</b>	\$ 3,111.6
Cost of materials (Note 7)	<b>2,076.9</b>	2,624.6
Employee expenses (Note 18)	<b>250.5</b>	254.8
Other operating expenses (Note 18)	<b>159.9</b>	174.8
Impairment of goodwill and long-lived assets (Note 8 & 10)	-	123.5
Gain on sale of properties (Note 8)	<b>(27.7)</b>	-
Product warranty provision (Note 25)	-	20.0
<b>Earnings (loss) before interest, finance expense and provision for income taxes</b>	<b>119.0</b>	(86.1)
Interest expense (Note 19)	<b>21.7</b>	40.6
Other finance income (Note 19)	-	(26.7)
<b>Earnings (loss) before provision for income taxes</b>	<b>97.3</b>	(100.0)
Provision for (recovery of) income taxes (Note 20)	<b>34.5</b>	(12.4)
<b>Net earnings (loss) for the year</b>	<b>\$ 62.8</b>	\$ (87.6)
<b>Basic earnings (loss) per common share (Note 17)</b>	<b>\$ 1.02</b>	\$ (1.42)
<b>Diluted earnings (loss) per common share (Note 17)</b>	<b>\$ 1.01</b>	\$ (1.42)

## CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

<i>For the years ended December 31</i>		
<i>(in millions of Canadian dollars)</i>		
	2016	2015
<b>Net earnings (loss) for the year</b>	<b>\$ 62.8</b>	\$ (87.6)
Other comprehensive income		
<b>Items that may be reclassified to earnings</b>		
Unrealized foreign exchange (losses) gains on translation of foreign operations	<b>(14.8)</b>	82.8
<b>Items that may not be reclassified to earnings</b>		
Actuarial gains on pension and similar obligations, net of taxes of \$0.3 million (2015: \$0.3 million)	<b>0.8</b>	0.9
Other comprehensive income (loss)	<b>(14.0)</b>	83.7
<b>Total comprehensive income (loss)</b>	<b>\$ 48.8</b>	\$ (3.9)

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

## CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

<i>As at December 31</i> <i>(in millions of Canadian dollars)</i>	2016	2015
<b>ASSETS</b>		
<b>Current</b>		
Cash and cash equivalents (Note 5)	\$ 181.8	\$ 143.4
Accounts receivable (Note 6)	359.4	333.5
Inventories (Note 7)	615.8	712.5
Prepaid expenses	8.5	10.7
Income taxes	6.6	24.2
	<b>1,172.1</b>	<b>1,224.3</b>
<b>Property, Plant and Equipment (Note 8)</b>	<b>239.7</b>	<b>267.8</b>
<b>Deferred Income Tax Assets (Note 20)</b>	<b>5.9</b>	<b>15.8</b>
<b>Financial and Other Assets (Note 9)</b>	<b>5.1</b>	<b>7.1</b>
<b>Goodwill and Intangibles (Note 10)</b>	<b>85.7</b>	<b>92.0</b>
	<b>\$ 1,508.5</b>	<b>\$ 1,607.0</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
<b>Current</b>		
Bank indebtedness (Note 11)	\$ 34.9	\$ 94.2
Accounts payable and accrued liabilities (Note 12)	313.5	303.1
Income taxes payable	5.3	0.4
Current portion long-term debt (Note 13)	0.1	0.5
	<b>353.8</b>	<b>398.2</b>
<b>Long-Term Debt (Note 13)</b>	<b>295.8</b>	<b>295.2</b>
<b>Pensions and Benefits (Note 14)</b>	<b>11.0</b>	<b>21.7</b>
<b>Deferred Income Tax Liabilities (Note 20)</b>	<b>14.5</b>	<b>14.2</b>
<b>Provisions and Other Non-Current Liabilities (Note 21)</b>	<b>8.1</b>	<b>8.8</b>
	<b>683.2</b>	<b>738.1</b>
<b>Shareholders' Equity (Note 15)</b>		
Common shares	532.4	531.7
Retained earnings	161.9	192.1
Contributed surplus	15.9	15.2
Accumulated other comprehensive income	115.1	129.9
<b>Total Shareholders' Equity</b>	<b>825.3</b>	<b>868.9</b>
<b>Total Liabilities and Shareholders' Equity</b>	<b>\$ 1,508.5</b>	<b>\$ 1,607.0</b>

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

ON BEHALF OF THE BOARD,

  
**A. Laberge**  
 Director

  
**J. A. Hanna**  
 Director

## CONSOLIDATED STATEMENTS OF CASH FLOW

For the years ended December 31  
(in millions of Canadian dollars)

	2016	2015
Operating activities		
Net earnings (loss) for the year	\$ 62.8	\$ (87.6)
Depreciation and amortization	35.1	35.1
Provision for (recovery of) income taxes	34.5	(12.4)
Interest expense	21.7	40.6
Gain on sale of property, plant and equipment	(29.2)	(1.9)
Share-based compensation	0.9	1.2
Difference between pension expense and amount funded	(9.7)	(3.9)
Impairment of goodwill and long-lived assets	-	123.5
Debt accretion, amortization and other	0.7	9.5
Interest paid	(22.7)	(38.5)
Change in fair value of contingent consideration	-	(26.7)
Cash from operating activities before non-cash working capital	94.1	38.9
Changes in non-cash working capital items		
Accounts receivable	(26.1)	258.1
Inventories	92.5	276.3
Accounts payable and accrued liabilities	12.2	(172.6)
Other	2.2	0.8
Change in non-cash working capital	80.8	362.6
Income tax paid, net	(2.9)	(35.3)
<b>Cash from operating activities</b>	<b>172.0</b>	<b>366.2</b>
Financing activities		
Increase (decrease) in bank indebtedness	(59.3)	70.0
Issue of common shares	0.6	0.5
Dividends on common shares	(93.8)	(93.8)
Issuance of long-term debt	0.2	-
Repayment of long-term debt	(0.7)	(174.9)
Deferred financing	-	(1.0)
<b>Cash used in financing activities</b>	<b>(153.0)</b>	<b>(199.2)</b>
Investing activities		
Purchase of property, plant and equipment	(16.7)	(38.3)
Proceeds on sale of property, plant and equipment	45.8	3.3
Purchase of business	(4.7)	(27.3)
Proceeds from sale of investment	1.8	-
Payment of contingent consideration	(0.1)	(17.5)
<b>Cash from (used in) investing activities</b>	<b>26.1</b>	<b>(79.8)</b>
<b>Effect of exchange rates on cash and cash equivalents</b>	<b>(6.7)</b>	<b>2.8</b>
<b>Increase in cash and cash equivalents</b>	<b>38.4</b>	<b>90.0</b>
Cash and cash equivalents, beginning of the year	143.4	53.4
<b>Cash and cash equivalents, end of the year</b>	<b>\$ 181.8</b>	<b>\$ 143.4</b>

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

## CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

<i>(in millions of Canadian dollars)</i>	Common Shares	Retained Earnings	Contributed Surplus	Accumulated Other Comprehensive Income	Total
<b>Balance, January 1, 2016</b>	\$ 531.7	\$ 192.1	\$ 15.2	\$ 129.9	\$ 868.9
Payment of dividends	-	(93.8)	-	-	(93.8)
Net income for the year	-	62.8	-	-	62.8
Other comprehensive income for the year	-	-	-	(14.0)	(14.0)
Recognition of share-based compensation	-	-	0.9	-	0.9
Share options exercised	0.7	-	(0.2)	-	0.5
Transfer of net actuarial gains on defined benefit plans	-	0.8	-	(0.8)	-
<b>Balance, December 31, 2016</b>	<b>\$ 532.4</b>	<b>\$ 161.9</b>	<b>\$ 15.9</b>	<b>\$ 115.1</b>	<b>\$ 825.3</b>

<i>(in millions of Canadian dollars)</i>	Common Shares	Retained Earnings	Contributed Surplus	Accumulated Other Comprehensive Income	Equity Component of Convertible Debentures	Total
<b>Balance, January 1, 2015</b>	\$ 531.2	\$ 344.0	\$ 14.1	\$ 47.1	\$ 28.6	\$ 965.0
Payment of dividends	-	(93.8)	-	-	-	(93.8)
Net loss for the year	-	(87.6)	-	-	-	(87.6)
Other comprehensive income for the year	-	-	-	83.7	-	83.7
Recognition of share-based compensation	-	-	1.2	-	-	1.2
Share options exercised	0.5	-	(0.1)	-	-	0.4
Redemption of debentures	-	28.6	-	-	(28.6)	-
Transfer of net actuarial gains on defined benefit plans	-	0.9	-	(0.9)	-	-
<b>Balance, December 31, 2015</b>	<b>\$ 531.7</b>	<b>\$ 192.1</b>	<b>\$ 15.2</b>	<b>\$ 129.9</b>	<b>\$ -</b>	<b>\$ 868.9</b>

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

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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### NOTE 1 GENERAL BUSINESS DESCRIPTION

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

The Company primarily distributes steel and other metal products in three principal business segments:

#### *Metals Service Centers*

The Company's network of metals service centers carries a broad line of metal products in a wide range of sizes, shapes and specifications. The Company purchases these products primarily from North American steel producers and packages and sells them to end users in accordance with their specific needs.

#### *Energy Products*

These operations carry a specialized product line focused on the needs of its energy industry customers. The Company purchases these products primarily from the pipe divisions of North American steel mills or from independent manufacturers.

#### *Steel Distribution*

The Company's steel distributors act as master distributors, selling steel in large volumes to other metals service centers and large equipment manufacturers. This segment sources its steel both domestically and off shore.

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

### NOTE 2 BASIS OF PRESENTATION

These consolidated financial statements, including comparatives, have been prepared in accordance with International Financial Reporting Standards ("IFRS").

These 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 consolidated statement of earnings (loss). Historical cost is generally based on the fair value of the consideration given in exchange for assets at the time of the transaction.

The preparation of financial statements in accordance with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise judgment in applying the Company's accounting policies.

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

These consolidated financial statements were authorized for issue by the Board of Directors on February 16, 2017.

#### ACCOUNTING POLICIES

##### *a) Basis of consolidation*

The consolidated financial statements include the accounts of Russel Metals Inc. and its subsidiaries. Subsidiaries are entities controlled by the Company. Control is achieved when the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. The financial statements of subsidiaries are included in the consolidated financial statements from the date the control commences until the date the control ceases. Accounting policies for all subsidiaries are consistent with those of the parent and all intercompany transactions, balances, income and expenses are eliminated on consolidation.

To facilitate a better understanding of the Company's consolidated financial statements, significant accounting policies, estimates and judgements are disclosed with the related financial note disclosure.

