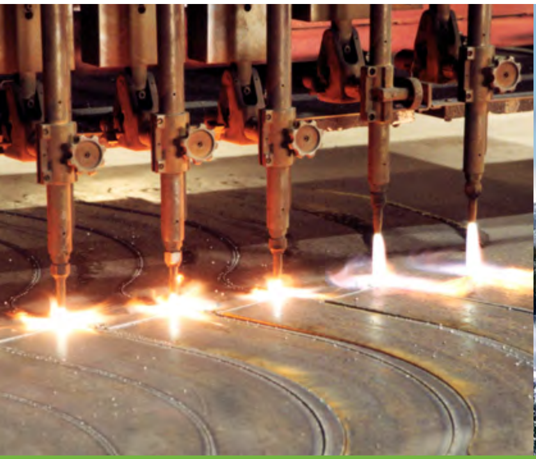
Russel Metals

Annual Report

TABLE OF CONTENTS



METAL SERVICE CENTERS

Our network of metals service centers carries 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 aluminum. We purchase these products primarily from North American steel producers and package and sell them to end users in accordance with their specific needs. We service all major geographical regions of Canada and the Southeastern and Midwestern regions of the United States.

ENERGY TUBULAR PRODUCTS

These operations distribute oil country tubular goods (OCTG), line pipe, tubes, valves and fittings from five Canadian and two U.S. locations. We purchase these products either from the pipe division of North American steel mills or from independent manufactures of pipe and pipe accessories.

STEEL DISTRIBUTORS

Our steel distributors act as master distributors, selling steel in large volumes to other steel service centers and large equipment manufacturers mainly on an "as is" basis. The main steel products sourced by this segment are carbon steel plate, beams, channel, flat rolled products, rails and pipe products.

A MESSAGE FROM PRESIDENT AND CHIEF EXECUTIVE OFFICER

The world continues to exhibit the increased economic volatility which began in late 2008. Your company and indeed the steel industry as a whole, mirrors the general economy as steel usage follows closely the overall general economic activity. The underlying market dynamics, however, are much healthier today than they were when the volatility began. Steel prices are much lower and steel production levels are running at around 75% of capacity. Inventory levels at all points of the supply chain are much tighter as all market participants remain cautious in these uncertain times. For example, in the energy sector, the supply chain is much more stable today than it was in 2008 when the shortage of energy tubular products led to the import of high priced, long lead-time oil country tubular products. Additional domestic production capacity, trade barriers and the increased demand due to horizontal drilling activities have resulted in lower inventory levels in this sector.

Operating in this uncertain economy, your company achieved excellent results for 2011, reporting earnings per share of $1.97. These results are significantly greater than our earnings per share of $0.96 in the 2010 recovery year. Concurrent with our improved earnings in 2011, we increased our dividend twice during the year to an annualized dividend rate of $1.20. The maintenance of a strong dividend policy has been, and will continue to be, a primary goal of your company.

Our customers continue to be cautious in their buying patterns but several pockets of growth emerged during 2011 as our volume of business increased. Our balance sheet continues to be strong with cash of $271 million and untapped credit facilities of $247 million available to finance growth areas. We believe that we are well positioned to capitalize on future opportunities as they arise.

Before we look to the future, I would be remiss if I did not thank those who were so instrumental to our 2011 success, our employee group, whose dedication and industry expertise helped us to achieve stellar results in a difficult climate. I would also like to specifically thank David Miller of our AJ Forsyth division, a long-service leader who retired during 2011. In addition, I would like to acknowledge the contributions over the years of Greg Eidman, President of our Sunbelt Group who passed away in late 2011. He will be missed.

Finally, I would like to thank John Robinson, a Russel Metals' director since 1995, who decided not to stand for reelection this year. John, your patience, wisdom and counsel have been invaluable over the years, thank you.

Looking forward to 2012 and beyond, despite the highly visible world economic issues, we see many positive signs. The construction market, which has been depressed for some time, will slowly start to recover. The low natural gas prices for the past few years have curtailed vertical gas drilling in Alberta and any increase in gas prices will lead to increased activity. Large oil sands projects have been announced and are starting to come online. The growing activity in the horizontal drilling North American shale plays should continue. Our team is in place, our balance sheet is strong and we are looking forward to the challenges and opportunities that 2012 will inevitability bring.

B.R. Hedges
President and Chief Executive Officer

	2011	2010	2009	2008	2007
OPERATING RESULTS (millions)					
Revenues	**$2,693.3**	$2,178.0	$1,971.8	$3,366.2	$2,559.2
Net earnings (loss)	**118.3**	57.3	(92.0)	228.5	111.2
EBIT	**194.9**	110.8	(130.2)	355.2	176.8
Adjusted EBIT (Note)	**194.9**	111.5 (1)	63.9 (1)	392.9 (1)	176.8
EBIT as a % of revenue	**7.2%**	5.1%	3.2%	11.7%	6.9%
Adjusted EBITDA (Note)	**218.4**	136.8 (1)	89.6 (1)	416.3 (1)	197.2
EBITDA as a % of revenue	**8.1%**	6.3%			

GLOSSARY

Adjusted EBIT
Earnings before deduction of interest and income taxes excluding inventory write-downs and assets impairments.

Adjusted EBITDA
Earnings before deduction of interest, income taxes, depreciation and amortization, inventory write-downs 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.

MANAGEMENT'S REPORT TO THE SHAREHOLDERS

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, 2011, and has concluded that they are effective.

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, the management's discussion and analysis of financial condition and the report to shareholders. The Audit Committee reports its findings to the Board of Directors for consideration in approving the consolidated financial statements, the management's discussion and analysis of financial condition and the report to shareholders for presentation to the shareholders.

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

February 15, 2012

Brian R Hedges

M E Britton

B. R. Hedges	M. E. Britton
President and	Vice President and
Chief Executive Officer	Chief Financial Officer

RUSSEL METALS INC.
MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS FOR THE YEAR ENDED DECEMBER 31, 2011

This Management's Discussion and Analysis of Financial Condition and Results of Operations of Russel Metals Inc. and its subsidiaries provides information to assist readers of, and should be read in conjunction with, the audited Consolidated Financial Statements for the year ended December 31, 2011, including the notes thereto. We adopted the International Financial Reporting Standards (IFRS) effective January 1, 2011. These standards required us to restate our January 1, 2010 opening statement of financial position and prepare comparative 2010 IFRS financial statements to be presented with our 2011 results. The information disclosed for the year ended December 31, 2010 has been restated for IFRS differences in the financial statements and in this Management's Discussion and Analysis of Financial Condition and Results of Operations. IFRS is considered Canadian generally accepted accounting principles (GAAP) for Canadian reporting issuers for reporting periods commencing on or after January 1, 2011. All dollar references in our financial statements and in this report are in Canadian dollars unless otherwise stated.

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

Unless otherwise stated, the discussion and analysis contained herein are as of February 15, 2012.

FORWARD-LOOKING STATEMENTS

Certain statements contained in this document constitute forward-looking statements or information within the meaning of applicable securities laws. These statements relate to future events or our future performance. All statements other than statements of historical fact may be 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. These statements 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. These risks and uncertainties include, among other things: no assurance future financing will be available; dilution; change of control; interest rate risk; foreign exchange risk; volatile metal prices; cyclicality of the metals industry and the industries that purchase our products; significant competition; interruption in sources of metals supply; integrating future acquisitions; collective agreements and work stoppages; environmental liabilities; changes in government regulations; failure of key computer-based systems; loss of key individuals; and the current economic climate. While we believe that the expectations reflected in the forward-looking statements contained herein are reasonable, no assurance can be given that these expectations will prove to be correct, and such forward looking statements included herein should not be unduly relied upon. These statements speak only as of the date hereof. Except as required by law, we do not assume any obligation to update the aforementioned forward-looking statements. Our actual results could differ materially from those anticipated in the aforementioned forward-looking statements, as applicable, including as a result of the risk factors set forth elsewhere herein and in our filings with the securities regulatory authorities which are available on SEDAR at www.sedar.com.

NON-GAAP MEASURES

This Management's Discussion and Analysis of Financial Condition and Results of Operations includes a number of measures that are not prescribed by 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 tubular products; and steel distributors.

Our 2011 results reflect an increase in volumes and gross margins compared to 2010. Our earnings for 2011 were $118 million compared to $57 million in 2010. Earnings per share were $1.97 for 2011 compared to $0.96 for 2010. Our return on equity was 14%.

All three operating segments had volume increases compared to 2010. These volume increases along with improved gross margins related to higher steel prices significantly increased our operating profits in the metals service centre and steel distributor segments. Increased drilling activity mainly for oil, improved the operating results of our energy tubular products segment.

IMPACT OF IFRS ON DECEMBER 31, 2010 RESULTS

Note 26 to the audited consolidated financial statements discloses the differences between IFRS and Canadian GAAP used prior to January 1, 2011. The most significant financial impact relates to the accounting treatment of the cash conversion feature of our convertible debentures which existed prior to the amendment of the Trust Indenture governing the debentures in December 2010. Prior to this amendment, the conversion feature allowed us to settle the conversion of the debentures in cash or in a combination of cash and common shares in lieu of common shares prior to maturity, and was a derivative under IFRS. Under IFRS, a derivative is fair valued at each reporting period with the net change impacting net earnings. The amendment of the Trust Indenture resulted in the removal of the charge to the income statement and a split in the convertible debenture between long-term debt and shareholders' equity.

This table summarizes the impact of the restatement of 2010 to IFRS disclosing the impact of the finance expense of the derivative and the other adjustments for the 2010 year:

(millions)	Year Ended December 31, 2010
Net earnings previously reported under Canadian GAAP	$ 69.7
Finance expense convertible debentures	(11.1)
	58.6
Other adjustments, net	(1.3)
Net earnings IFRS	$ 57.3

See Accounting and Reporting Changes in this MD&A for more details on the differences.

SUMMARIZED FINANCIAL INFORMATION

The table discloses selected information related to revenues, earnings and common share information over the last eight quarters.