*b) Impairment of long lived non-financial assets*

Non-financial tangible and definite life intangible assets are reviewed for an indication of impairment at each statement of financial position date. If an indication of impairment exists, the asset's recoverable amount is estimated.

An impairment loss is recognized when the carrying amount of an asset or cash generating unit ("CGU") exceeds its recoverable amount. Impairment losses are recognized in net earnings for the period. Impairment losses recognized relating to CGUs are allocated first to reduce the carrying amount of any goodwill allocated to the CGU and then to reduce the carrying amount of the other assets in the CGU on a pro-rata basis.

The recoverable amount is the greater of the asset's fair value less costs to sell and its value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the CGU to which the asset belongs.

An impairment loss is reversed if there is an indication that there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized. An impairment loss with respect to goodwill is never reversed.

*c) Revenue recognition*

Revenue is measured at the fair value of the consideration received or receivable, net of discounts, and after eliminating intercompany sales. Freight and shipping costs billed to customers are also included in revenue.

Revenue from the sale of goods is recognized when the Company has transferred to the buyer the significant risks and rewards of ownership of the goods, no longer retains control over the goods sold, the amount of revenue can be measured reliably, it is probable that the economic benefits associated with the transaction will flow to the Company, and the costs incurred or to be incurred in respect of the transaction can be measured reliably.

*d) Foreign currency*

The accounts of foreign subsidiaries whose functional currency is the U.S. dollar are translated from U.S. dollars to Canadian dollars at the noon spot rate in effect at the statement of financial position date, which was \$1.3427 per US\$1 at December 31, 2016 (December 31, 2015: 1.3840 per US\$1). Monetary items receivable or payable to a foreign subsidiary for which settlement is neither planned nor likely to occur form part of the net investment in the foreign subsidiary. Revenues and expenses are translated at the average rate of exchange during the year. For the year ended December 31, 2016, the average U.S. dollar Bank of Canada noon exchange rate was \$1.3256 per US\$1 (2015: \$1.2788 per US\$1). The resulting gains or losses from the translation of the foreign subsidiaries and those items forming part of the net investment are included in other comprehensive income.

Goodwill, intangibles and fair value adjustments arising on the acquisition of a foreign subsidiary are treated as assets and liabilities of the foreign subsidiary and translated at the rate in effect at the statement of financial position date.

#### ACCOUNTING ESTIMATES AND JUDGEMENTS

The preparation of financial statements requires management to make certain judgements and estimates about the future. Judgement is commonly used in determining whether a balance or transaction should be recognized in the consolidated financial statements and estimates and assumptions are more commonly used in determining the measurement of recognized transactions and balances. However, judgement and estimates are often interrelated. Estimates and assumptions are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.



The Company's management also makes estimates for net realizable value and obsolescence provisions relating to inventory, fair values, guarantees, long-lived asset and goodwill impairment, decommissioning obligations, contingencies and litigation. These estimates are based 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.

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

#### *IFRS 9 Financial Instruments*

In July 2014, the IASB released IFRS 9 which replaces IAS 39, Financial Instruments: Recognition and Measurement ("IAS 39"). This standard establishes principles for the financial reporting of financial assets and financial liabilities that will present relevant and useful information to users of financial statements for their assessment of the amounts, timing and uncertainty of an entity's future cash flows. The standard also includes a new general hedge accounting standard which will align hedge accounting more closely with risk management. It does not fully change the types of hedging relationships or the requirement to measure and recognize ineffectiveness; however, it will permit more hedging strategies that are used for risk management to qualify for hedge accounting and introduce more judgment to assess the effectiveness of a hedging relationship. Adoption of *IFRS 9* is mandatory and will be effective for annual periods beginning on or after January 1, 2018 with earlier adoption permitted. The Company will not be early adopting this standard. The adoption of this standard is not expected to have a significant impact on the Company's financial position or results of operations.

#### *IFRS 15 Revenue from Contracts with Customers*

In May 2014, the IASB released *IFRS 15 Revenue from Contracts with Customers*, which establishes principles for reporting the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers. *IFRS 15* is effective for annual periods beginning on or after January 1, 2018, with earlier adoption permitted. The Company will not be early adopting *IFRS 15* and has elected to adopt the standard using the modified retrospective approach. It provides a single model in order to depict the transfer of promised goods or services to customers. The core principle of *IFRS 15* is that an entity recognizes revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which an entity expects to be entitled in exchange for those goods and services. *IFRS 15* also requires more comprehensive disclosures about the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers. The Company's implementation team has made significant progress in completing its implementation plan and the Company does not expect any required changes in the information systems in order to implement the standard.

The Company does not expect that the application of *IFRS 15* will have a material effect on the financial statements as the Company does not have long-term service contracts, multiple element arrangements or any complex revenue transactions. The standard will result in increased disclosure on sources of revenues.

#### *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* 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. *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 'capitalized' 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. As lease payments are made over time, a company also recognises a financial liability representing its obligation to make future lease payments.

## NOTE 4 BUSINESS ACQUISITIONS

### ACCOUNTING POLICIES

The Company accounts for its acquisitions using the acquisition method whereby assets acquired and liabilities assumed are recorded at their estimated fair values with the surplus of the aggregate consideration relative to the fair value for the identifiable net assets recorded as goodwill.

The acquisition method of accounting is used to account for the acquisition of subsidiaries as follows:

- (i) cost of consideration is measured as the fair value of the assets given, equity instruments issued, liabilities incurred or assumed and any non-controlling interest acquired at the acquisition date;
- (ii) identifiable assets acquired and liabilities assumed are measured at fair value at the acquisition date;
- (iii) the excess of acquisition cost over the fair value of the identifiable net assets acquired is recorded as goodwill;
- (iv) if the acquisition cost is less than the fair value of the net assets acquired, the fair value of the net assets is re-assessed and any residual difference is recognized directly in net earnings;
- (v) any costs directly attributable to the business combination are expensed as incurred; and
- (vi) contingent consideration is measured at fair value at the acquisition date and changes in fair value are recognized in net earnings.

### ACCOUNTING ESTIMATES AND JUDGEMENTS

The fair value of assets acquired and liabilities assumed in a business combination is estimated based on information available at the date of acquisition and involves considerable judgement in determining the fair values assigned to property, plant, equipment and intangible assets acquired and liabilities, including contingent consideration, assumed on acquisition. The determination of these fair values involves analysis including the use of discounted cash flow analysis, estimated future margins, future growth rates and estimated future customer attrition. There is measurement uncertainty inherent in this analysis, particularly in the fair value measurement of contingent consideration, and actual results could differ from estimates.

### SUPPORTING INFORMATION

#### *2016 Acquisition*

On December 12, 2016, the Company acquired the operating assets of Jackson Pipe & Steel, a metals service center located in Texarkana, Texas. The following is a summary of the net assets acquired:

<i>(millions)</i>	
Inventories	\$ 1.9
Accounts receivable	1.4
Property, plant and equipment	3.2
Accounts payable	(1.8)
Net assets acquired	\$ 4.7
Consideration:	
Cash	\$ 4.7

This acquisition complements the Company's existing JMS Russel Metals operation in Hope, Arkansas and allows the Company to enhance its value added service in Texas, Arkansas, Oklahoma and Louisiana.

If the acquisition had taken place at the beginning of 2016, management estimated that the acquired business would have provided revenues of \$13.3 million and earnings before interest, finance expense and provision for income taxes of \$0.2 million.

### 2015 Acquisition

On May 15, 2015, the Company completed an acquisition of certain operating assets of Western Fibreglass Pipe Sales Ltd., a distributor of fibreglass pipe within the oil and gas industry with locations in Estevan, Saskatchewan and Red Deer, Alberta. The following is a summary of the net assets acquired:

<i>(millions)</i>	
Inventories	\$ 18.5
Accounts receivable	5.6
Other	(0.2)
Property, plant and equipment	0.5
Deferred income tax liability	(0.3)
Intangibles	3.2
Net identifiable assets acquired	\$ 27.3
Consideration:	
Cash	\$ 27.3

This acquisition complements the Company's Apex Distribution operation within the energy products segment and added fibreglass pipe and fittings product lines, design capabilities and technical services to the Apex Distribution product lines.

The consolidated statement of earnings for the year ended December 31, 2015, includes incremental revenues of \$11.0 million and earnings before interest, finance expense and provision for income taxes of \$0.8 million attributable to the business acquired.

If the acquisition had taken place at the beginning of 2015, management estimated that the acquired business would have provided revenues of \$21.1 million and earnings before interest, finance expense and provision for income taxes of \$3.2 million.

## NOTE 5 CASH AND CASH EQUIVALENTS

### ACCOUNTING POLICIES

Cash includes demand deposits and cash equivalents include bank term deposits and short-term investments with a maturity of less than three months at time of purchase. The financial instrument designation for cash and cash equivalents is loans and receivables.

### SUPPORTING INFORMATION

<i>(millions)</i>	<b>2016</b>	2015
Cash on deposit	\$ 20.2	\$ 18.7
Cash equivalents	161.6	124.7
	\$ 181.8	\$ 143.4

## NOTE 6 ACCOUNTS RECEIVABLE

### ACCOUNTING POLICIES

Trade receivables are amounts due from customers from the sale of goods or rendering of services in the ordinary course of business. Trade receivables are classified as current assets if payment is due within one year or less. The financial instrument designation for trade receivables is loans and receivables. Trade receivables are measured at amortized cost, which approximates fair value.

The Company maintains an allowance for doubtful accounts to provide for the impairment of trade receivables. The expense relating to doubtful accounts is included within "Other operating expenses" in the consolidated statements of earnings (loss).

In order to minimize the risk of uncollectability of trade receivables, the Company performs regular credit reviews for all customers with significant credit limits. Trade receivables are analyzed on a case by case basis taking into account a customer's past credit history as well as its current ability to pay and uncollectible amounts are recorded as an allowance for doubtful accounts.

#### ACCOUNTING ESTIMATES AND JUDGEMENTS

The Company assesses the collectability of accounts receivable. An allowance for doubtful accounts is estimated based on customer creditworthiness, current economic trends and past experience.