2011

(in millions, except per share data and volumes)	Quarters Ended Mar. 31	June 30	Sept. 30	Dec. 31	Year Ended Dec. 31
Revenues	**$ 657.7**	**$ 618.6**	**$ 705.4**	**$ 711.6**	**$ 2,693.3**
Earnings from operations	**54.2**	**52.1**	**44.9**	**46.3**	**197.5**
Net earnings	**33.0**	**31.1**	**25.7**	**28.5**	**118.3**
Basic earnings per common share	**$ 0.55**	**$ 0.52**	**$ 0.43**	**$ 0.47**	**$ 1.97**
Diluted earnings per common share	**$ 0.53**	**$ 0.50**	**$ 0.43**	**$ 0.46**	**$ 1.92**
Market price of common shares					
High	**$ 27.70**	**$ 27.75**	**$ 24.99**	**$ 24.28**	**$ 27.75**
Low	**$ 21.90**	**$ 22.35**	**$ 19.28**	**$ 18.90**	**$ 18.90**
Shares outstanding end of quarter	**60,043,673**	**60,062,473**	**60,063,173**	**60,071,698**	**60,071,698**
Number of common shares traded	**13,803,753**	**9,338,536**	**9,204,553**	**9,765,696**	**42,112,538**

2010

(in millions, except per share data and volumes)	Quarters Ended Mar. 31	June 30	Sept. 30	Dec. 31	Year Ended Dec. 31
Revenues	$ 526.8	$ 506.6	$ 582.5	$ 562.1	$ 2,178.0
Earnings from operations	25.9	35.1	30.0	29.4	120.4
Net earnings	9.1	24.8	8.2	15.2	57.3
Basic earnings per common share	$ 0.15	$ 0.41	$ 0.14	$ 0.26	$ 0.96
Diluted earnings per common share	$ 0.15	$ 0.41	$ 0.14	$ 0.26	$ 0.96
Market price of common shares					
High	$ 20.40	$ 22.25	$ 21.31	$ 23.94	$ 23.94
Low	$ 16.59	$ 16.25	$ 17.67	$ 19.75	$ 16.25
Shares outstanding end of quarter	59,698,690	59,698,840	59,705,240	59,978,173	59,978,173
Number of common shares traded	12,412,200	15,424,843	9,071,721	9,272,683	46,181,447

Demand for our product has increased in 2011 compared to 2010, this along with higher metal prices resulted in higher revenues and earnings in 2011. Rising metal prices resulted in stronger earnings for the first half of 2011.

RESULTS OF OPERATIONS

The following table provides operating profits before interest, taxes and other income or expense. 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 the consolidated financial statements.

(in millions, except percentages)	**2011**	2010	**2011 Change as a % of 2010**
Segment Revenues			
Metals service centers	**$ 1,517.2**	$ 1,210.7	**25%**
Energy tubular products	**826.2**	708.3	**17%**
Steel distributors	**342.9**	247.8	**38%**
Other	**7.0**	11.2	
	$ 2,693.3	$ 2,178.0	**24%**
Segment Operating Profits			
Metals service centers	**$ 115.2**	$ 59.4	**94%**
Energy tubular products	**60.4**	52.9	**14%**
Steel distributors	**38.4**	20.9	**84%**
Corporate expenses	**(17.0)**	(17.0)	**0%**
Other	**0.5**	4.2	
Operating profits	**$ 197.5**	$ 120.4	**64%**
Segment Gross Margin as a % of Revenues			
Metals service centers	**22.3%**	21.5%	
Energy tubular products	**14.8%**	14.8%	
Steel distributors	**16.9%**	15.2%	
Total operations	**19.5%**	19.0%	
Segment Operating Profit as a % of Revenues			
Metals service centers	**7.6%**	4.9%	
Energy tubular products	**7.3%**	7.5%	
Steel distributors	**11.2%**	8.4%	
Total operations	**7.3%**	5.5%	

METALS SERVICE CENTERS

a) *Description of operations*

We provide processing and distribution services to a broad base of approximately 33,000 end users through a network of 49 Canadian locations and 12 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, Acier Richler, B&T Steel, Leroux Steel, Mégantic Métal, 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 2011 and 2010 is found in the section that follows.

Steel prices fluctuate significantly throughout the steel cycle. Steel prices increased throughout the first quarter of 2011 due to mill price increases. Steel prices peaked in April 2011 and declined for the remainder of 2011. Steel prices have increased slightly at the start of 2012 and additional increases have been announced for the first quarter of 2012. Although steel prices increased and peaked in the second quarter of both 2010 and 2011, the price increases in 2011 were larger resulting in higher average prices per ton in 2011 for most products.

Steel prices are influenced by overall demand, trade sanctions, iron ore prices, scrap steel prices and product availability. Supply side management, practiced by steel producers in North America, and international supply and demand, which impacts steel imports, affects product availability. Trade sanctions are initiated either by steel mills or by government agencies in North America.

Demand for our product is significantly affected by economic cycles, with revenues and operating profit fluctuating with the level of general business activity in the markets served. We are most impacted by the manufacturing, resource and construction segments of the Canadian economy. Tons shipped in 2011 were approximately 12% higher than that in 2010. Demand improved in 2011, with tons shipped representing approximately 86% of volumes prior to the economic downturn in 2008. The recovery in Canada has been uneven with our operations in the Prairies stronger than before the downturn while our Ontario operations have been experiencing a slower recovery.

Canadian service centers, which represent the majority of our metals service center operations, have operations in all regions of Canada and are affected by general regional economic conditions. Our large market share and our diverse customer base of approximately 18,000 customers means that our results tend to mirror the performance of the regional economies of Canada. Our U.S. operations, which have approximately 15,000 customers, are impacted by the local economic conditions in the regions that they serve.

The strength of the Canadian dollar in 2011 versus 2010 has decreased revenues and profits for our U.S. operations translated to Canadian dollars. Revenues and profits of our U.S. operations reported for 2011 were converted at $0.9893 per US$1 compared to $1.0301 per US$1 for 2010. The exchange rate at December 31, 2011 used to translate the balance sheet was $1.0170 per US$1 versus $0.9946 per US$1 at December 31, 2010.

Our Canadian operations are 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 -- 2011 compared to 2010*

Revenues for 2011 increased 25% to $1.5 billion compared to 2010 revenues of $1.2 billion. Overall tons shipped in metals service centers were approximately 12% higher than those shipped in 2010. Tons shipped per day have been consistent throughout 2011. Average selling price of metal for 2011 was approximately 12% higher than the average for 2010.

Gross margin as a percentage of revenues, was 22.3% for 2011 compared to 21.5% for 2010. Gross margin percentage was higher due to larger metal price increases in the first half of 2011 which generated higher inventory holding gains.

Our average revenue per invoice for 2011 was approximately $1,772 compared to $1,453 for 2010, reflecting higher average orders in tons. We handled approximately 3,426 transactions per day in 2011 compared to 3,337 per day for 2010, an increase of 3%.

Operating expenses for 2011 increased $22 million, or by 11%, from 2010 mainly related to higher variable compensation and higher freight costs due to increased volumes, orders delivered and fuel costs. Operating expenses as a percentage of revenue improved by 2% to 15% for 2011.

Metals service centers operating profits for 2011 increased by 94% to $115 million from $59 million in 2010. The significant increase was due to the rise in volumes and gross margins compared to 2010 and lower operating expenses as a percentage of revenue.

ENERGY TUBULAR PRODUCTS

a) Description of operations

These operations distribute oil country tubular goods (OCTG), line pipe, tubes, valves and fittings, primarily to the energy industry in Western Canada and the United States. Our business units are clustered in Alberta in Canada and Colorado and Texas in the U.S. A large portion of our inventories are located in third party warehouses ready for distribution to customers throughout North America. In addition, we operate from five Canadian and two U.S. facilities. We purchase our products either from the pipe division of North American steel mills, independent manufacturers of pipe and pipe accessories, international steel mills or other distributors. Our energy tubular products segment operates under the names 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 tubular products segment results. More specific information on how these factors impacted 2011 and 2010 is found in the section that follows.

The price of natural gas and oil can impact rig count and drilling activities, particularly in Western Canada. Rig activity affects demand for our products. The price of oil increased during 2010 and remained high during 2011 resulting in improved rig activity. Drilling rig counts, an indicator of demand for pipe product, were at higher levels in both Canada and the U.S. in 2011 compared to 2010. Natural gas prices were at low levels and thus drilling activity related to gas remained below historical levels, particularly in Canada. Fracking technology enables producers to economically drill in the oil and gas-rich shale fields, which has offset the drop in conventional gas drilling.

Prices for metal are influenced by overall demand, trade sanctions and product availability. 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. These trade actions tend to reduce imports of these products as higher prices are paid at the time of import.

Our Canadian operations were 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 impacts the cost of inventory and cost of sales.

Drilling related to oil and natural gas in Western Canada usually peaks during the period from October to March.

c) Energy tubular products segment results -- 2011 compared to 2010

Revenues increased 17% for 2011 to $826 million compared to 2010. Our U.S. operations had a revenue increase of 35% due to increased activity. Our operations servicing oil drilling activity in Western Canada had an increase of 5% related to increased oil drilling activity. Our operations servicing the oil sands had a revenue increase of 19% mainly related to a return to more normal operating levels.

Gross margin as a percentage of revenue was 14.8% for both 2011 and 2010. Prices for pipe have been relatively constant during 2011.

Operating expenses were $10 million higher in 2011 compared to 2010, mainly due to higher freight on increased volumes, other volume related costs and variable compensation.

This segment generated operating profits of $60 million for 2011 compared to $53 million for 2010. The increase related to additional gross margin dollars from higher revenues.

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 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, a division of Sunbelt Group, processes coils.
.

b) Factors affecting results

The following is a general discussion of the factors affecting our steel distributors. More specific information on how these factors impacted 2011 and 2010 is found in the section that follows.

Steel prices are influenced by overall demand, trade sanctions and product availability both domestically and worldwide. Trade sanctions are initiated either by steel mills or government agencies in North America. Trade actions currently exist on plate and pipe from specified countries. Mill capacity by product line in North America and international supply and demand impact steel imports and significantly affect product availability.

Our Canadian operations source product outside of Canada that is priced in U.S. dollars. Movements in the Canadian dollar can result in some products that we have purchased being subsequently available in the marketplace at a lower cost. In addition, the change in the Canadian dollar in 2011 versus 2010 decreased revenues and profits for our U.S. operations translated to Canadian dollars.

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 from them on a periodic basis, which can result in large fluctuations in revenues reported from period to period.

c) Steel distributors segment results -- 2011 compared to 2010

Revenues for 2011 were 38% higher than that of 2010 mainly due to higher volumes. Extended lead times for certain products from steel mills during the first half of 2011, as well as higher steel purchases as customers have balanced inventory levels, resulted in increased demand and revenues in 2011.

Gross margin as a percentage of revenues was 16.9% for 2011 compared to 15.2% for 2010. Gross margin is higher in 2011 due to rising steel prices in the first half of 2011.

Operating expenses were $3 million higher for 2011 compared to 2010, mainly due to higher variable compensation in 2011. Operating expenses as a percentage of revenue improved by 1% to 6%.

Operating profit for 2011 was $38 million, $18 million higher than 2010. The increase in operating profit over 2010 was mainly a result of higher volumes and gross margins.

CORPORATE EXPENSES -- 2011 COMPARED TO 2010

Corporate expenses were $17 million for both 2011 and 2010. Higher bonus accruals in 2011 due to improved earnings per share were offset by a lower expense in 2011 for mark to market valuation of deferred and restricted stock units.

OTHER -- 2011 COMPARED TO 2010

Other revenues and income represents the results of our bulk commodities handling terminal in Thunder Bay, Ontario. Revenues and operating profits have decreased due to lower volumes of metallurgical coal and potash in 2011.

CONSOLIDATED RESULTS -- 2011 COMPARED TO 2010

Operating profits from operations were $198 million for 2011, compared to $120 million in 2010. Improved volumes and increased steel prices in 2011 were the main contributors to the significantly improved results.

INTEREST EXPENSE AND INCOME

Net interest expense was $26 million for 2011 compared to $28 million for 2010. The reduction in net interest expense related to lower interest after we repurchased a portion of our U.S. Senior Notes.

OTHER FINANCE INCOME AND EXPENSE

Net finance expense was $3 million for 2011 compared to net finance expense of $10 million for 2010. The expense in 2011 mainly related to the repurchase of US$28 million of our Senior Notes. The cash conversion feature that was in our convertible debentures is a derivative under IFRS and resulted in a fair value expense of $11 million in 2010. In December 2010, we amended the Trust Indenture governing our convertible debentures to remove the settlement option under the conversion feature prior to maturity, which eliminated the derivative treatment and associated impact on earnings in 2011.

INCOME TAXES

We recorded a provision for income taxes of $51 million for 2011. Our effective income tax rate for 2011 was 30.2% compared to 31.1% for 2010. We estimate our normalized effective income tax rate to be 29% for 2012.

NET EARNINGS

Net earnings for 2011 were $118 million compared to $57 million for 2010. Basic earnings per common share for 2011 were $1.97 compared to $0.96 per common share in 2010.

Results improved due to rising steel prices, higher volumes and the removal of the cash conversion feature in our convertible debentures that created an expense in 2010.

SHARES OUTSTANDING AND DIVIDENDS

The weighted average number of common shares outstanding for 2011 was 60,043,222 compared to 59,717,629 for 2010. As at December 31, 2011 and February 15, 2012, we had 60,071,698 common shares outstanding. The number of common shares outstanding has increased as a result of options being exercised.

We paid common share dividends of $69 million or $1.15 per share in 2011 as compared to $60 million or $1.00 per share in 2010.

We have $175 million of 7.75% convertible unsecured subordinated debentures outstanding which mature on September 30, 2016. Each debenture is convertible into common shares at the option of the holder at any time on or prior to the business day immediately preceding (i) the maturity date, or (ii) the date specified for redemption of the convertible debentures, at a conversion price of $25.75 per share being a conversion rate of 38.8350 common shares per $1,000 principal amount of convertible debentures

Our U.S. Senior Notes indenture provides restrictions on dividend payments. We currently have a basket of approximately $263 million available for restricted payments which is adjusted for 50% of net earnings or losses on a quarterly basis. We do not believe this will restrict our ability to pay dividends in the forseeable future.

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 a dividend as our borrowing base, which is based on percentages of accounts receivable and inventories, has traditionally been in excess of borrowings plus four times the current dividend.

EBITDA

The following table shows the reconciliation of net earnings (loss) to EBITDA and adjusted EBITDA:

(millions)	**2011**	2010
Net earnings	**$ 118.3**	$ 57.3
Provision for income taxes	**51.1**	25.9
Interest expense, net	**25.5**	27.6
Earnings before interest and income taxes (EBIT)	**194.9**	110.8
Depreciation and amortization	**23.5**	25.3
Earnings before interest, income taxes, depreciation and amortization (EBITDA)	**$ 218.4**	$ 136.1

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

CAPITAL EXPENDITURES

Capital expenditures were $18 million for 2011 compared to $12 million for 2010. Depreciation expense was $22 million in 2011 and $24 million in 2010.

In 2011, we relocated our Ontario structural steel business to our plant in Cambridge, Ontario. Our capital expenditures included $5 million for the cost of a new outside crane facility in Cambridge.

Capital expenditures mainly relate to the replacement of capital items, the purchase of additional processing equipment across a broad base of our operations and upgrades to our existing facilities and computer systems. Our expectation is for capital expenditures to approximate depreciation expense over the long term which is higher than our current expenditures.

LIQUIDITY

At December 31, 2011, we had cash of $271 million compared to $324 million at December 31, 2010, a decrease of $53 million in the year. Our operations generated $148 million before working capital changes in 2011. In 2011, we invested $91 million in working capital to support our growth and $18 million for capital expenditures. We repurchased $29 million of our U.S. Senior Notes, reducing our long-term debt, and distributed $69 million in dividends to shareholders.

Our metals distribution business experiences 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 economic climate and thus it is possible to experience additional bad debts and increased days outstanding for accounts receivable, which may affect the timing of collections. Total assets were $1.5 billion at December 31, 2011 and $1.4 billion at December 31, 2010. At December 31, 2011, current assets excluding cash represented 81% of our total assets excluding cash, versus 78% at December 31, 2010.

Cash generated from operating activities was $56 million for 2011 compared to $85 million for 2010. During 2011, we had a $91 million increase in working capital compared to a decrease of $12 million in 2010. This use of cash for working capital as revenues increase is consistent with our business model.

Cash utilized for inventory was $98 million in 2011, mainly related to increased tons and steel prices in all the three segments. Inventories represented 42% of our total assets at December 31, 2011 and 38% at December 31, 2010.

Inventory by Segment (millions)	**Dec. 31 2011**	Sept. 30 2011	June 30 2011	Mar. 31 2011	Dec. 31 2010
Metals service centers	**$ 270**	$ 264	$ 249	$ 238	$ 202
Energy tubular products	**304**	295	300	257	290
Steel distributors	**72**	94	83	54	52
Total	**$ 646**	$ 653	$ 632	$ 549	$ 544

Inventory turns are calculated using annualized quarterly cost of sales dollars, divided by inventory in dollars at the end of the quarter.

	Quarters Ended				
Inventory Turns	**Dec. 31 2011**	Sept. 30 2011	June 30 2011	Mar. 31 2011	Dec. 31 2010
Metals service centers	**4.4**	4.7	4.8	4.6	4.8
Energy tubular products	**2.6**	2.6	1.6	3.0	2.3
Steel distributors	**4.8**	3.2	3.2	4.2	4.0
Total	**3.6**	3.5	3.1	3.8	3.4

At December 31, 2011, our metals service centers had more tons of inventory priced at a higher average price than at December 31, 2010. Inventory has been increased to align with increased sales as volumes increased compared to 2010.

Our energy tubular products operations had inventory at the end of 2011 slightly higher then 2010; however, higher revenues resulted in increased inventory turns for 2011.

Our steel distributors segment had increased inventory to service higher demand. These tons were at higher prices resulting in more inventory dollars than December 2010.

As a result of higher volumes and selling prices, accounts receivable utilized cash of $79 million in 2011. Accounts receivable represented 25% of our total assets at December 31, 2011 compared to 21% of our total assets at December 31, 2010.

During 2011, we made income tax payments of $46 million. During 2010, we received income tax refunds, net of payments, of $37 million due to 2009 losses.

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)	**2011**	2010
Cash from operating activities before non-cash working capital	**$ 147.6**	$ 97.3
Purchase of fixed assets	**(18.1)**	(11.6)
	$ 129.5	$ 85.7

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

CASH, DEBT AND CREDIT FACILITIES

Debt *As at December 31 (millions)*	**2011**	2010
Long-term debt		
6.375% US$138.9 million Senior Notes due March 1, 2014 (2010: US$167.2 million)	**$ 140**	$ 164
7.75% $175 million convertible debentures due September 30, 2016	**154**	151
Finance leases	**4**	5
	298	320
Current portion	**(1)**	(1)
	$ 297	$ 319

During 2011, we repurchased US$28 million of our U.S. Senior Notes. The face value of Notes outstanding at December 31, 2011 was US$139 million compared to US$167 million as at December 31, 2010.

Our convertible debentures have been split between debt and equity. The amount allocated to equity was $29 million representing the valuation of the holders' option to convert the convertible debentures into common shares and the fair value adjustments on the cash conversion feature that was a derivative under IFRS prior to the amendment of the Trust Indenture in December 2010.

Cash and Bank Credit Facilities *As at December 31, 2011 (millions)*	**Russel Metals Facility**	**U.S. Subsidiary Facility**	**Total**
Bank loans	**$ -**	**$ -**	**$ -**
Cash net of outstanding cheques	**254**	**17**	**271**
Net cash	**254**	**17**	**271**
Letters of credit	**(44)**	**(6)**	**(50)**
	$ 210	**$ 11**	**$ 221**
Facilities			
Borrowings and letters of credit	**$ 202**	**$ 20**	**$ 222**
Letters of credit	**50**	**25**	**75**
Facilities availability	**$ 252**	**$ 45**	**$ 297**
Available line based on borrowing base	**$ 252**	**$ 45**	**$ 297**

We have a credit facility with a syndicate of Canadian and U.S. banks totaling $252 million which was extended to June 24, 2014 during the second quarter of 2011. In July 2011, our U.S. subsidiary facility of US$45 million was renewed with an expiry of July 2012.

The syndicated facility consists of availability of $202 million to be utilized for borrowings and letters of credit and $50 million to be utilized only for letters of credit. Letters of credit are issued under the $50 million line first and additional needs are issued under the $202 million line. 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 $252 million. As of December 31, 2011, we were entitled to borrow and issue letters of credit totaling $252 million under this facility. At December 31, 2011 and 2010, we had no borrowings. At December 31, 2011, we had letters of credit of $44 million compared to $14 million at December 31, 2010.

The maximum borrowings including letters of credit under the U.S. subsidiary's facility are US$45 million. At December 31, 2011, this subsidiary had no borrowings and had letters of credit of US$6 million. At December 31, 2010, this subsidiary had no borrowings and had letters of credit of US$13 million.

With our cash, cash equivalents and our bank facilities we have access to approximately $493 million of cash based on our December 31, 2011 balances. The use of our bank facilities has been predominantly to fund working capital requirements and trade letters of credit for inventory purchases. As steel prices and demand declined, cash generated from accounts receivable and inventory was utilized to reduce bank borrowings. These lines may be used to support increases in working capital when volumes and steel prices increase.

CONTRACTUAL OBLIGATIONS

As at December 31, 2011, we were contractually obligated to make payments under our long-term debt agreements, finance lease obligations and operating leases that come due in the future.

Contractual Obligations	**Payments due in**				
(millions)	**2012**	**2013 and 2014**	**2015 and 2016**	**2017 and thereafter**	**Total**
Debt	$ -	$ 141.3	$ 175.0	$ -	$ 316.3
Long-term debt interest	22.8	37.9	23.8	-	84.5
Finance lease obligations	1.6	2.2	0.4	-	4.2
Operating leases	12.9	16.4	6.7	6.1	42.1
Total	$ 37.3	$ 197.8	$ 205.9	$ 6.1	$ 447.1

We have disclosed our obligations related to environmental litigations, regulatory actions and remediation in our Annual Information Form. The obligations relate to previously divested or discontinued operations and do not relate to the metals distribution business.