#### SUPPORTING INFORMATION

<i>(millions)</i>	<b>2016</b>	2015
Trade receivables	<b>\$ 352.0</b>	\$ 325.9
Other receivables	<b>7.4</b>	7.6
	<b>\$ 359.4</b>	\$ 333.5

The following is the continuity of the allowance for doubtful accounts:

<i>(millions)</i>	<b>2016</b>	2015
<b>Allowance for Doubtful Accounts</b>		
Balance, beginning of the year	<b>\$ 5.9</b>	\$ 3.9
Increases to reserve	<b>1.3</b>	3.2
Amounts written off	<b>(2.9)</b>	(1.4)
Adjustments	<b>0.4</b>	0.2
<b>Balance, end of the year</b>	<b>\$ 4.7</b>	\$ 5.9

At December 31, 2016 and 2015 the allowance for doubtful accounts was less than 2.0%, of accounts receivable. An increase in the allowance of 1% of accounts receivable would decrease pre-tax earnings by approximately \$3.6 million for the year ended December 31, 2016 (2015: \$3.3 million).

<i>As at December 31, 2016 (millions)</i>	Current	Past Due 1-30 Days	Past Due 31-60 Days	Past Due Over 60 Days	Total Trade Receivables
<b>Trade Receivables</b>					
Gross trade receivables	\$ 207.7	\$ 113.3	\$ 27.3	\$ 8.4	\$ 356.7
Allowance for doubtful accounts	-	(0.1)	(0.3)	(4.3)	(4.7)
<b>Total net trade receivables</b>	<b>\$ 207.7</b>	<b>\$ 113.2</b>	<b>\$ 27.0</b>	<b>\$ 4.1</b>	<b>\$ 352.0</b>

  

<i>As at December 31, 2015 (millions)</i>	Current	Past Due 1-30 Days	Past Due 31-60 Days	Past Due Over 60 Days	Total Trade Receivables
<b>Trade Receivables</b>					
Gross trade receivables	\$ 175.4	\$ 112.7	\$ 30.0	\$ 13.7	\$ 331.8
Allowance for doubtful accounts	(0.1)	(0.3)	(0.3)	(5.2)	(5.9)
<b>Total net trade receivables</b>	<b>\$ 175.3</b>	<b>\$ 112.4</b>	<b>\$ 29.7</b>	<b>\$ 8.5</b>	<b>\$ 325.9</b>

#### NOTE 7 INVENTORIES

##### ACCOUNTING POLICIES

Inventories are recorded at the lower of cost and net realizable value. Cost is determined on an average cost basis. Net realizable value is the estimated selling price in the ordinary course of business less the estimated costs necessary to make the sale. Inventories are written down to net realizable value when the cost of inventories is estimated to be greater than the recoverable amount due to declining selling prices. When circumstances that previously caused inventories to be written down below cost no longer exist, the amount of the write-down previously recorded is reversed.

## ACCOUNTING ESTIMATES AND JUDGEMENTS

Inventories are reviewed 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 Company's determination of the net realizable value of inventory requires the use of assumptions such as future selling prices and costs to sell. There is measurement uncertainty in these estimates. Actual selling prices and costs to sell could differ from these estimates.

## SUPPORTING INFORMATION

During the year ended December 31, 2016, the Company recorded an inventory write-down to net realizable value of \$13.8 million (2015: \$61.3 million) which has been recognized as part of cost of materials. Inventories of \$2.1 billion (2015: \$2.6 billion) were expensed in cost of materials. During 2016, the Company recognized the reversals of \$2.8 million (2015: \$nil) of previous inventory write-downs to net realizable value.

## **NOTE 8      PROPERTY, PLANT AND EQUIPMENT**

### ACCOUNTING POLICIES

Property, plant, equipment and leasehold improvements are recorded at cost. Component accounting is used for both buildings and machinery and equipment. Components that make up a material portion of the original cost of the asset and have a significantly different estimated useful life than the parent asset are considered to be significant components. For buildings, roofs are the only significant component. For machinery and equipment there are various significant components depending on the asset. Depreciation starts when the asset or significant component is ready for use and is provided on a straight-line basis at rates that charge the original cost of such asset, less residual values, to operations over their estimated useful lives. Periods of depreciation are 15 to 25 years for roofs, 20 to 40 years for buildings, 3 to 10 years for machinery and equipment components, 10 to 25 years for machinery and equipment, and over the lease term for leasehold improvements. Depreciation ceases at the earlier of when the asset or component is derecognized, or when it is held for sale or included in a group that is classified as held for sale. Residual values and useful lives are reviewed at the end of each annual reporting period and whenever facts and circumstances indicate a reduction in residual value or useful life. Changes in the estimates of residual values and useful lives are reflected in earnings in the period of the change and future periods, as appropriate.

Borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset are capitalized as part of the cost of that asset. Other borrowing costs not directly attributable to a qualifying asset are expensed in the period incurred.

### ACCOUNTING ESTIMATES AND JUDGEMENTS

The Company reviews the estimated useful lives of property, plant and equipment at the end of each annual reporting period, and whenever events or circumstances indicate a change in useful life. Estimated useful lives of items of property, plant and equipment are based on a best estimate and the actual useful lives may be different.

## SUPPORTING INFORMATION

<b>Cost</b> (millions)	Land and Buildings	Machinery and Equipment	Leasehold Improvements	Total
Balance, December 31, 2014	\$ 237.6	\$ 323.6	\$ 25.9	\$ 587.1
Business acquisition (Note 4)	-	0.5	-	0.5
Additions	16.8	20.6	0.9	38.3
Disposals	(0.4)	(10.5)	(0.6)	(11.5)
Asset impairment	-	(1.6)	-	(1.6)
Foreign exchange	7.8	12.9	0.8	21.5
Balance, December 31, 2015	\$ 261.8	\$ 345.5	\$ 27.0	\$ 634.3
Business acquisition (Note 4)	2.6	0.6	-	3.2
Additions	3.1	13.3	0.3	16.7
Disposals	(26.9)	(11.4)	(0.4)	(38.7)
Foreign exchange	(1.6)	(2.5)	(0.1)	(4.2)
<b>Balance, December 31, 2016</b>	<b>\$ 239.0</b>	<b>\$ 345.5</b>	<b>\$ 26.8</b>	<b>\$ 611.3</b>

<b>Accumulated depreciation and amortization</b> (millions)	Land and Buildings	Machinery and Equipment	Leasehold Improvements	Total
Balance, December 31, 2014	\$ 96.2	\$ 220.3	\$ 20.8	\$ 337.3
Depreciation and amortization	8.3	19.1	0.7	28.1
Disposals	(0.2)	(9.5)	(0.4)	(10.1)
Foreign exchange	3.1	7.8	0.3	11.2
Balance, December 31, 2015	\$ 107.4	\$ 237.7	\$ 21.4	\$ 366.5
Depreciation and amortization	8.1	20.1	0.6	28.8
Disposals	(11.5)	(10.2)	(0.4)	(22.1)
Foreign exchange	(0.7)	(0.8)	(0.1)	(1.6)
<b>Balance, December 31, 2016</b>	<b>\$ 103.3</b>	<b>\$ 246.8</b>	<b>\$ 21.5</b>	<b>\$ 371.6</b>

### **Net Book Value** (millions)

December 31, 2015	\$ 267.8
<b>December 31, 2016</b>	<b>\$ 239.7</b>

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

Land, included in land and buildings, was \$43.2 million (2015: \$45.7 million).

Depreciation of \$8.1 million was included in cost of materials (2015: \$8.0 million) and depreciation of \$20.7 million (2015: \$20.1 million) was included in other operating expenses.

In 2016, the Company sold certain properties in Arkansas, Quebec, Ontario and British Columbia for proceeds of \$44.5 million resulting in a pre-tax gain of \$27.7 million. The Company entered into a long-term lease for a portion of the Arkansas property at fair value.

### *Impairment of Assets*

The Company reviews the carrying value of long-lived assets for impairment whenever there are events or changes in circumstances that indicate that the carrying amount may not be recoverable.

During 2015, the Company completed an impairment review of assets and identified that assets associated with one of its metal service centers were impaired because of the deteriorated financial condition of the operation due to continued operating losses. An asset impairment charge was recorded on underutilized machinery and equipment based on estimated salvage value of this machinery and equipment.

These asset impairment charges were included in the consolidated statement of earnings and reduced the carrying value of the associated assets on a pro-rated basis. No asset impairments were identified during 2016.

## NOTE 9 FINANCIAL AND OTHER ASSETS

### ACCOUNTING POLICIES

Eligible costs incurred relating to the short-term revolving credit facility are deferred and amortized on a straight-line basis over the period of the related financing. Deferred financing charges are recorded at cost less accumulated amortization. Eligible costs related to long-term debt financing are capitalized to the carrying amount of the associated debt and amortized using the effective interest method.

### SUPPORTING INFORMATION

<i>(millions)</i>	<b>2016</b>	<b>2015</b>
Deferred charges on revolving credit facility	\$ 1.2	\$ 1.7
Investments and advances	<b>0.7</b>	2.1
Other	<b>3.2</b>	3.3
	<b>\$ 5.1</b>	<b>\$ 7.1</b>

Amortization of deferred financing charges was \$0.5 million (2015: \$0.3 million). Investments and advances were acquired in acquisitions and were initially recorded at fair value. During the year ended December 31, 2016, the Company sold an investment previously acquired in its Apex Distribution acquisition.

## NOTE 10 GOODWILL AND INTANGIBLES

### ACCOUNTING POLICIES

Goodwill represents the excess of the cost of an acquisition over the fair value of the net identifiable assets acquired at the date of acquisition. Goodwill is carried at cost less accumulated impairment losses. The Company reviews goodwill for impairment annually or more frequently if events or changes in circumstances indicate that the assets might be impaired. When testing goodwill, the carrying values of the CGUs or group of CGUs including goodwill are compared with their respective recoverable amounts (higher of fair value less costs to sell and value in use) and an impairment loss, if any, is recognized for the excess. A CGU is the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets.

Intangible assets are comprised of customer relationships, trademarks and non-competition agreements. They are recorded at cost, which for business acquisitions represents the fair value at the date of acquisition less accumulated amortization and accumulated impairment losses. Customer relationships are amortized on a straight line basis over their estimated useful life of 15 to 17 years. Non-competition agreements are amortized over the period of the agreement. Useful lives are reviewed at the end of each reporting period and adjusted if appropriate.

Trademarks are not amortized as they have an indefinite life; however, they are tested for impairment annually or more frequently if events or changes in circumstances indicate that the assets might be impaired. When testing indefinite life intangibles for impairment, the carrying values of related CGUs or group of CGUs excluding goodwill, are compared to their recoverable amounts.

### ACCOUNTING ESTIMATES AND JUDGEMENTS

Intangible assets and goodwill arise from business combinations. Upon acquisition, the Company identifies and attributes fair values of intangible assets with the residual value allocated to goodwill acquired. These determinations involve estimates and assumptions regarding cash flow projections, economic risk and the weighted average cost of capital. If future events or results differ adversely from these estimates and assumptions, the Company could record increased amortization or impairment charges.

The determination of impairment of goodwill and intangibles involves estimates and assumptions regarding cash flow projections and estimated discount rates. There is measurement uncertainty inherent in this analysis.

## SUPPORTING INFORMATION

<i>(millions)</i>	<b>2016</b>	2015
Goodwill	\$ 27.2	\$ 27.6
Intangibles	58.5	64.4
	<b>\$ 85.7</b>	<b>\$ 92.0</b>

### a) *Goodwill*

The continuity of goodwill is as follows:

<b>Goodwill</b> <i>(millions)</i>	<b>2016</b>	2015
Balance, beginning of the year	\$ 27.6	\$ 128.5
Impairment of goodwill	-	(103.1)
Foreign exchange	(0.4)	2.2
Balance, end of the year	<b>\$ 27.2</b>	<b>\$ 27.6</b>

In 2015, the Company recognized an impairment of goodwill related to Apex Distribution, Apex Monarch and certain metal service center operations. The remaining goodwill relates to the metals service centers segment located in Canada and the U.S.

### b) *Impairment of goodwill*

In determining whether goodwill is impaired, the Company estimates the recoverable amount of CGUs or groups of CGUs to which goodwill is allocated. Management considers the operations below to be CGUs or groups of CGUs as they represent the lowest level at which goodwill is monitored for internal management purposes. Accordingly, goodwill was allocated to each CGU or group of CGUs as follows:

<b>Allocation of Goodwill</b> <i>(millions)</i>	<b>2016</b>	2015
Metals service centers		
U.S.		
Southeast	\$ 13.9	\$ 14.3
Canadian		
Alberta	11.0	11.0
Atlantic / Ontario	2.3	2.3
	<b>\$ 27.2</b>	<b>\$ 27.6</b>

The Company uses a discounted cash flow technique to determine the value in use for the above noted CGUs or groups of CGUs. Key assumptions used by management include forecasted cash flows based on financial plans approved by management covering a five year period and expected growth in future earnings subsequent to 2017, of 2% to 3% in line with expected inflation and discount rates. The assumptions are based on historical data, industry cyclicalities and expected market developments.

The Company uses a weighted average cost of capital ("WACC") to calculate the present value of its projected cash flows. WACC reflects the current market assessment of the time value of money and the risks specific to that asset. This is an estimate of the overall required rate of return on an investment and serves as the basis for developing an appropriate discount rate. Determination of the WACC requires separate analysis of the cost of equity and debt, and considers a risk premium based on an assessment of risks related to each unit.

For 2016, the pre-tax weighted average cost of capital used was 14.6% (2015: 15.8%) for metals service centers and 18.0% (2015: 18.8%) for energy products. To monitor potential impairment exposure, the Company performs a sensitivity analysis. For 2016 and 2015 a 1% increase in the respective discount rate would not trigger a further goodwill impairment.



The Company performed goodwill impairment tests to determine recoverable amounts during the fourth quarter of 2016 and 2015. The recoverable amounts are determined based on a value in use calculation. In 2015, the recoverable amounts did not exceed the carrying amounts in the Manitoba/Saskatchewan and Quebec operations in metals service centers and the Apex Distribution and Apex Monarch operations in energy products which resulted in the recognition of an impairment of \$103.1 million. The goodwill impairment was mainly due to the declining steel and oil price environment, which resulted in reduced spending and outlook for the customer base of these operations.

In 2016, the estimated recoverable amount of all units exceeded their carrying values. As a result, no impairment was recorded.

### c) 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:

<b>Cost</b> (millions)	Metals Service Centers	Energy Products	<b>Total 2016</b>	Total 2015
Balance, beginning of the year	\$ 18.1	\$ 70.7	\$ 88.8	\$ 98.5
Business acquisitions (Note 4)	-	-	-	3.2
Impairment of intangible assets	-	-	-	(13.8)
Foreign exchange	(0.2)	-	(0.2)	0.9
Balance, end of the year	\$ 17.9	\$ 70.7	\$ 88.6	\$ 88.8

  

<b>Accumulated amortization</b> (millions)	Metals Service Centers	Energy Products	<b>Total 2016</b>	Total 2015
Balance, beginning of the year	\$ (8.4)	\$ (16.0)	\$ (24.4)	\$ (17.7)
Amortization	(1.1)	(4.6)	(5.7)	(6.7)
Balance, end of the year	\$ (9.5)	\$ (20.6)	\$ (30.1)	\$ (24.4)

  

<b>Carrying amount</b>	
December 31, 2015	\$ 64.4
<b>December 31, 2016</b>	<b>\$ 58.5</b>

During the fourth quarter of 2015, the Company performed an impairment test on the CGUs, using the same assumptions noted in goodwill impairment testing. This resulted in an impairment of intangible assets in the Manitoba/Saskatchewan operation in the metals service centers segment and the Apex Monarch operation in the energy products segment. The recoverable amount was determined based on a value in use calculation.

The carrying amount of intangible assets as at December 31, 2016 relates to customer relationships arising from the acquisition of JMS Metals Services, Norton Metal Products, Alberta Industrial Metals, Apex Distribution, Apex Western Fiberglass and other entities. The remaining amortization period for customer relationships is 7 to 14 years.

## NOTE 11 REVOLVING CREDIT FACILITY

The Company has a credit agreement 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 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.

The Company was in compliance with the financial covenants at December 31, 2016. At December 31, 2016, the Company had borrowings of \$43.0 million (2015: \$94.0 million) and letters of credit of \$38.9 million (2015: \$29.1 million) under this facility.

## NOTE 12 ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

### ACCOUNTING POLICIES

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business. Trade payables are classified as current liabilities if payment is due within one year or less. Trade payables are recognized initially at fair value and subsequently measured at amortized cost.

### SUPPORTING INFORMATION

<i>(millions)</i>	<b>2016</b>	2015
Trade accounts payable and accrued expenses	<b>\$ 309.9</b>	\$ 299.2
Accrued interest	<b>3.6</b>	3.9
	<b>\$ 313.5</b>	\$ 303.1

## NOTE 13 LONG-TERM DEBT

### ACCOUNTING POLICIES

Long-term debt is recognized initially at fair value, net of transaction costs incurred. Long-term debt is subsequently recorded at amortized cost with any difference between the proceeds (net of transactions costs) and the redemption value recognized in net earnings over the term of the debt using the effective interest method.

Debt is classified as a current liability unless the Company has an unconditional right to defer settlement for at least 12 months after the end of the reporting period.

### SUPPORTING INFORMATION

<i>(millions)</i>	<b>2016</b>	2015
6.0% \$300 million Unsecured Senior Notes due April 19, 2022	<b>\$ 295.7</b>	\$ 295.1
Finance lease obligations (Note 24)	<b>0.2</b>	0.6
Less: current portion	<b>(0.1)</b>	(0.5)
	<b>\$ 295.8</b>	\$ 295.2

On April 19, 2012, the Company issued through a private placement, \$300 million 6.0% Unsecured Senior Notes (the "Notes") due April 19, 2022. 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 Company was in compliance with these covenants at December 31, 2016. The Notes also contain certain covenants that limit the Company's ability to incur additional indebtedness. 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 14 PENSIONS AND BENEFITS

### ACCOUNTING POLICIES

For defined benefit pension plans and other post-employment benefits, the net periodic pension and benefit expense is actuarially determined on an annual basis by independent actuaries using the projected benefit method, prorated on service and is charged to expense as services are rendered. The determination of a benefit expense requires assumptions such as the discount rate to measure obligations, the expected mortality, the expected rate of future compensation increases and the expected healthcare cost trend rate.

The past service costs arising from plan amendments is recognized immediately in net earnings. The asset or liability recognized in the consolidated statement of financial position is the present value of the defined benefit obligation at the end of the reporting period less the fair value of plan assets, together with adjustments for asset ceiling limits. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high-quality corporate bonds that have terms to maturity approximating the terms of the related pension liability. All actuarial gains and losses that arise in calculating the present value of the defined benefit obligation and the fair value of plan assets are recognized immediately in the consolidated statement of other comprehensive income. Net interest on the defined benefit liability (asset) represents the net defined benefit liability (asset), multiplied by the discount rate and is recorded in employee expenses in the consolidated statement of earnings. The net interest expense (income) on the net defined benefit liability (asset) is comprised of interest cost on the defined benefit obligation and interest income on plan assets. Any defined benefit asset resulting from this calculation is limited to the total of unrecognized net actuarial losses and the present value of any economic benefit in the form of refunds from the plan or reduction in future contributions to the plan. The Company contributes to three multi-employer pension plans which are accounted for as defined contribution plans.

The Company closes out actuarial gains and losses recognized in other comprehensive income into retained earnings at the end of each reporting period.

### ACCOUNTING ESTIMATES AND JUDGEMENTS

The Company's determination of employee benefit expenses and obligations requires the use of assumptions such as the discount rate to measure obligations, expected mortality, the expected rate of increase of future compensation and the expected healthcare cost trend rate. Since the determination of the costs and obligations associated with employee future benefits requires the use of various assumptions, there is measurement uncertainty inherent in the actuarial valuation process. Actual results could differ from estimated results.

### SUPPORTING INFORMATION

a) The Company maintains a defined contribution pension plan ("DCPP") for most of its Canadian salaried employees. On December 31, 2013, the Company merged five of its defined benefit plans into the DCPP, subject to regulatory approval. During 2016, regulatory approval was obtained which required an additional contribution of \$8 million to the merged plan. The Company maintains two additional defined benefit pension plans in Canada for a total of three defined benefit plans. The Company also maintains executive plans, post-retirement benefit plans and three additional defined contribution plans in Canada and a 401(k) defined contribution plan in the United States.

The defined benefit pension plans are administered by a master trust, which is legally separate from the Company and is monitored by a pension committee. The pension committee is responsible for policy setting. The defined benefit pension plans expose the Company to actuarial risk, currency risk, interest rate risk and market risk.

The merged plan and an additional plan had a valuation date of January 1, 2014. The other defined benefit pension plan had a valuation date of January 1, 2015.

In addition, under three labour contracts, the Company participates in multi-employer pension plans established for the benefit of certain employees covered by collective bargaining contracts in both Canada and U.S. One of the multi-employer plans is a defined benefit plan; however, this is accounted for as a defined contribution plan as the Company has insufficient information to apply defined benefit plan accounting.