We have multiple defined benefit pension plans in Canada, as disclosed in Note 13 of our 2011 consolidated financial statements. During 2011, we contributed $5.1 million to these plans. We expect to contribute approximately $4.4 million to these plans during 2012.

OFF-BALANCE SHEET ARRANGEMENTS

Our off-balance sheet arrangements consist of the letters of credit disclosed in the bank credit facilities table and operating lease obligations disclosed in Note 23 to the financial statements.

ACCOUNTING AND REPORTING CHANGES

We adopted IFRS effective January 1, 2011, which required us to restate our January 1, 2010 statement of financial position and prepare comparative 2010 IFRS financial statements to report with our 2011 financial statements. IFRS requires significantly more disclosure than the previous requirements under Canadian GAAP and during the first reporting year we are required to include a number of reconciliations compared to prior Canadian GAAP.

Note 26 of our consolidated financial statements provides details on our exemption options on initial conversion to IFRS, key Canadian GAAP to IFRS differences, reconciliations of Canadian GAAP to IFRS for 2010, changes in accounting policies, presentation reclassifications and additional IFRS annual disclosures.

As a result of the IFRS conversion and the exemption options chosen, our January 1, 2010 opening shareholders' equity was reduced by $42 million. This reduction resulted from the following:

- *Employee future benefits* - charge to retained earnings for unamortized actuarial gains and losses and other adjustments relating to our pension plans,
- *Share based compensation* - change to graded vesting on stock options and restricted share units,
- *Financial instruments* - revaluation of the cash conversion feature on our convertible debentures,
- *Decommissioning liabilities* - realization of previously unrecognized constructive obligations for environmental cleanup,

- *Property, plant and equipment* - accelerated depreciation caused by componentization,
- *Asset impairment* - assessment of cash generating units at a lower level and discounting of expected cash flows,
- *Foreign currency translation* - one time exemption to set the foreign currency cumulative translation adjustment to zero, and
- *Income taxes* - on above items.

The above changes similarly impacted the 2010 earnings. The most significant item impacting our 2010 earnings was the cash conversion feature in our convertible debenture, which caused it to be a derivative. We removed this feature by amending our Trust Indenture governing the convertible debentures in December 2010.

The remaining items, represented a $1.3 million impact on 2010 earnings:

(millions)	Year ended December 31, 2010
Employee future benefits - reduced pension expense as unamortized actuarial gains and losses were charged to opening retained earnings	$ 0.5
Share based compensation - increased expense as graded vesting results in larger expense in earlier years	(0.2)
Financial instruments - increased accretion on revalued conversion option in convertible debentures	(0.8)
Decommissioning liabilities - expenses related to constructive obligations of prior environmental matters	(0.4)
Depreciation on plant and equipment - charge for accelerated depreciation rates on componentized assets	(0.4)
Foreign currency translation - change in 2010	(0.3)
Income taxes - tax effect of above items	0.3
Impact on earnings excluding cash conversion derivative expense	$ (1.3)

ACCOUNTING ESTIMATES

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

Our most significant assets are accounts receivable and inventories.

Accounts Receivable
An allowance for doubtful accounts is maintained for estimated losses resulting from the inability of our customers to make required payments. Assessments are based on aging of receivables, legal issues (bankruptcy status), past collection experience, current financials or 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, 2011 approximates our reserve at December 31, 2010; however, our accounts receivable balance is significantly higher. Bad debt expense for 2011 as a percentage of revenue approximates that of 2010.

Inventories
We review our inventories to ensure that the cost of inventories is not in excess of its estimated net realizable value and for obsolete and slow moving product. Inventory reserves or write-downs are recorded when cost exceeds the estimated selling price less cost to sell and when product is determined to be slow moving or obsolete. The inventory reserve level at December 31, 2011 decreased compared to the level at December 31, 2010 mainly due to the sale of inventory that had been written-down.

Other areas involving significant estimates and judgements include:

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.

Employee Benefit Plans
We perform a valuation, at least every three years, for each defined benefit plan to determine the actuarial present value of the benefits. The valuation uses management's assumptions for the discount rate, expected long-term rate of return on plan assets, 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 costs. We account for differences between actual and assumed results by recognizing differences in benefit obligations and plan performance over the working lives of the employees who benefit from the plans.

We had approximately $85 million in plan assets at December 31, 2011, which is a decrease of approximately $2 million from December 31, 2010. Due to a change in the discount rate used from 5.25% in 2010 to 4.5% in 2011, which reflects the current interest rate environment, our accrued benefit obligations increased by $14 million to $119 million at December 31, 2011 as compared to $105 million at December 31, 2010. Our projected 2012 pension expense has also increased by approximately $1 million.

CONTROLS AND PROCEDURES

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

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

(i) financial statements prepared for external purposes are in accordance with the Company's generally accepted accounting principles,
(ii) transactions are recorded as necessary to permit the preparation of financial statements, and records are maintained in reasonable detail,
(iii) receipts and expenditures of the Company are made only in accordance with authorizations of the Company's management and directors, and

(iv) unauthorized acquisitions, uses or dispositions of the Company's assets that could have a material effect on the financial statements will be prevented or detected in order to prevent material error in financial statements.

The President and Chief Executive Officer and the 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, 2011. 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 the 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 based on those results were appropriate.

VISION AND STRATEGY

The metals distribution business is a segment of a mature, cyclical industry. The use of service centers and steel distributors by both manufacturers and end users of steel continues to grow. This is evidenced by the growth in the percentage of total steel shipments from steel producers to service centers. As the distribution segment's share of steel industry shipments continues to grow, service centers such as ours can grow their business over the course of a cycle.

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 the course of the cycle. Our conservative management approach creates relatively stronger trough earnings but could cause potential peak earnings to be somewhat muted. Management strongly believes that it is more prudent to be profitable throughout a cycle, without the spikes in earnings caused by less emphasis on asset management, and have average earnings over the full range of the cycle in the top deciles of the industry.

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

We believe that the length of the steel-based economic cycle will continue to be short, 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 business systems to enable faster reaction times to changing business conditions. In addition, management believes the high level of service and flexibility provided by service centers will enable this distribution channel to capture an increasing percentage of total metal revenues to end users, allowing for increased growth within the sector.

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. Demand for our products is at approximately 86% of pre-2009 levels and we cannot predict when or if it will return to pre-2009 levels across the regions we serve. Our Annual Information Form includes a summary of risks.

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.

(millions, except percentages)	Quarters Ended December 31, 2011	2010	2011 change as a % of 2010
Segment Revenues			
Metals service centers	**$ 375.1**	$ 303.9	**23%**
Energy tubular products	**233.5**	194.0	**20%**
Steel distributors	**101.0**	61.1	**65%**
Other	**2.0**	3.1	
	$ 711.6	$ 562.1	**27%**
Segment Operating Profits			
Metals service centers	**$ 21.3**	$ 12.3	**73%**
Energy tubular products	**16.9**	16.6	**2%**
Steel distributors	**11.1**	4.7	**136%**
Corporate expenses	**(3.4)**	(5.8)	**41%**
Other	**0.4**	1.6	
Operating profits	**$ 46.3**	$ 29.4	**57%**
Segment Gross Margin as a % of Revenues			
Metals service centers	**20.1%**	20.1%	
Energy tubular products	**14.0%**	15.7%	
Steel distributors	**15.6%**	14.9%	
Total operations	**17.7%**	18.4%	
Segment Operating Profit as a % of Revenues			
Metals service centers	**5.7%**	4.0%	
Energy tubular products	**7.2%**	8.6%	
Steel distributors	**11.0%**	7.7%	
Total operations	**6.5%**	5.2%	

Fourth quarter results for 2011 were strong compared to the 2011 third quarter and the 2010 fourth quarter. Our earnings per share for the fourth quarter of 2011 were $0.47 compared to fourth quarter of 2010 of $0.26 and third quarter of 2011 of $0.43. The seasonal pick up in our energy tubular segment and higher volumes in our steel distributors segment contributed to our strong results. Tons shipped in the fourth quarter of 2011 for metals service centers were approximately 4% lower than for the third quarter of 2011 while selling prices were consistent.

OUTLOOK

2011 was a successful year with demand for our products and operating profits improving in all three metals segments. We believe that 2012 will be another positive year and the manufacturing and energy sectors will again lead economic growth.

INDEPENDENT AUDITOR'S REPORT

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 positions as at December 31, 2011, December 31, 2010 and January 1, 2010, and the consolidated statements of earnings, comprehensive income, cash flows and changes in equity for the years ended December 31, 2011 and December 31, 2010, 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, 2011, December 31, 2010 and January 1, 2010, and its financial performance and its cash flows for the years ended December 31, 2011 and December 31, 2010 in accordance with International Financial Reporting Standards.

Deloitte & Touche LLP

Deloitte & Touche LLP
Chartered Accountants
Licensed Public Accountants

February 15, 2012
Toronto, Ontario

CONSOLIDATED STATEMENTS OF EARNINGS

(in millions of Canadian dollars, except per share data)	Years ended December 31 **2011**	2010
Revenues	**$ 2,693.3**	$ 2,178.0
Cost of materials	**2,168.0**	1,763.6
Employee expenses (Note 17)	**202.3**	177.1
Other operating expenses (Note 17)	**125.5**	116.9
Earnings before interest, finance and income tax expense	**197.5**	120.4
Interest expense (Note 18)	**27.5**	29.2
Interest income (Note 18)	**(2.0)**	(1.6)
Finance expense convertible debentures (Note 18)	**-**	11.1
Other finance expense (income) (Note 18)	**2.6**	(1.5)
Earnings before income taxes	**169.4**	83.2
Provision for income taxes (Note 19)	**51.1**	25.9
Net earnings for the year	**$ 118.3**	$ 57.3
Basic earnings per common share (Note 16)	**$ 1.97**	$ 0.96
Diluted earnings per common share (Note 16)	**$ 1.92**	$ 0.96

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(in millions of Canadian dollars)	Years ended December 31 **2011**	2010
Net earnings for the year	**$ 118.3**	$ 57.3
Other comprehensive income (loss) net of tax (Note 25)		
Unrealized foreign exchange gains (losses) on translation of foreign operations	**9.1**	(17.2)
Reclassification of adjustment for realized foreign exchange gain included in net earnings	**-**	0.1
Unrealized (losses) gains on items designated as net investment hedges	**(2.5)**	8.8
Unrealized losses on items designated as cash flow hedges	**-**	(2.5)
Losses on derivatives designated as cash flow hedges transferred to net earnings during the year	**1.1**	0.1
Actuarial (losses) gains on pension and similar obligations	**(13.8)**	0.8
Other comprehensive loss	**(6.1)**	(9.9)
Total comprehensive income	**$ 112.2**	$ 47.4