The components of the Company's pension and benefit expense recorded in net earnings included the following:

<i>(millions)</i>	<b>2016</b>	2015
Defined benefit pension plans		
Current service cost	<b>\$ 3.7</b>	\$ 3.5
Net interest cost	<b>0.6</b>	0.7
Plan administration cost	<b>0.1</b>	0.1
	<b>4.4</b>	4.3
Post-retirement benefits	<b>0.2</b>	0.1
Defined contribution plans	<b>4.7</b>	4.9
Pension and benefit expense	<b>\$ 9.3</b>	\$ 9.3

The components of the Company's pension and benefit changes recorded in other comprehensive income included the following:

<i>(millions)</i>	<b>2016</b>	2015
Remeasurements on the net defined benefit liability		
Actuarial gains due to actuarial experience	<b>\$ 0.5</b>	\$ 2.2
Actuarial (losses) gains due to financial assumption changes	<b>(4.7)</b>	0.4
Return on plan assets greater (less) than the discount rate	<b>5.3</b>	(1.4)
Remeasurement effect recognized in other comprehensive income	<b>\$ 1.1</b>	\$ 1.2
Cumulative actuarial losses relating to pensions and benefits		
Balance of actuarial losses at January 1	<b>\$ (14.1)</b>	\$ (15.3)
Net actuarial gains recognized in the year	<b>1.1</b>	1.2
Balance of actuarial losses at December 31	<b>\$ (13.0)</b>	\$ (14.1)

There were no adjustments related to asset ceiling limits in other comprehensive income for the years ended December 31, 2016 and 2015.

The actuarial determinations were based on the following assumptions:

	<b>2016</b>	2015
Assumed discount rate - year end	<b>3.75%</b>	4.00%
Rate of increase in future compensation	<b>3.25%</b>	3.25%
Rate of increase in future government benefits	<b>3.00%</b>	3.00%

The discount rate is based on a review of current market interest rates of AA corporate bonds with a similar duration as the expected future cash outflows for the pension payments. A 0.25% increase or decrease in the discount rate would decrease or increase the defined benefit obligation by approximately \$5.0 million as of December 31, 2016 (2015: \$4.6 million).

The health care cost trend rates used were 5% for dental and 6.5% graded out for medical, which is reduced 0.5% per year until 5%, and 5% thereafter. A 1% change in trend rates would not result in a significant increase or decrease in either the present value of the defined benefit obligation or the net periodic cost.

The sensitivity analysis presented above may not be representative of the actual change in defined benefit obligation as it is unlikely that the change in assumptions would occur in isolation of one another as some of the assumptions may be correlated. Furthermore, in presenting the above sensitivity analysis, the present value of the defined benefit obligation has been calculated using the projected benefit method at the end of the reporting period, which is consistent with the defined benefit obligation liability calculation recognized in the consolidated statement of financial position.

The mortality assumptions used to assess the defined benefit obligation are based on 2014 Private Sector Canadian Pensioners' Mortality Table (CPM2014Priv) using improvement scale CPM-B.

Informal practices that give rise to constructive obligations are included in the measurement of the defined benefit obligation.

b) The following information pertains to the Company's defined benefit pension and other benefit plans, excluding those which are in the process of being wound up.

<i>(millions)</i>	Pension Plans		Other Benefit Plans	
	2016	2015	2016	2015
<b>Reconciliation of present value of the defined benefit obligation</b>				
Balance, beginning of the year	\$ 128.0	\$ 127.0	\$ 4.2	\$ 4.6
Current service costs	3.7	3.5	-	-
Participant contributions	0.1	0.1	-	-
Interest cost	5.1	5.0	0.2	0.1
Benefits paid	(5.6)	(5.2)	(0.2)	(0.3)
Actuarial losses (gains)	4.3	(2.4)	(0.1)	(0.2)
Balance, end of the year	\$ 135.6	\$ 128.0	\$ 4.1	\$ 4.2

<i>(millions)</i>	Pension Plans		Other Benefit Plans	
	2016	2015	2016	2015
<b>Reconciliation of present value of the plan assets</b>				
Balance, beginning of the year	\$ 110.5	\$ 105.5	\$ -	\$ -
Interest income	4.5	4.3	-	-
Employer contributions	13.9	7.3	0.2	0.3
Employee contributions	0.2	0.1	-	-
Benefits paid	(5.6)	(5.2)	(0.2)	(0.3)
Plan administration costs	(0.1)	(0.1)	-	-
Return on plan assets (less) greater than discount rate	5.3	(1.4)	-	-
Balance, end of the year	\$ 128.7	\$ 110.5	\$ -	\$ -
Defined benefit obligation, net	\$ 6.9	\$ 17.5	\$ 4.1	\$ 4.2

The fair values of the defined benefit pension plan assets at the end of the reporting period for each category, are as follows:

<i>(millions)</i>	2016	2015
Cash and cash equivalents	\$ 2.5	\$ 4.5
Equities		
Canadian equity	63.2	53.0
Global equity fund	28.0	19.9
	91.2	72.9
Fixed income investments categorized by type of issuer		
Government guaranteed	8.1	3.8
Provincials	13.6	13.3
Corporate	13.3	16.0
	35.0	33.1
	\$ 128.7	\$ 110.5

As at December 31, 2016, all three of the defined benefit pension plans in the above table had unfunded obligations. The following table provides the defined benefit obligation for partially funded pension plans and unfunded plans.

<i>(millions)</i>	Pension Plans		Other Benefit Plans	
	2016	2015	2016	2015
<b>Defined benefit obligation</b>				
Partially funded plans	\$ 6.9	\$ 17.5	\$ -	\$ -
Unfunded plans	-	-	4.1	4.2
<b>Defined benefit obligation</b>	<b>\$ 6.9</b>	<b>\$ 17.5</b>	<b>\$ 4.1</b>	<b>\$ 4.2</b>

c) As at December 31, 2016 approximately 74% (2015: 71%) of the fair value of all pension plan assets was invested in equities, 20% (2015: 21%) in fixed income securities, and 6% (2015: 8%) in cash and cash equivalents. The plan assets are not invested in derivatives or real estate assets. Management endeavours to have an asset mix of approximately 20% - 80% in equities, 20% - 70% in fixed income securities and 0% - 30% in cash and cash equivalents.

d) The weighted average duration of defined benefit obligations is 14.5 years (2015: 14.3 years) for defined benefit pension plans, 9.6 years (2015: 9.9 years) for executive pension arrangements and 7.6 years (2015: 7.9 years) for other post retirement benefit plans. The Company expects to make contributions of \$5.0 million to its defined benefit pension plans and \$0.4 million to its post retirement benefits medical plans in the next financial year.

## NOTE 15 SHAREHOLDERS' EQUITY

- a) At December 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 of Shares	Amount <i>(millions)</i>
Balance, December 31, 2014	61,674,228	\$ 531.2
Share options exercised	27,400	0.5
Debentures converted	932	-
Balance, December 31, 2015	61,702,560	\$ 531.7
Share options exercised	32,925	0.7
<b>Balance, December 31, 2016</b>	<b>61,735,485</b>	<b>\$ 532.4</b>

The continuity of contributed surplus is as follows:

(millions)

Balance, December 31, 2014	\$	14.1
Share-based compensation expense		1.2
Exercise of options		(0.1)
Balance, December 31, 2015		15.2
Share-based compensation expense		0.9
Exercise of options		(0.2)
<b>Balance, December 31, 2016</b>	<b>\$</b>	<b>15.9</b>

Dividends paid and declared were as follows:

	2016	2015
Dividends paid (millions)	\$ 93.8	\$ 93.8
Dividends per share	\$ 1.52	\$ 1.52
Quarterly dividend per share declared on February 16, 2017 (February 16, 2016)	\$ 0.38	\$ 0.38

## NOTE 16 SHARE-BASED COMPENSATION

### ACCOUNTING POLICIES

The Company accounts for share-based compensation at fair value.

Compensation expense is recognized for share options on a graded vesting basis, where the fair value of each tranche is determined at the grant date based on the Company's estimate of options that will eventually vest and is recognized over its respective vesting period, except for employees who are eligible to retire during the vesting period whose options are expensed immediately. At the end of each reporting period, the Company revises its estimate of the number of options expected to vest. The impact of the revision of the original estimate, if any, is recognized in net earnings such that the cumulative expense reflects the revised estimate with a corresponding adjustment to contributed surplus.

Compensation expense for deferred share units is recognized when the units are issued and for changes in the quoted market price from the issue date to the reporting date until the units are redeemed. Compensation expense for restricted share units is recognized over the vesting period and for changes in the quoted market price from the issue date to the reporting period date until the units mature.

### ACCOUNTING ESTIMATES AND JUDGEMENTS

The Company utilizes the Black-Scholes option pricing model to estimate the fair value of share options. The inputs to this pricing model require significant judgements including share price volatility, expected dividends, expected life of the options and the risk free interest rate.

### SUPPORTING INFORMATION

#### 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 number of common shares that may be issued under the share option plan is 4,498,909 and any options will be exercisable on a cumulative basis to an extent of 25% per year of total options granted in years two to five after the date of grant. Other terms and conditions of the plan include a 10 year life and immediate vesting under certain change of control provisions. The consideration paid by employees for the purchase of common shares is added to share capital. Commencing in 2014, employees other than senior officers no longer receive share options.

The following is a continuity of options outstanding:

	Number of Options		Weighted Average Exercise Price	
	2016	2015	2016	2015
Balance, beginning of year	2,226,728	2,019,307	\$ 27.49	\$ 27.70
Granted	375,000	303,371	18.11	25.36
Exercised	(32,925)	(27,400)	17.85	15.85
Expired or forfeited	(185,600)	(68,550)	26.22	28.71
Balance, end of the year	2,383,203	2,226,728	\$ 26.25	\$ 27.49
Exercisable	1,624,626	1,553,379	\$ 27.94	\$ 27.63

The weighted average share price for the options exercised during the year was \$26.36 (2015: \$24.43)

The outstanding options had exercise price ranges as follows:

(number of options)	2016	2015
\$ 29.00 - \$ 33.81	550,772	552,772
\$ 25.37 - \$ 28.99	1,012,537	1,195,687
\$ 16.58 - \$ 25.36	819,894	478,269
Options outstanding	2,383,203	2,226,728

The options expire in the years 2017 to 2025 and have a weighted average remaining contractual life of 5.0 years (2015: 4.9 years)

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

	2016	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

The Company has a Deferred Share Unit ("DSU") Plan for non-executive directors. A DSU is a unit of equivalent value to one common share based on market price, which is defined as the daily average of the high and low board lot on the Toronto Stock Exchange for the last five trading days immediately prior to the grant date. DSUs are granted quarterly to each non-executive director's account by dividing the quarterly allocation by the market price. At the option of the individual director, they may elect to receive other board fees in the form of DSUs. DSUs vest immediately and are redeemable for cash only when a non-executive director leaves the Board.