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

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

(in millions of Canadian dollars)	**December 31 2011**	December 31 2010	January 1 2010
ASSETS			
Current			
Cash and cash equivalents (Note 4)	**$ 270.7**	$ 323.7	$ 359.6
Accounts receivable (Note 5)	**382.4**	301.4	217.8
Inventories (Note 6)	**645.6**	544.1	517.9
Prepaid expenses	**4.6**	3.0	4.9
Income taxes receivable	**0.5**	2.8	50.6
	1,303.8	1,175.0	1,150.8
Property, Plant and Equipment (Note 7)	**201.3**	205.2	221.9
Deferred Income Tax Assets (Note 19)	**5.3**	7.1	8.9
Pensions and Benefits (Note 13)	**-**	0.7	-
Financial and Other Assets (Note 8)	**3.3**	3.8	8.3
Goodwill and Intangibles (Note 9)	**24.7**	24.9	26.4
	$ 1,538.4	$ 1,416.7	$ 1,416.3
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current			
Accounts payable and accrued liabilities (Note 11)	**$ 362.8**	$ 272.8	$ 245.4
Income taxes payable	**17.4**	14.4	-
Current portion long-term debt (Note 12)	**1.3**	1.2	1.3
	381.5	288.4	246.7
Derivatives (Note 23)	**-**	-	53.1
Long-Term Debt (Note 12)	**296.5**	318.5	333.1
Pensions and Benefits (Note 13)	**33.3**	17.9	20.8
Deferred Income Tax Liabilities (Note 19)	**0.4**	7.0	2.3
Provisions (Note 20)	**5.4**	5.6	5.5
Other Non-Current Liabilities (Note 20)	**1.9**	6.5	3.9
	719.0	643.9	665.4
Shareholders' Equity (Note 14)			
Common shares	**485.4**	483.7	478.9
Retained earnings	**306.7**	257.5	259.9
Contributed surplus	**15.7**	13.9	13.2
Accumulated other comprehensive income (loss)	**(17.1)**	(11.0)	(1.1)
Equity component of convertible debenture (Note 12)	**28.7**	28.7	-
	819.4	772.8	750.9
	$ 1,538.4	$ 1,416.7	$ 1,416.3

ON BEHALF OF THE BOARD,

A. Benedetti
Director

L. Lachapelle
Director

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

CONSOLIDATED STATEMENTS OF CASH FLOW

(in millions of Canadian dollars)	**Years ended December 31** **2011**	2010
Operating activities		
Net earnings for the year	**$ 118.3**	$ 57.3
Depreciation and amortization	**23.5**	25.3
Deferred income taxes	**(0.2)**	0.6
Loss on sale of property, plant and equipment	**0.1**	0.8
Stock-based compensation	**2.1**	1.5
Loss on derivatives	**-**	11.2
Difference between pension expense and amount funded	**(2.6)**	(3.1)
Debt accretion, amortization and other	**6.4**	3.7
Cash from operating activities before non-cash working capital	**147.6**	97.3
Changes in non-cash working capital items		
Accounts receivable	**(78.6)**	(86.3)
Inventories	**(97.5)**	(34.8)
Accounts payable and accrued liabilities	**79.0**	33.3
Income tax receivable/payable	**7.2**	73.8
Other	**(1.5)**	2.1
Change in non-cash working capital	**(91.4)**	(11.9)
Cash from operating activities	**56.2**	85.4
Financing activities		
Issue of common shares	**1.4**	4.0
Dividends on common shares	**(69.1)**	(59.7)
Repayment of long-term debt	**(29.3)**	(9.2)
Swap termination (Note 23)	**-**	(35.2)
Deferred financing	**(0.6)**	(0.7)
Cash used in financing activities	**(97.6)**	(100.8)
Investing activities		
Purchase of property, plant and equipment	**(18.1)**	(11.6)
Proceeds on sale of property, plant and equipment	**0.8**	1.4
Proceeds on sale of investment	**-**	6.0
Other	**-**	(0.5)
Cash used in investing activities	**(17.3)**	(4.7)
Effect of exchange rates on cash and cash equivalents	**5.7**	(15.8)
Decrease in cash and cash equivalents	**(53.0)**	(35.9)
Cash and cash equivalents, beginning of the year	**323.7**	359.6
Cash and cash equivalents, end of the year	**$ 270.7**	$ 323.7

Supplemental cash flow information:		
Income taxes paid (received)	**$ 45.8**	$ (36.8)
Interest paid (net)	**$ 25.5**	$ 26.2

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

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

(in millions of Canadian dollars)	Common Shares	Retained Earnings	Contributed Surplus	Accumulated Other Comprehensive Income (Loss)	Equity Component of Convertible Debentures	Total
Balance, January 1, 2011	$ 483.7	$ 257.5	$ 13.9	$ (11.0)	$ 28.7	$ 772.8
Payment of dividends	-	(69.1)	-	-	-	(69.1)
Net earnings for the year	-	118.3	-	-	-	118.3
Other comprehensive loss for the year	-	-	-	(6.1)	-	(6.1)
Recognition of stock-based compensation	-	-	1.8	-	-	1.8
Stock options exercised	1.7	-	-	-	-	1.7
Balance, December 31, 2011	$ 485.4	$ 306.7	$ 15.7	$ (17.1)	$ 28.7	$ 819.4

(in millions of Canadian dollars)	Common Shares	Retained Earnings	Contributed Surplus	Accumulated Other Comprehensive Income (Loss)	Equity Component of Convertible Debentures	Total
Balance, January 1, 2010	$ 478.9	$ 259.9	$ 13.2	$ (1.1)	$ -	$ 750.9
Payment of dividends	-	(59.7)	-	-	-	(59.7)
Net earnings for the year	-	57.3	-	-	-	57.3
Other comprehensive loss for the year	-	-		(9.9)	-	(9.9)
Recognition of stock-based compensation	-	-	0.7	-	-	0.7
Stock options exercised	4.8	-	-	-	-	4.8
Equity component of convertible debentures (Note 12)	-	-	-	-	28.7	28.7
Balance, December 31, 2010	$ 483.7	$ 257.5	$ 13.9	$ (11.0)	$ 28.7	$ 772.8

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a) General business description

Russel Metals Inc. (the "Company"), a Canadian corporation, with common shares listed on the Toronto Stock Exchange (TSX), is a metals distribution company operating in various locations within North America. The Company's registered office is located at 1900 Minnesota Court, Suite 210, Mississauga, Ontario, L5N 3C9.

These consolidated financial statements were authorized for issue by the Board of Directors on February 15, 2012.

b) Statement of compliance and basis of presentation

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

The Company's consolidated financial statements were previously prepared in accordance with accounting principles generally accepted in Canada ("Canadian GAAP"). IFRS is considered Canadian GAAP for Canadian reporting issuers for reporting periods commencing on or after January 1, 2011. In preparing these financial statements, management has amended certain accounting and measurement methods previously applied in the Canadian GAAP financial statements to comply with IFRS. Note 26 contains reconciliations and descriptions of the effect of the transition from Canadian GAAP to IFRS on equity, earnings and other comprehensive income for the year ended December 31, 2010 along with line-by-line reconciliations of the statement of financial position as at January 1, 2010 and December 31, 2010.

These financial statements were prepared on a going concern assumption using the historical cost basis except for certain financial instruments. 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. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in Note 2.

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

c) Basis of consolidation

The consolidated financial statements include the accounts of Russel Metals Inc. and its subsidiary companies. Accounting policies for all subsidiaries are consistent with those of the parent and all intercompany transactions, balances, income and expenses are eliminated on consolidation.

d) Business combinations

Subsidiaries are fully consolidated from the date control is transferred to the Company. Control is achieved where the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

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 and liabilities incurred or assumed 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 remaining 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 initially at fair value at the acquisition date and changes are recognized in net earnings.

e) Cash and cash equivalents

Cash and cash equivalents include demand deposits, bank term deposits and investment grade 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.

f) Trade receivables

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.

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

g) Inventories

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 not estimated to be recoverable 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.

h) Property, plant, equipment and depreciation

Property, plant, equipment and leasehold improvements are recorded at cost, less impairment. 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. These 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.

i) Deferred financing charges and amortization

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.

j) Goodwill and intangibles

Goodwill

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 and whenever facts and circumstances indicate that carrying amounts may not be recoverable.

Intangibles

Intangible assets are comprised of customer lists. 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 lists are amortized on a straight line basis over their estimated useful life of 15 years. Useful lives are reviewed at the end of each reporting period and adjusted if appropriate.

k) Impairment of long lived non-financial assets

Non-financial tangible and intangible assets (other than goodwill) 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. A CGU is the smallest identifiable group of assets that generates cash flows that are largely independent of the cash flows from other assets or group of assets. Impairment losses are recognized in net earnings for the period. Impairment losses recognized in respect of 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 unit 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 flows, 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.

l) Employee future benefits

For defined benefit pension plans and other post-employment benefits, the net periodic pension 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 expected return on assets available to fund pension obligations, the discount rate to measure obligations, the expected mortality, the expected rate of future compensation increases and the expected healthcare cost trend rate. For the purpose of calculating the expected return on plan assets, the assets are valued at fair value. The Company uses historical returns on its existing plan assets to estimate the expected future return on plan assets. Actual results will differ from estimated results which are based on assumptions.

The vested portion of past service costs arising from plan amendments is recognized immediately in net earnings. The unvested portion is amortized on a straight-line basis over the average remaining period until the benefits become vested. The asset or liability recognized in the statements 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 unrecognized past service costs and 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 and 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 statements of other comprehensive income. Any defined benefit asset resulting from this calculation is limited to the total of unrecognized net actuarial losses and past service cost 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 certain multi-employer pension plans which are accounted for as defined contribution plans.

m) Income taxes

Tax expense comprises current and deferred tax. Tax is recognized in the statements 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 tax expense is based on the results for the period as adjusted for items that are not taxable or not deductible. Current 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 statements 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

- are generally recognized for all taxable temporary differences;
- are 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
- are not recognized on differences that arise from goodwill which is not deductible for tax purposes.

Deferred tax assets

- are recognized to the extent it is probable that taxable profits will be available against which the deductible temporary differences and the carry forward of unused tax losses and credits can be utilized; and
- are reviewed at the end of the reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits 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.

n) 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.

o) Share based payments

The Company accounts for stock based compensation at fair value, utilizing a Black-Scholes option pricing model.

Compensation expense is recognized for stock 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 equity instruments 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 equity instruments 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.

p) Provisions

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 passage of time is recognized as interest expense.

q) Decommissioning, restoration and similar liabilities

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 rehabilitation cost is 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 charged to net earnings for the period.

r) 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 statements 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.

s) Earnings per share

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

t) Long-term debt

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 the 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.

u) Trade payables

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.

v) Operating segments

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.

w) Foreign currency

The consolidated financial statements are presented in Canadian dollars, which is the Company's functional and presentation 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 statements of financial position date, which was $1.0170 per US$1 at December 31, 2011 (December 31, 2010: $0.9946 per US$1 and January 1, 2010: $1.0466 per US$1). Monetary items receivable or payable to a foreign operation for which settlement is neither planned nor likely to occur form part of the net investment in the foreign operation. 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. Exchange gains or losses on the translation of long-term debt denominated in a foreign currency designated as a hedge of the Company's net investment in foreign subsidiaries are included in other comprehensive income.

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

Revenues and expenses are translated at the average rate of exchange during the period. For the year ended December 31, 2011, the U.S. dollar published average exchange rate was $0.9893 per US$1 (2010: $1.0301 per US$1). The resulting gains or losses are included in other comprehensive income.

x) Financial Instruments

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 investments 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 statements 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.

Impairment of financial assets

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

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.

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. Financial liabilities are classified in the following categories at the time of initial recognition:

Other financial liabilities

- Classification

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

- 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.

Derivative financial instruments

Derivatives are initially recognized at fair value on the date a contract is entered into and are subsequently re-measured at their 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.

The Company documents at the inception of the transaction the relationship between hedging instruments and hedged items, as well as its risk management objectives and strategy for undertaking various hedging transactions. The Company also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items.

Non-performance risk, including the Company's own credit risk, is considered when determining the fair value of financial instruments.

Derivatives that qualify for hedge accounting

The Company designates certain derivatives as either a cash flow hedge or net investment hedge as follows:

- Cash flow hedge

The effective portion of changes in the fair value of derivatives that are designated and qualify as a cash flow hedge is recognized in other comprehensive income. The gain or loss relating to the ineffective portion is recognized immediately in net earnings.

- Net Investment hedge

The Company has designated certain financial instruments as a hedge of its net investment in foreign operations and are accounted for similarly to cash flow hedges. Any gain or loss on the hedging instrument relating to the effective portion of the hedge is recognized in other comprehensive income. The gain or loss relating to the ineffective portion is recognized immediately in net earnings.

Gains and losses on the hedging instrument relating to the effective portion of the hedge included in accumulated other comprehensive income are reclassified to net earnings when the foreign operations are disposed of or when control is lost.

Derivatives that do not qualify for hedge accounting

Certain derivative instruments, while providing effective economic hedges, are not designated as hedges for accounting purposes. Changes in the fair value of any derivatives that are not designated as hedges for accounting purposes are recognized within "Other finance expense (income)" in the statements of earnings consistent with the underlying nature and purpose of the derivative instruments.

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 expenses" in the statements of earnings.

y) Borrowing costs

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

2. CRITICAL 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 following discussion sets forth management's most critical estimates and assumptions in determining the value of assets and liabilities.

Allowance for Doubtful Accounts

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.

Property, Plant and Equipment

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.

Intangible Assets and Goodwill

Intangible assets and goodwill arise from business combinations. Upon acquisition, the Company identifies and attributes fair values and estimated useful lives 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 in the future.

Employee Future Benefits

The Company's determination of employee benefit expenses and obligations requires the use of assumptions such as the expected return on assets available to fund pension obligations, 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, which are based on assumptions.

Income Taxes

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 occur subsequent to the issuance of the 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 in a full year by jurisdiction. The estimated average annual effective income tax rates are reviewed at each reporting date, based on full year projections of earnings. To the extent that forecasts differ from actual results, adjustments are recorded through earnings in subsequent periods.

Uncertain Income Tax Positions

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.

Other Estimates

The Company's management also makes estimates for net realizable value and obsolescence provisions relating to inventory, fair values, guarantees, assigned values on net assets acquired, asset 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.

3. FUTURE ACCOUNTING CHANGES

a) IFRS 9 Financial Instruments

IFRS 9, replaces the guidance on classification and measurement of financial instruments in IAS 39, *Financial Instruments: Recognition and Measurement,* establishes principles for the reporting of financial assets and financial liabilities that will present relevant and useful information to the users of financial statements for their assessment of the amounts, timing and uncertainty of an entity's future cash flows.

b) IFRS 10 Consolidated Financial Statements

This new standard replaces IAS 27 *Consolidated and Separate Financial Statements,* and SIC-12 *Consolidation - Special Purpose Entities*. It introduces a new principle-based definition of control, applicable to all investees to determine the scope of consolidation. The standard provides the framework for consolidated financial statements and their preparation based on the principle of control.

c) IFRS 11 Joint Arrangements

This new standard replaces IAS 31 *Interests in Joint Ventures,* and SIC-13 *Jointly Controlled Entities - Non-Monetary Contributions by Venturers*. IFRS 11 differs from the previous standards in, among other things, the use of the proportionate consolidation method is no longer permitted for interests in joint ventures (formerly designated as "jointly controlled entities").

d) IFRS 12 Disclosure of Interests in Other Entities

This new standard provides minimum disclosure requirements when a reporting entity holds an interest in other entities. This standard combines disclosures required for interests in subsidiaries, joint arrangements, associates and unconsolidated structured entities, which were previously located in each applicable individual standard.

e) IFRS 13 Fair Value Measurement

This new standard clarifies the definition of fair value, provide guidance on measuring fair value and improve disclosure requirements related to fair value measurement.

f) *IAS 27 (Amended) Separate Financial Statements*

IAS 27 was amended to focus solely on accounting and disclosure requirements when an entity presents separate financial statements, due to the issuance of the new IFRS 10 which is specific to consolidated financial statements.

g) *IAS 28 (Amended) Investments in Associates and Joint Ventures*

As a result of the issuance of IFRS 11, as well as the withdrawal of IAS 31, IAS 28 was republished to set out the requirements for the application of the equity method when accounting for interests in joint ventures and interests in associates.

h) *IAS 1 Presentation of Financial Statements: Other Comprehensive Income*

IAS 1, *Presentation of Financial Statements*, was amended to require entities to group items presented in "Other Comprehensive Income" in two categories. Items will be grouped together based on whether those items will or will not be classified to profit or loss in the future.

i) *IAS 19 Post Employment Benefits*

IAS 19 *Employee Benefits,* was amended to make fundamental improvements to recognition, presentation and disclosures for defined benefit plans. The amendments eliminate the use of the corridor method, streamline the presentation of changes in assets and liabilities arising from defined benefit plans and enhance the disclosure requirements.

These new standards are effective for the Company's condensed and annual consolidated financial statements commencing January 1, 2013 except for IFRS 9 which is effective for annual reporting periods beginning on or after January 1, 2015. The Company is assessing the impact of these new standards and these amendments on its consolidated financial statements.

4. CASH AND CASH EQUIVALENTS

(millions)	**December 31 2011**	December 31 2010	January 1 2010
Cash on deposit	**$ 217.8**	$ 173.9	$ 249.6
Short-term investments	**52.9**	149.8	110.0
	$ 270.7	$ 323.7	$ 359.6

Cash on deposit in bank accounts includes demand deposits, net of outstanding cheques.

5. ACCOUNTS RECEIVABLE

(millions)	**December 31 2011**	December 31 2010	January 1 2010
Trade receivables	**$ 380.1**	$ 298.5	$ 212.1
Other receivables	**2.3**	2.9	5.7
	$ 382.4	$ 301.4	$ 217.8

Trade and other receivables are classified as loans and receivables and therefore measured at amortized cost, which approximates fair value.

In order to minimize the risk of uncollectability of trade receivables, the Company performs regular credit reviews for all customers with significant credit limits. Provisions for and write-offs of trade receivables are done on a case by case basis taking into account a customer's past credit history as well as their current ability to pay.

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

(millions)

Allowance for Doubtful Accounts	
Balance, January 1, 2010	$ 4.2
Increases to reserve	1.0
Amounts written off	(2.0)
Adjustments	0.2
Balance, December 31, 2010	$ 3.4
Increases to reserve	1.2
Amounts written off	(1.5)
Adjustments	0.2
Balance, December 31, 2011	**$ 3.3**

At December 31, 2011, the allowance was 0.9% (2010: 1.1%), of the gross trade accounts receivable balance. An increase to the reserve of 1% of accounts receivable would decrease pre-tax earnings by approximately $3.8 million for the year ended December 31, 2011 (2010: $3.0 million).

As at December 31, 2011 *(millions)*	Current	Past Due 1-30 Days	Past Due 31-60 Days	Past Due Over 60 Days	Total Trade Receivables
Trade Receivables					
Gross trade receivables	$ 204.0	$ 142.8	$ 26.9	$ 9.7	$ 383.4
Allowance for doubtful accounts	-	-	-	(3.3)	(3.3)
Total net trade receivables	$ 204.0	$ 142.8	$ 26.9	$ 6.4	$ 380.1

As at December 31, 2010 *(millions)*	Current	Past Due 1-30 Days	Past Due 31-60 Days	Past Due Over 60 Days	Total Trade Receivables
Trade Receivables					
Gross trade receivables	$ 168.7	$ 101.9	$ 23.2	$ 8.1	$ 301.9
Allowance for doubtful accounts	-	-	-	(3.4)	(3.4)
Total net trade receivables	$ 168.7	$ 101.9	$ 23.2	$ 4.7	$ 298.5

6. INVENTORIES

Inventories are recorded at the lower of cost and net realizable value. Cost is determined on an average cost basis. During the year ended December 31, 2011 no additional inventory impairment charges were recorded (2010: $nil) and $nil million of previous inventory impairment charges were reversed (2010: $1.9 million).

7. PROPERTY, PLANT AND EQUIPMENT

Cost *(millions)*	Land and Buildings	Machinery and Equipment	Leasehold Improvements	Total
Balance at January 1, 2010	$ 184.3	$ 261.0	$ 26.9	$ 472.2
Additions	1.0	10.5	0.1	11.6
Disposals	(2.3)	(10.3)	-	(12.6)
Effect of movements in exchange rates	(1.6)	(2.1)	(0.1)	(3.8)
Balance as at December 31, 2010	181.4	259.1	26.9	467.4
Additions	7.3	10.7	0.1	18.1
Disposals	(0.7)	(2.8)	-	(3.5)
Effect of movements in exchange rates	0.6	1.0	-	1.6
Balance as at December 31, 2011	$ 188.6	$ 268.0	$ 27.0	$ 483.6

Depreciation and impairment *(millions)*	Land and Buildings	Machinery and Equipment	Leasehold Improvements	Total
Balance at January 1, 2010	$ 63.0	$ 169.2	$ 18.1	$ 250.3
Depreciation and amortization	5.4	17.3	0.8	23.5
Disposals	(1.1)	(9.2)	-	(10.3)
Effect of movements in exchange rates	(0.4)	(0.8)	(0.1)	(1.3)
Balance as at December 31, 2010	66.9	176.5	18.8	262.2
Depreciation and amortization	7.2	14.1	0.8	22.1
Disposals	(0.2)	(2.4)	-	(2.6)
Effect of movements in exchange rates	-	0.6	-	0.6
Balance as at December 31, 2011	$ 73.9	$ 188.8	$ 19.6	$ 282.3

Net Book Value *(millions)*	
January 1, 2010	$ 221.9
December 31, 2010	$ 205.2
December 31, 2011	$ 201.3

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

Land, included in land and buildings, was $24.0 million (December 31, 2010: $24.1 million and January 1, 2010: $23.4 million).