At December 31, 2016, there were 207,650 DSUs outstanding (2015: 161,127). During 2016 and 2015, no DSUs were redeemed. The liability and fair value of DSUs was \$5.3 million at December 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

The Company has a Restricted Share Unit ("RSU") Plan for eligible employees as designated by the Board of Directors. Prior to 2014, RSUs were only issued to senior officers. Commencing in 2014 RSUs were issued to other eligible employees in lieu of share options. The plan was established to provide medium-term compensation. RSUs are awarded by the Board of Directors to eligible employees annually. RSUs vest one third on the first and second anniversary after the grant date and the remaining one third on the expiry date. RSUs expire on the earlier of: (i) December 5 of the third calendar year following the year in which the services were provided to which such grant of RSU's relates; and (ii) the third anniversary of the grant date. The Company is obligated to pay in cash an amount equal to the number of RSUs multiplied by the market price, which is defined as the daily average of the high and low board lot on the Toronto Stock Exchange for the last five trading days immediately prior to the expiry date. Continuity of RSUs outstanding is as follows:

<i>(number of units)</i>	2016	2015
Balance, beginning of the year	344,115	197,269
Granted	36,616	214,800
Paid out	(164,329)	(67,954)
Balance, end of the year	216,402	344,115

The RSU liability at December 31, 2016 was \$4.7 million (2015: \$3.7 million). The fair value of RSUs was \$5.5 million at December 31, 2016 and 2015. Dividends declared on common shares accrue to units in the RSU plan in the form of additional RSUs.

### Employee Share Purchase Plan

The Company has an Employee Share Purchase Plan to provide employees with the opportunity to purchase common shares. Employees may make contributions of between 1% and 5% of their base pay and the Company will contribute an amount equal to one-third of the employee's contribution. Employees are eligible to make contributions above the 5% of base pay threshold but the Company contributes only to a maximum of one-third of 5% of base pay. The plan does not provide for a discount for employee purchases and is administered by a trustee who purchases shares for the plan through the TSX. Dividends paid on the shares are used to purchase additional shares.

Components of share-based compensation expense are as follows:

<i>(millions)</i>	2016	2015
Share options	\$ 0.9	\$ 1.2
DSU and RSUs	7.1	0.2
Employee Share Purchase Plan	0.7	0.9
	\$ 8.7	\$ 2.3

## NOTE 17 EARNINGS PER SHARE

### ACCOUNTING POLICIES

Basic earnings per common share is calculated using the weighted average number of common shares outstanding. Diluted earnings per share is calculated using the treasury share method.

### SUPPORTING INFORMATION

The following table provides the numerator and denominator used to compute basic and diluted earnings per share:

<i>(millions)</i>	2016	2015
Net income (loss) used in calculation of diluted earnings per share	\$ 62.8	\$ (87.6)

<i>(number of shares)</i>	2016	2015
Weighted average shares outstanding	61,704,990	61,696,592
Dilution impact of share options	335,693	-
Diluted weighted average shares outstanding	62,040,683	61,696,592

## NOTE 18 EXPENSES

<i>(millions)</i>	2016	2015
<b>Employee Expenses</b>		
Wages and salaries	\$ 211.0	\$ 215.6
Other employee related costs	39.5	39.2
	\$ 250.5	\$ 254.8
<b>Other Operating Expenses</b>		
Plant and other expenses	\$ 100.2	\$ 100.9
Delivery expenses	41.5	47.7
Repairs and maintenance	10.1	11.5
Selling expenses	6.8	8.3
Professional fees	3.9	5.5
Gain on sale of property, plant and equipment	(1.5)	(1.9)
Foreign exchange (gains) losses	(1.1)	2.8
	\$ 159.9	\$ 174.8

## NOTE 19 FINANCE EXPENSE

<i>(millions)</i>	2016	2015
Interest on 6.0% Unsecured Senior Notes	\$ 18.7	\$ 18.6
Interest on 7.75% Convertible Debentures	-	20.3
Other interest expense	3.0	1.7
Interest expense	21.7	40.6
Other finance (income) expense	-	(26.7)
Finance expense, net	\$ 21.7	\$ 13.9

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. Long-term debt interest expense is charged to earnings using the effective interest method. Debt accretion and issue cost amortization for the year ended December 31, 2016 was \$0.7 million (2015: \$9.6 million).

## NOTE 20 INCOME TAXES

### ACCOUNTING POLICIES

Income tax expense comprises current and deferred tax. Income tax is recognized in the consolidated statement of earnings except to the extent it relates to items recognized directly in equity in which case the related tax is recognized in equity.

Current income tax expense is based on the results for the period which is adjusted for items that are not taxable or not deductible for tax. Current income tax is calculated using tax rates and laws that were enacted or substantively enacted at the end of the reporting period.

Deferred tax is recognized, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated statement of financial position. Deferred tax is calculated using tax rates and laws that have been enacted or substantively enacted at the end of the reporting period, and which are expected to apply when the related deferred income tax asset is realized or the deferred income tax liability is settled.

### *Deferred tax liabilities*

- ♦ generally recognized for all taxable temporary differences;
- ♦ recognized for taxable temporary differences arising on investments in subsidiaries, except where the reversal of the temporary difference can be controlled and it is probable that the difference will not reverse in the foreseeable future; and
- ♦ not recognized on differences that arise from goodwill at acquisition.

### *Deferred tax assets*

- ♦ recognized to the extent it is probable that taxable income will be available against which the deductible temporary differences and the carry forward of unused tax losses and credits can be utilized; and
- ♦ reviewed at the end of the reporting period and reduced to the extent that it is no longer probable that sufficient taxable income will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are not recognized in respect of temporary differences that arise on initial recognition of assets and liabilities acquired other than in a business combination.

## ACCOUNTING ESTIMATES AND JUDGEMENTS

The Company computes an income tax provision in each of the jurisdictions in which it operates. Actual amounts of income tax expense are finalized upon filing and acceptance of the tax return by the relevant authorities, which occurs subsequent to the issuance of the consolidated financial statements. Additionally, the estimation of income taxes includes evaluating the recoverability of deferred tax assets based on an assessment of the ability to use the underlying future tax deductions before they expire against future taxable income. The assessment is based upon existing tax laws and estimates of future taxable income. To the extent estimates differ from the final tax return, earnings would be affected in a subsequent period. In interim periods, the income tax provision is based on an estimate of earnings for a full year by jurisdiction. The estimated average annual effective income tax rates are reviewed at each reporting date, based on projections of full year earnings. To the extent that forecasts differ from actual results, adjustments are recorded through earnings in subsequent periods.

The Company is subject to taxation in numerous jurisdictions. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The Company maintains provisions for uncertain tax positions that it believes appropriately reflect its risk with respect to tax matters under active discussion, audit, dispute or appeal with tax authorities, or which are otherwise considered to involve uncertainty. These provisions are made using the best estimate of the amount expected to be paid based on a qualitative assessment of all relevant factors. The Company reviews the adequacy of these provisions at the end of the reporting period. It is possible that at some future date an additional liability could result from audits by taxing authorities. Where the final outcome of these tax-related matters is different from the amounts that were initially recorded, such differences will affect the tax provision in the period in which such determination is made.

## SUPPORTING INFORMATION

a) The components of the provision for income taxes are as follows:

<i>(millions)</i>	<b>2016</b>	2015
Current tax expense	<b>\$ 24.5</b>	\$ 1.7
Deferred tax expense (recovery)	<b>10.0</b>	(14.1)
	<b>\$ 34.5</b>	\$ (12.4)

b) The Company's effective income tax rate was derived as follows:

	2016	2015
Applicable combined Canadian statutory rate	26.9%	26.4%
Rate difference of U.S. companies	2.1%	2.1%
Share-based compensation and non-deductible items	0.6%	(0.6%)
Change in contingent consideration	-	6.5%
Write-down of goodwill and intangibles	-	(24.6%)
Gain on sale of U.S. property	3.5%	-
Withholding tax on funds repatriated to Canada	2.7%	-
Alberta rate increase	-	(0.9%)
Other	(0.3%)	3.5%
<b>Average effective tax rate</b>	<b>35.5%</b>	<b>12.4%</b>

In 2016, the Canadian statutory rate increased by 0.5%. The combined Canadian statutory rate is the aggregate of the federal income tax rate of 15.0% (2015: 15.0%) and the average provincial rates of 11.9% (2015: 11.4%). The average effective tax rate was higher than the average Canadian corporate tax rate principally due to differing tax rules applicable to certain of the Company's subsidiaries outside Canada, withholding tax and non-operational income earned in a higher tax jurisdiction.

c) Deferred income tax assets and liabilities were as follows:

<i>Deferred Income Tax Assets</i> (millions)	Losses	Property Plant and Equipment	Pension And Benefits	Goodwill And Intangibles	Item Charged To Equity	Other Timing	Total
Balance December 31, 2014	\$ 1.0	\$ (9.0)	\$ 7.0	\$ 3.5	\$ (2.3)	\$ 4.7	\$ 4.9
Benefit (expense) to consolidated statement of earnings (loss)	0.8	0.4	(0.8)	4.8	2.3	4.7	12.2
Reclass assets/liabilities and other	0.2	(0.9)	-	(0.3)	-	0.4	(0.6)
Business acquisition (Note 4)	-	-	-	0.1	-	(0.3)	(0.2)
Benefits to other comprehensive income	-	-	(0.5)	-	-	-	(0.5)
Balance December 31, 2015	\$ 2.0	\$ (9.5)	\$ 5.7	\$ 8.1	\$ -	\$ 9.5	\$ 15.8
Benefit (expense) to consolidated statement of earnings (loss)	(0.7)	(1.9)	-	(1.7)	-	1.3	(3.0)
Reclass assets/liabilities and other	(0.1)	4.9	(5.4)	(0.9)	-	(5.4)	(6.9)
<b>Balance December 31, 2016</b>	<b>\$ 1.2</b>	<b>\$ (6.5)</b>	<b>\$ 0.3</b>	<b>\$ 5.5</b>	<b>\$ -</b>	<b>\$ 5.4</b>	<b>\$ 5.9</b>

<i>Deferred Income Tax Liabilities</i> (millions)	Property Plant and Equipment	Pension And Benefits	Goodwill And Intangibles	Item Charged To Equity	Other Timing	Total
Balance December 31, 2014	\$ 0.3	\$ -	\$ 16.5	\$ -	\$ 0.2	\$ 17.0
(Benefit) expense to consolidated statement of earnings (loss)	0.1	-	(1.7)	-	(0.3)	(1.9)
Reclass assets/liabilities and other	-	-	(0.9)	-	-	(0.9)
Balance December 31, 2015	\$ 0.4	\$ -	\$ 13.9	\$ -	\$ (0.1)	\$ 14.2
(Benefit) expense to consolidated statement of earnings (loss)	2.7	3.0	(1.1)	-	2.4	7.0
Reclass assets/liabilities and other	4.7	(5.5)	(0.8)	-	(5.4)	(7.0)
Benefits to other comprehensive income	-	0.3	-	-	-	0.3
<b>Balance December 31, 2016</b>	<b>\$ 7.8</b>	<b>\$ (2.2)</b>	<b>\$ 12.0</b>	<b>\$ -</b>	<b>\$ (3.1)</b>	<b>\$ 14.5</b>

Net deferred asset at December 31, 2015	\$ 1.6
<b>Net deferred liability at December 31, 2016</b>	<b>\$ 8.6</b>

d) At December 31, 2016, the Company had U.S. state tax losses carried forward which, at U.S. state tax rates, have an estimated value of \$1.2 million (2015: \$1.8 million). The majority of the tax losses carried forward will expire between 2029 and 2036, if not utilized. Deferred tax assets are recognized for tax loss carry-forwards to the extent that the realization of the related tax benefit through future taxable profits is probable. The ability to realize the tax benefits of these losses is dependent upon a number of factors, including the probability of generating taxable income from operations in the future in the jurisdictions in which the tax losses arose.