Depreciation of $6.3 million was included in cost of materials (2010: $6.6 million) and depreciation of $15.8 million (2010: $16.9 million) was included in other operating expenses.

8. FINANCIAL AND OTHER ASSETS

(millions)	**December 31 2011**	December 31 2010	January 1 2010
Investment in asset-backed commercial paper	**$ -**	$ -	$ 4.5
Deferred charges on short-term revolving credit facility	**0.8**	1.0	1.8
Other	**2.5**	2.8	2.0
	$ 3.3	$ 3.8	$ 8.3

Amortization of deferred financing charges was $0.9 million (2010: $1.3 million).

9. GOODWILL AND INTANGIBLES

a) The continuity of goodwill is as follows:

(millions)

Balance, January 1, 2010	$	18.7
Foreign exchange		(0.5)
Balance, December 31, 2010		18.2
Foreign exchange		0.2
Balance, December 31, 2011	$	18.4

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

b) Impairment of goodwill

The Company performed goodwill impairment tests during the fourth quarter of 2011 and 2010 and on January 1, 2010 in accordance with its policy described in Note 1. The estimated recoverable amount of all units exceeded their carrying values. As a result, no impairment was recorded.

The recoverable amount is the greater of value in use and fair value less costs to sell. The Company uses a discounted cash flow technique to determine the value in use. Key assumptions used by management include forcasted cashflows based on financial plans approved by management covering a five year period, an assessment of expected growth in future earnings before income taxes and depreciation of 1 % to 2% in line with expected inflation and discount rates. The assumptions are based on historical data, industry cyclicality and expected market developments.

The Company used the weighted average cost of capital (WACC) to calculate the present value of its projected cash flows. The WACC reflects 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 the projected cash flows of each unit.

For 2011, weighted average cost of capital used was 10.5% (2010: 8.6%). To monitor potential impairment exposure, the Company performs a sensitivity analysis. Accordingly, a 1% increase in the respective discount rate will trigger a goodwill impairment of $nil (2010: $nil). The Company's management does not expect that negative change in material assumptions will occur.

c) The continuity of intangibles which are comprised of customer lists acquired through business combinations, within the metals service centers are as follows:

Cost
(millions)

January 1, 2010	$	10.4
Foreign exchange		(0.5)
Balance, December 31, 2010		9.9
Foreign exchange		0.2
Balance, December 31, 2011	$	10.1

Accumulated amortization
(millions)

January 1, 2010	$	(2.7)
Amortization		(0.5)
Balance, December 31, 2010		(3.2)
Amortization		(0.6)
Balance, December 31, 2011	$	(3.8)

Carrying amount

January 1, 2010	$	7.7
December 31, 2010	$	6.7
December 31, 2011	$	6.3

The carrying amount of intangible assets as at December 31, 2011 relates to customer lists, arising from the acquisition of JMS Metals Services, Inc. and Norton Metal Products, Inc. The remaining amortization period for customer lists is 10 to 12 years.

10. REVOLVING CREDIT FACILITIES

On June 24, 2011, the Company extended its credit agreement with a syndicate of banks which provides a credit facility of $202.5 million available for borrowings and letters of credit and additional $50 million for letters of credit. The renewed agreement provides decreased interest and standby fees. During 2011, the Company incurred costs of $0.5 million to renew the facility which have been included as deferred charges in other assets (Note 8). The facility expires on June 24, 2014. Interest and standby fees are at rates which vary based on the Company's credit rating.

The Company was in compliance with the financial covenants at December 31, 2011. The obligations of the Company under this agreement are secured by a pledge of trade accounts receivable and inventories of a significant portion of the Company's operations. At December 31, 2011, the Company had no borrowings (2010: $nil) and letters of credit of $44.2 million (December 31, 2010: $14.5 million) under this facility.

In July 2011, the Company renewed its U.S. subsidiary one year credit facility. The maximum credit available under this facility is US$45 million. At December 31, 2011, this subsidiary had no borrowings (2010: $nil) and letters of credit of US$6.3 million (December 31, 2010: US$12.9 million) under this facility.

11. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

(millions)	**December 31 2011**	December 31 2010	January 1 2010
Trade accounts payable and accrued expenses	**$ 356.2**	$ 265.7	$ 234.7
Accrued interest	**6.6**	7.1	10.7
	$ 362.8	$ 272.8	$ 245.4

12. LONG-TERM DEBT

Long-term debt was comprised of the following:

(millions)	December 31 2011	December 31 2010	January 1 2010
7.75% $175 million convertible debentures due September 30, 2016	**$ 154.3**	$ 151.1	$ 148.5
6.375% US$138.9 million Senior Notes due March 1, 2014 (2010: US$167.2 million)	**139.8**	163.7	179.7
Finance lease obligations (Note 23)	**3.7**	4.9	6.2
Less: current portion	**(1.3)**	(1.2)	(1.3)
Total long-term debt	**$ 296.5**	$ 318.5	$ 333.1

a) In October 2009, the Company issued $175 million of 7.75% convertible unsecured subordinated debentures for net proceeds of $167.1 million. The convertible debentures mature on September 30, 2016, and interest is payable semi-annually on March 31 and September 30 in each year. Each debenture is convertible into common shares of the Company at the option of the holder at any time on or prior to the business day immediately preceding (i) maturity date; or (ii) the date specified for redemption of the convertible debentures, at a conversion price of $25.75 being a conversion rate of 38.8350 common shares per $1,000 principal amount of convertible debentures.

At the time of issue, the Company valued the holder's option to convert the debenture into common shares, using a Black-Scholes valuation model and the residual was recorded as the debt portion. The holder's option to convert the debenture into common shares was initially classified as a derivative liability, as the Company could elect to settle the instrument in cash.

On issuance, the Company recorded a debt liability of $147.7 million, net of issue costs of $7.0 million, and a derivative financial liability of $20.3 million. The derivative financial liability was fair valued every quarter in 2010 and the change in fair value was recognized in earnings for the period. As at January 1, 2010, the derivative liability was $22.2 million. During December 2010, the Company amended the Trust Indenture governing the debentures, removing the cash settlement feature, that allowed the Company to settle the conversion of the debenture in cash or in a combination of cash and common shares in lieu of common shares prior to maturity and therefore the instrument did not meet the criteria for a derivative liability classification. As a result, the fair value of the conversion feature at the date of the amendment of $28.7 million, net of income tax of $4.6 million, was reclassified from a liability to equity.

b) On February 20, 2004, the Company issued US$175 million Senior Notes due March 1, 2014, bearing interest at 6.375%. During 2010, the Company repurchased US$7.8 million of its Senior Notes and during 2011 the Company repurchased an additional US$28.3 million of its Senior Notes. The Company designated the remaining US$138.9 million Senior Notes as a hedge of its net investment in foreign subsidiaries.

The US$138.9 million Senior Notes are redeemable, in whole or in part, at the option of the Company on or after March 1, 2011 at 101.063% and on or after March 1, 2012 at 100.000%. In addition, the Senior Notes are also redeemable, in whole, at the option of the Company at any time at 100% of the principal amount in the event of certain changes affecting Canadian withholding taxes. The Senior Notes contain certain restrictions on the payment of common share dividends in excess of $0.08 per share per quarter. The Company was in compliance with the debt covenants at December 31, 2011.

13. PENSION AND BENEFITS

a) The Company maintains eight defined benefit pension plans in Canada. All plans except for one plan provide benefits on an average earnings basis. The other plan provides benefits on a flat rate per years of pensionable service basis. The Company also maintains executive plans, post-retirement benefit plans and defined contribution plans in Canada and 401(k) defined contribution plans in the United States. 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.

Six of the the Company's defined benefit pension plans had a valuation date of January 1, 2010, one plan had a valuation date of December 31, 2009 and one plan had a valuation date of January 1, 2011.

The components of the Company's pension and benefit expense included the following:

(millions)		**2011**		2010
Defined benefit pension plans				
Current service cost	**$**	**2.6**	$	2.6
Interest cost on benefit obligation		**5.1**		4.9
Expected return on plan assets		**(5.2)**		(5.1)
Other		**0.1**		0.1
		2.6		2.5
Post-retirement benefits		**0.3**		0.3
Defined contribution plans - contributions		**1.9**		1.7
Pension and benefit expense	**$**	**4.8**	$	4.5

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

(millions)		**2011**		2010
Defined benefit pension plans				
Change in actuarial gains (losses)	**$**	**(18.6)**	$	1.1
Change in asset ceiling limits		**-**		-
Change in other comprehensive income	**$**	**(18.6)**	$	1.1
Cumulative other comprehensive income relating to pension and benefits				
Balance of actuarial gains (losses) at January 1	**$**	**1.1**	$	-
Net actuarial gains (losses) recognized in the year		**(18.6)**		1.1
Balance of actuarial gains (losses) at December 31	**$**	**(17.5)**	$	1.1

There was no adjustment related to asset ceiling limits in other comprehensive income for the years ended December 31, 2011 and 2010.

The actuarial determinations were based on the following assumptions in each year:

	2011	2010
Assumed discount rate - year end	**4.50%**	5.25%
Expected long-term rate of return on plan assets	**5.75%**	6.00%
Rate of increase in future compensation	**3.75%**	3.75%
Rate of increase in future government benefits	**3.25%**	3.25%

The discount rate is based on a review of current market interest rates of AA corporate bond yields 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 $4.1 million as of December 31, 2011 (2010: $3.4 million).

The Company uses historical returns on its existing plan assets to estimate the expected future return on plan assets. A 0.25% increase or decrease in the expected return on plan assets would decrease or increase pension expense by approximately $0.2 million for the years ended December 31, 2011 and 2010.

The health care cost trend rates used were 5% for dental and 9% 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 mortality assumptions used to assess the defined benefit obligation are based on the UP1994 Generational Table with generational improvements using scale AA.

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.