At December 31, 2016 and 2015, the Company had \$6.3 million and \$7 million of capital losses respectively carried forward which may only be used to offset future capital gains. These losses have no expiry date. The deferred tax asset not recognized in respect of these losses was \$0.8 million (2015: \$0.9 million).

e) At December 31, 2016, the aggregate amount of temporary differences associated with undistributed earnings of non-Canadian subsidiaries was \$308 million. No liability has been recognized in respect of these differences because the Company is in a position to control the timing of the reversal of the temporary differences, and it is probable that such differences will not reverse in the foreseeable future.

## **NOTE 21 PROVISIONS AND OTHER NON-CURRENT LIABILITIES**

### **ACCOUNTING POLICIES**

Provisions represent liabilities to the Company for which the amount or timing is uncertain. Provisions are recognized when the Company has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation and the amount can be reliably estimated. Provisions are not recognized for future operating losses. Provisions are measured at the present value of the expected expenditures to settle the obligation using a discount rate that reflects current market assessments of the time value of money and the risks specific to the obligation. Any increase in the provision due to the passage of time is recognized in other finance expense.

The Company recognizes liabilities for statutory, contractual, constructive or legal obligations associated with the retirement of property, plant and equipment, when those obligations result from the acquisition, construction, development or normal operation of the assets. The net present value of the estimated future decommissioning and rehabilitation costs are capitalized to the related asset along with a corresponding increase in the provision in the period incurred. Pre-tax discount rates that reflect the time value of money are used to calculate the net present value.

The estimates of decommissioning costs could change as a result of changes in regulatory requirements and assumptions regarding the amount and timing of the future expenditures. These changes are recorded directly to the related asset or net earnings with a corresponding adjustment to the provision. The estimates are reviewed annually for changes in regulatory requirements and changes in estimates. Changes in the net present value are recognized in net earnings.

### **ACCOUNTING ESTIMATES AND JUDGEMENTS**

The Company has recorded the liability for contingent consideration on its Apex Distribution ("Apex") and Apex Monarch ("Monarch") acquisitions at fair value. The determination of fair value involves analysis including the use of discounted cash flows of expected future earnings, expected future net assets and discount rates. There is measurement uncertainty inherent in this analysis and actual results could differ from estimates.

The Company has recorded a provision for decommissioning liabilities. The determination of these liabilities involved analysis to estimate expected cash outflows over a long period of time which is inherently uncertain.

## SUPPORTING INFORMATION

<i>(millions)</i>	2016	2015
Provision for decommissioning liabilities	\$ 2.7	\$ 3.4
Deferred compensation and employee incentives	10.0	6.3
Product warranty provision (Note 25)	20.0	20.0
	32.7	29.7
Less: current position	(24.6)	(20.9)
	\$ 8.1	\$ 8.8

a) The liability for contingent consideration relating to Apex and Monarch will end on November 30, 2017 and December 31, 2018, respectively. The Company's contingent consideration obligations for Apex and Monarch are uncapped. The Company has estimated that it has no obligation at December 31, 2016 relating to the contingent consideration (2015: \$0.1 million).

b) The following table presents the movement in the provision for decommissioning liabilities:

<i>(millions)</i>	2016	2015
Balance, beginning of the year	\$ 3.4	\$ 2.5
Charges	-	1.0
Utilization	(0.7)	(0.1)
Balance, end of the year	\$ 2.7	\$ 3.4

c) Deferred compensation includes the RSU and DSU liabilities. The RSU liabilities that will be paid in 2017 amounting to \$4.6 million were reclassified to current accrued liabilities.

## NOTE 22 SEGMENTED INFORMATION

### ACCOUNTING POLICIES

The Company's operating segments are organized around the markets it serves and are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker which is the Chief Executive Officer.

### SUPPORTING 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. The inter-segment sales from steel distributors to metals service centers were \$42.1 million (2015: \$54.8 million). These sales, which are at market rates, are eliminated in the following table.

a) *Results by business segment:*

<i>(millions)</i>	<b>2016</b>	2015
<b>Segment Revenues</b>		
Metals service centers	<b>\$ 1,383.5</b>	\$ 1,481.1
Energy products	<b>881.2</b>	1,227.1
Steel distributors	<b>304.5</b>	398.4
	<b>2,569.2</b>	3,106.6
Other	<b>9.4</b>	5.0
	<b>\$ 2,578.6</b>	\$ 3,111.6
<b>Segment Operating Profits</b>		
Metals service centers	<b>\$ 58.1</b>	\$ 41.9
Energy products	<b>18.9</b>	33.0
Steel distributors	<b>29.0</b>	(3.6)
	<b>106.0</b>	71.3
Corporate expenses	<b>(18.6)</b>	(12.5)
Impairment of goodwill and long lived assets	-	(123.5)
Gain on sale of properties	<b>27.7</b>	-
Product warranty provision	-	(20.0)
Other income (expense)	<b>3.9</b>	(1.4)
Earnings (loss) before interest and income taxes	<b>119.0</b>	(86.1)
Finance expense, net	<b>(21.7)</b>	(13.9)
(Provision for) recovery of income taxes	<b>(34.5)</b>	12.4
Net earnings (loss)	<b>\$ 62.8</b>	\$ (87.6)
<b>Capital Expenditures</b>		
Metals service centers	<b>\$ 13.0</b>	\$ 33.2
Energy products	<b>2.8</b>	3.8
Steel distributors	<b>0.9</b>	1.3
	<b>\$ 16.7</b>	\$ 38.3
<b>Depreciation Expense</b>		
Metals service centers	<b>\$ 23.6</b>	\$ 22.7
Energy products	<b>4.3</b>	4.6
Steel distributors	<b>0.8</b>	0.7
Other	<b>0.1</b>	0.1
	<b>\$ 28.8</b>	\$ 28.1

<i>(millions)</i>	<b>2016</b>	2015
<b>Current Identifiable Assets</b>		
Metals service centers	\$ 408.9	\$ 382.9
Energy products	459.4	555.3
Steel distributors	116.9	119.9
	<b>985.2</b>	1,058.1
<b>Non-Current Identifiable Assets</b>		
Metals service centers	241.8	264.7
Energy products	75.5	86.7
Steel distributors	7.3	7.5
Total identifiable assets included in segments	<b>1,309.8</b>	1,417.0
Assets not included in segments		
Cash and cash equivalents	181.8	143.4
Income tax assets	12.5	40.0
Deferred financing charges	1.2	1.7
Other assets	3.9	5.4
Corporate and other operating assets	(0.7)	(0.5)
Total assets	<b>\$ 1,508.5</b>	\$ 1,607.0
<b>Liabilities</b>		
Metals service centers	\$ 151.5	\$ 127.2
Energy products	111.9	130.7
Steel distributors	12.9	11.8
Liabilities by segment	<b>276.3</b>	269.7
Liabilities not included in segments		
Bank indebtedness	34.9	94.2
Income taxes liabilities	19.8	14.6
Long-term debt	295.9	295.7
Pension and benefits	11.0	21.7
Corporate and other liabilities	45.3	42.2
Total liabilities	<b>\$ 683.2</b>	\$ 738.1
 <i>b) Results by geographic segment:</i>		
<i>(millions)</i>	<b>2016</b>	2015
<b>Segment Revenues</b>		
Canada	\$ 1,781.6	\$ 2,152.8
United States	787.6	953.8
	<b>\$ 2,569.2</b>	\$ 3,106.6
<b>Segment Operating Profits (Loss)</b>		
Canada	\$ 81.7	\$ 101.5
United States	24.3	(30.2)
	<b>\$ 106.0</b>	\$ 71.3
<b>Identifiable Assets</b>		
Canada	\$ 950.3	\$ 1,021.0
United States	359.5	396.0
	<b>\$ 1,309.8</b>	\$ 1,417.0



## NOTE 23 RELATED PARTY TRANSACTIONS

During the years ended December 31, 2016 and 2015 the Company did not have any transactions with subsidiaries outside the normal course of business. All subsidiaries are wholly owned and all transactions with subsidiaries are recorded at fair value and have been eliminated upon consolidation.

At December 31, 2016, there were no loans or credit transactions outstanding with key management personnel or directors. Key management personnel includes the Chief Executive Officer, Chief Operating Officer, Chief Financial Officer and certain Vice Presidents. Compensation costs of key management personnel and directors were as follows:

<i>(millions)</i>	2016	2015
Salaries and other benefits	\$ 4.6	\$ 3.3
Share based compensation cost	2.2	1.6
Post-employment benefits	0.5	0.5
	\$ 7.3	\$ 5.4

## NOTE 24 FINANCIAL INSTRUMENTS AND RELATED RISK MANAGEMENT

### ACCOUNTING POLICIES

#### *a) Fair Value Measurement*

The Company measures certain financial and non-financial assets and liabilities at fair value at each statement of financial position date. In addition, fair value measurements are disclosed for certain financial and non-financial assets and liabilities.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. In estimating the fair value of an asset or a liability, the Company takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date.

Assets and liabilities, for which fair value is measured or disclosed in the consolidated financial statements, are classified using a three-level fair value hierarchy that reflects the significance and transparency of the inputs used in making the fair value measurements. Each level is based on the following:

- Level 1* Values based on unadjusted quoted prices in active markets that are accessible at the measurement date for identical assets or liabilities.
- Level 2* Values based on quoted prices in markets that are not active or model inputs that are observable either directly or indirectly for substantially the full term of the asset or liability.
- Level 3* Values based on prices or valuation techniques that require inputs which are both unobservable and significant to the overall fair value measurement.

#### *b) Financial Assets*

Purchases and sales of financial assets are recognized on the settlement date, which is the date on which the asset is delivered to or by the Company. Financial assets are derecognized when the rights to receive cash flows from the instruments have expired or have transferred and the Company has transferred substantially all risks and rewards of ownership. Financial assets are classified in the following categories at the time of initial recognition based on the purpose for which the financial assets were acquired:

#### *Financial assets at fair value through profit or loss*

- ◆ Classification

Financial assets at fair value through profit or loss are financial assets held for trading. A financial asset is classified in this category if acquired principally for the purpose of selling in the short-term or if so designated by management. Assets in this category include forward exchange contracts and embedded derivatives in inventory purchases.

- ◆ Recognition and measurement

Financial assets carried at fair value are initially recognized, and subsequently carried, at fair value with changes recognized in net earnings. Transaction costs are expensed.

### *Loans and receivables*

- ◆ Classification

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for those with maturities greater than 12 months after the end of the reporting period which are classified as non-current assets. Assets in this category include cash and cash equivalents and accounts receivable and are classified as current assets in the consolidated statement of financial position.

- ◆ Recognition and measurement

Loans and receivables are initially recognized at fair value plus transaction costs and subsequently carried at amortized cost, less impairment.

### *c) Financial liabilities and equity instruments*

Debt and equity instruments are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangement.

### *Other financial liabilities*

- ◆ Classification

Other financial liabilities include accounts payable and accrued liabilities, long-term debt and contingent consideration.

- ◆ Recognition and measurement

Short-term borrowings are recorded at the fair value of the proceeds received. Long-term debt is measured at amortized cost using the effective interest method, with interest expense recognized in net earnings. Eligible costs related to long-term debt financing are carried at amortized cost and amortized using the effective interest method over the period of the related financing. Contingent consideration is measured at fair value at the acquisition date and is subsequently re-measured at fair value, by applying the income approach using the probability weighted expected return on net assets with changes in fair value recognized in net earnings.

### *d) Derivative financial instruments*

Derivatives are initially recognized at fair value on the date a contract is entered into and are subsequently re-measured at fair value. The method of recognizing the resulting gain or loss depends on whether the derivative is designated as a hedging instrument and the nature of the item being hedged.

### *Embedded derivatives*

An embedded derivative is a feature within a contract, where the cash flows associated with that feature behave in a similar fashion to a stand-alone derivative. The Company has embedded foreign currency derivatives in certain purchase contracts where the currency of the contract is different from the functional or local currencies of the parties involved. These derivatives are accounted for as separate instruments and are measured at fair value and included in accounts payable and accrued liabilities at the end of the reporting period. Changes in their fair values are recognized within "Other operating expense" in the consolidated statement of earnings.

### *e) Impairment of financial assets*

At each financial position date, the Company assesses whether there is objective evidence that a financial asset or a group of financial assets is impaired. When impairment has occurred, the asset's carrying value is reduced with the loss recognized in net earnings.

For financial assets carried at amortized cost, the amount of the impairment is the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the financial asset's original effective interest rate.

In a subsequent period, if the impairment loss decreases and the decrease relates to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed through net earnings. On the date of impairment reversal, the carrying amount of the financial asset cannot exceed its amortized cost had impairment not been recognized.

f) *Leases*

Leases are classified as finance or operating depending on the terms and conditions of the contracts. Leases which transfer substantially all the risks and rewards of ownership are classified as finance leases. An asset held under a finance lease is initially recognized at the inception of the lease at an amount equal to the lower of its fair value and the present value of the minimum lease payments. The corresponding liability to the lessor is included in the consolidated statement of financial position as a finance lease obligation. Subsequent to its initial recognition, the costs are depreciated in accordance with the accounting policy of the applicable asset. Obligations recorded under finance leases are reduced by lease payments, net of imputed interest. Interest expense is recognized in net earnings.

Leases that do not meet the criteria for finance leases are classified as operating leases. Payments made under operating leases are expensed on a straight-line basis over the term of the lease.

SUPPORTING INFORMATION

a) *Financial assets and liabilities*

Financial assets and liabilities are as follows:

<i>December 31, 2016 (millions)</i>	Loans and Receivables	Other Financial Liabilities	Total
Cash and cash equivalents	\$ 181.8	\$ -	\$ 181.8
Accounts receivable	359.4	-	359.4
Financial assets	1.2	-	1.2
Bank indebtedness	-	(34.9)	(34.9)
Accounts payables and accrued liabilities	-	(313.5)	(313.5)
Current portion of long-term debt	-	(0.1)	(0.1)
Long-term debt	-	(295.8)	(295.8)
<b>Total</b>	<b>\$ 542.4</b>	<b>\$ (644.3)</b>	<b>\$ (101.9)</b>

<i>December 31, 2015 (millions)</i>	Loans and Receivables	Other Financial 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 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>

For the year ended December 31, 2016, the fair value gain from derivative financial instruments on the consolidated statement of earnings was \$0.6 million (2015: \$0.5 million) including embedded derivative and forward contracts.

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 value measurements of contingent consideration obligations arising from business combinations were determined by applying the income approach using the probability weighted expected return on assets and a discount rate of 12.9% (2015: 13.4%). The calculation uses unobservable (level 3) inputs including (i) the estimated amount and timing of projected cash flows; (ii) the probability of the achievement of the factors on which the contingency is based; (iii) average net assets; and (iv) the risk-adjusted discount rate used to present value the projected cash flows. Significant changes in any of these inputs in isolation can result in a significantly higher or lower fair value measurement.

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

### *Carrying Amounts*

Amounts recorded in the 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 December 31, 2016 and 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
<i>December 31, 2016 (millions)</i>		
6.0% \$300 million Unsecured Senior Notes due April 19, 2022	\$ 295.7	\$ 304.5
Finance lease obligations	0.2	0.2
<b>Total</b>	<b>\$ 295.9</b>	<b>\$ 304.7</b>
<b>Current portion</b>	<b>\$ 0.1</b>	
<b>Long-term portion</b>	<b>\$ 295.8</b>	
<i>December 31, 2015 (millions)</i>		
6.0% \$300 million Unsecured 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>
Current portion	\$ 0.5	
Long-term portion	\$ 295.2	

### *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 December 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 11);
- ◆ 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 December 31, 2016 and 2015, other than the allowance for doubtful accounts (Note 6). As at December 31, 2016, trade accounts receivable greater than 90 days represented less than 2% 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 December 31, 2016, the Company had outstanding forward foreign exchange contracts in the amount of US\$13.9 million, maturing in 2017 (2015: US\$10.2 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 December 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
2017	\$ 313.5	\$ -	\$ 18.0	\$ 23.3	\$ 354.8
2018	-	-	18.0	19.9	37.9
2019	-	-	18.0	14.8	32.8
2020	-	-	18.0	11.7	29.7
2021	-	-	18.0	10.0	28.0
2022 and beyond	-	300.0	9.9	22.8	332.7
Total	\$ 313.5	\$ 300.0	\$ 99.9	\$ 102.5	\$ 815.9

Operating lease expense for the year ended December 31, 2016 was \$28.5 million (2015: \$25.2 million).

At December 31, 2016, the Company was contractually obligated to repay its letters of credit under its bank facilities at maturity (Note 11).

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, bank indebtedness and long-term debt, net of cash. 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 25 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 received a customer claim of approximately \$90 million relating to product that was distributed by the Company from 2010 to 2012. The customer alleged 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. In 2015, the Company estimated the potential liability to be \$20 million. The Company and the customer are in the process of finalizing the settlement agreement and the current provision is adequate to satisfy the obligation.

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 the 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, based upon achievement of performance measures during the first five years of ownership. As at December 31, 2016, the Company estimated that it has no further obligation relating to these contracts.

# DIRECTORY

## BOARD OF DIRECTORS

**ALAIN BENEDETTI**  
Corporate Director

**JOHN M. CLARK**  
President  
Investment and Technical  
Management Corp.

**JAMES F. DINNING**  
Chair of the Board

**JOHN A. HANNA**  
Corporate Director

**BRIAN R. HEDGES**  
Chief Executive Officer

**BARBARA S. JEREMIAH**  
Corporate Director

**ALICE D. LABERGE**  
Corporate Director

**LISE LACHAPELLE**  
Corporate Director

**WILLIAM M. O'REILLY**  
Corporate Director

**JOHN R. TULLOCH**  
Corporate Director

## OFFICERS

**JAMES F. DINNING**  
Chair of the Board

**BRIAN R. HEDGES**  
Chief Executive Officer

**JOHN G. REID**  
President &  
Chief Operating Officer

**MARION E. BRITTON**  
Executive Vice President,  
Chief Financial Officer &  
Secretary

**LESLEY M.S. COLEMAN**  
Vice President,  
Controller &  
Assistant Secretary

**SHERRI L. MOOSER**  
Assistant Secretary

## CORPORATE HEAD OFFICE

6600 Financial Drive  
Mississauga, Ontario  
L5N 7J6

## ANNUAL MEETING

The Annual Meeting of Shareholders will be held in the Corporate Head office on Wednesday, May 3, 2017 at 3:00 pm



## GLOSSARY

**Adjusted EBIT** - Earnings before deduction of interest and income taxes excluding gain on sale of property, provision for product warranty and asset impairments

**Adjusted EBITDA** - Earnings before deduction of interest, income taxes, depreciation and amortization, gain on sale of property, provision for product warranty and asset impairments

**Book Value Per Share** - Equity value divided by ending common shares outstanding

**Debt as % of Capitalization** - Total net interest bearing debt excluding cash on hand divided by common shareholders' equity plus interest bearing debt excluding cash on hand

**Dividend Yield** - The dividend per share divided by the year end common share price

**Earnings Multiple** - Period ending common share price divided by basic earnings per common share

**EBIT** - Earnings before deduction of interest and income taxes

**Free Cash Flow** - Cash from operating activities before change in working capital less capital expenditures

**Interest Bearing Debt to EBITDA** - Total interest bearing debt excluding cash on hand divided by EBITDA

**Market Capitalization** - Outstanding common shares times market price of a common share at December 31

**Return on Capital Employed** - Adjusted EBIT for period annualized over net assets employed

## TRANSFER AGENT AND REGISTRAR

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c/o Canadian Stock Transfer Company Inc.  
P.O. Box 700, Station B  
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