	Pension Plans		Other Benefit Plans	
(millions)	**2011**	2010	**2011**	2010
Reconciliation of present value of the defined benefit obligation				
Balance, beginning of the year	**$ 99.3**	$ 96.0	**$ 5.5**	$ 5.6
Current service costs	**2.6**	2.6	**-**	-
Participant contribution	**0.2**	0.2	**-**	-
Interest cost	**5.1**	4.9	**0.3**	0.3
Benefits paid	**(5.5)**	(4.3)	**(0.3)**	(0.2)
Plan amendments	-	-	**-**	-
Actuarial losses (gains)	**11.8**	(0.1)	**0.1**	(0.2)
Balance, end of the year	**$ 113.5**	$ 99.3	**$ 5.6**	$ 5.5

	Pension Plans		Other Benefit Plans	
(millions)	**2011**	2010	**2011**	2010
Reconciliation of present value of the plan assets				
Balance, beginning of the year	**$ 87.0**	$ 80.1	**$ -**	$ -
Actual return of plan assets	**5.2**	5.1	**-**	-
Employer contributions	**5.1**	5.1	**0.3**	0.2
Employee contributions	**0.2**	0.2	**-**	-
Benefits paid	**(5.5)**	(4.3)	**(0.3)**	(0.2)
Actuarial (losses) gains	**(6.7)**	0.8	**-**	-
Balance, end of the year	**$ 85.3**	$ 87.0	**$ -**	$ -
Defined benefit obligation	**28.2**	12.3	**5.6**	5.5
Unrecognized prior service costs	**(0.5)**	(0.6)	**-**	-
Defined benefit obligation, net	**$ 27.7**	$ 11.7	**$ 5.6**	$ 5.5

As at December 31, 2011, all of the defined benefit pension plans including executive pension plans in the above table had unfunded obligations. As at December 31, 2010, 6 of the defined benefit pension plans in the above table had unfunded obligations and 4 executive plans had unfunded obligations. The following table provides the defined benefit obligation between plans with surplus, partially funded plans and unfunded plans.

	Pension Plans		Other Benefit Plans	
(millions)	**2011**	2010	**2011**	2010
Defined benefit obligation				
Plans with a surplus	**$ -**	$ (0.7)	**$ -**	$ -
Partially funded plans	**27.7**	12.4	**-**	-
Unfunded plans	-	-	**5.6**	5.5
Defined benefit obligation	**$ 27.7**	$ 11.7	**$ 5.6**	$ 5.5

c) As at December 31, 2011, approximately 48% of the fair value of all pension plan assets were invested in equities (2010: 50%), 27% in fixed income securities (2010: 21%), and 25% in cash and cash equivalents (2010: 29%). The plan assets are not invested in either derivatives or real estate assets. The expected return on plan assets is based on the fair value of plan assets. Management endeavours to have an asset mix of approximately 55% in equities, 40% in fixed income securities and 5% in cash and cash equivalents. The investment policy allows up to 30% in cash and cash equivalents. The volatility of the markets has caused management to invest a correspondingly greater percentage of the pension plan assets in cash and cash equivalents.

In accordance with the IFRS provisions for first time adopters, disclosures of the present value of the defined benefit obligation, the fair value of the plan assets and experience adjustments arising from plan liabilities and assets have been presented prospectively from the date of adoption, January 1, 2010.

The Company expects to make contributions of $4.4 million to its defined benefit pension plans and $0.4 milllion to its post retirement benefits medical plans in the next financial year.

14. SHAREHOLDERS' EQUITY

a) *At December 31, 2011 and 2010, 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 (millions)
Balance, January 1, 2010	59,698,690	$ 478.9
Stock options exercised	279,483	4.8
Balance, December 31, 2010	59,978,173	483.7
Stock options exercised	93,525	1.7
Balance, December 31, 2011	**60,071,698**	$ 485.4

The continuity of contributed surplus is as follows:

(millions)	
Balance, January 1, 2010	$ 13.2
Stock-based compensation expense	1.5
Exercise of options	(0.8)
Balance, December 31, 2010	13.9
Stock-based compensation expense	2.1
Exercise of options	(0.3)
Balance, December 31, 2011	$ 15.7

Dividends paid and declared are as follows:

	2011	2010
Dividends (millions)	**$ 69.1**	$ 59.7
Dividends per share	**$ 1.15**	$ 1.00
Quaterly dividend per share declared on February 15, 2012 (February 17, 2011)	**$ 0.30**	$ 0.25

15. STOCK BASED COMPENSATION

Stock 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. On May 12, 2011, the share option plan was amended. The number of common shares that may be issued under the amended 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 such as the 10 year life and immediate vesting under certain change of control provisions are unchanged. The options currently outstanding are exercisable on a cumulative basis to the extent of 20% per year of total options granted. The consideration paid by employees for the purchase of common shares is added to share capital.

The following is a continuity of options outstanding:

	Number of Options		Weighted Average Exercise Price	
	2011	2010	**2011**	2010
Balance, beginning of period	**2,684,662**	2,702,084	**$ 25.08**	$ 24.52
Granted	**307,127**	289,411	**25.70**	19.84
Exercised	**(93,525)**	(279,483)	**15.19**	14.19
Expired or forfeited	**(40,325)**	(27,350)	**27.07**	25.52
Balance, end of the period	**2,857,939**	2,684,662	**$ 25.44**	$ 25.08
Exercisable	**2,169,719**	1,813,063	**$ 26.23**	$ 25.64

The following share options granted under the share option plan are outstanding as at December 31, 2011.

Grant Date	Maturity Date	Exercise Price	Number Of Options	Weighted Average Contractual Life in Years	Options Exercisable
February 17, 2003	February 17, 2013	$ 5.20	10,000	1.12	10,000
February 18, 2004	May 15, 2013	9.15	3,600	1.36	3,600
February 18, 2004	February 18, 2014	9.15	34,000	2.13	34,000
April 27, 2005	May 15, 2013	15.85	8,000	1.36	8,000
April 27, 2005	April 27, 2015	15.85	101,300	3.32	101,300
February 23, 2006	June 1, 2012	25.75	15,000	0.41	15,000
February 23, 2006	May 12, 2013	25.75	112,211	1.36	112,211
February 23, 2006	May 15, 2013	25.75	10,000	1.36	10,000
February 23, 2006	January 1, 2014	25.75	2,500	2.00	2,500
February 23, 2006	March 31, 2014	25.75	6,000	2.24	6,000
February 23, 2006	May 31, 2015	25.75	4,500	3.41	4,500
February 23, 2006	June 30, 2015	25.75	10,000	3.50	10,000
February 23, 2006	February 23, 2016	25.75	316,740	4.15	316,740
May 3, 2006	May 12, 2013	26.30	82,789	1.36	82,789
May 3, 2006	May 3, 2016	26.30	38,210	4.34	38,210
May 3, 2007	June 1, 2012	33.81	15,000	0.41	15,000
May 3, 2007	May 15, 2013	33.81	10,000	1.36	10,000
May 3, 2007	January 1, 2014	33.81	3,000	2.00	3,000
May 3, 2007	March 31, 2014	33.81	10,000	2.24	10,000
May 3, 2007	May 31, 2015	33.81	4,500	3.41	4,500
May 3, 2007	June 30, 2015	33.81	10,000	3.50	10,000
May 3, 2007	May 3, 2017	33.81	440,000	5.34	440,000
February 18, 2008	May 12, 2013	26.70	325,000	1.36	260,000
February 18, 2008	May 15, 2013	26.70	10,000	1.36	8,000
February 18, 2008	March 31, 2014	26.70	15,000	2.24	12,000
February 18, 2008	May 31, 2015	26.70	4,500	3.41	3,600
February 18, 2008	June 30, 2015	26.70	10,000	3.50	8,000
February 18, 2008	February 18, 2018	26.70	437,176	6.13	348,908
August 5, 2009	May 15, 2013	16.58	4,000	1.36	2,400
August 5, 2009	March 31, 2014	16.58	3,600	2.24	1,200
August 5, 2009	May 31, 2015	16.58	1,050	3.41	350
August 5, 2009	June 30, 2015	16.58	4,000	3.50	2,400
August 5, 2009	August 5, 2019	16.58	220,275	7.59	112,802
May 12, 2010	May 15, 2013	19.84	5,000	1.36	2,000
May 12, 2010	May 31, 2015	19.84	1,050	3.41	-
May 12, 2010	June 30, 2015	19.84	4,000	3.50	1,600
May 12, 2010	May 12, 2020	19.84	262,311	8.36	98,384
February 17, 2011	May 15, 2013	25.70	5,000	1.36	1,000
February 17, 2011	February 17, 2021	25.70	298,627	9.13	59,725
			2,857,939	5.11	2,169,719

The outstanding options had an exercise price range as follows:

(number of options)	**December 31 2011**	December 31 2010	January 1 2010
$ 25.75 - $ 33.81	**1,892,126**	1,922,826	1,943,826
$ 15.86 - $ 25.74	**808,913**	542,336	292,158
$ 9.16 - $ 15.85	**109,300**	154,700	328,300
$ 3.75 - $ 9.15	**47,600**	64,800	137,800
Options outstanding	**2,857,939**	2,684,662	2,702,084

The Black-Scholes option-pricing model assumptions used to compute compensation expense under the fair value-based method are as follows:

	2011	2010
Dividend yield	**5%**	5%
Expected volatility	**41%**	42%
Expected life	**5 yrs**	5 yrs
Risk free rate of return	**4%**	4%
Weighted average fair value of options granted	**$ 6.83**	$ 5.31

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 equivalent in value to one common share based on market price, which is defined by 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. DSU's are granted quarterly to each non-executive director's account as determined by dividing $7,500 by the market price and at the option of the individual director they may elect to receive other board fees in the form of DSU's. DSU's vest immediately and are redeemable for cash only when a non-executive director leaves the Board.

At December 31, 2011, there were 84,470 DSU's outstanding (December 31, 2010: 65,827 and January 1, 2010: 49,447). The liability and fair value of DSU's was $1.9 million at December 31, 2011 (December 31, 2010: $1.5 million and January 1, 2010: $0.9 million). Dividends declared on common shares accrue to the units in the DSU plan in the form of additional DSU's.

Restricted Share Units

The Company has a Restricted Share Unit ("RSU") Plan for eligible employees as designated by the Board of Directors. The plan was established to provide medium-term compensation. RSU's are awarded by the Board of Directors to eligible employees annually based on the earnings performance of the recently completed year. RSU's vest one third on each of the first, second and third anniversary after the grant date. RSU's expire on the third anniversary of the grant date and the Company is obligated to pay in cash an amount equal to the number of RSU's 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.

At December 31, 2011, there were 240,738 RSU's issued and outstanding (December 31, 2010: 216,629 and January 1, 2010: 206,037). The RSU liability at December 31, 2011 was $5.3 million (December 31, 2010: $4.8 million and January 1, 2010: $3.0 million). The fair value of RSU's was $5.4 million at December 31, 2011 (December 31, 2010: $5.0 million and January 1, 2010: $3.7 million). Dividends declared on common shares accrue to the units in the RSU plan in the form of additional RSU's.

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 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.

Total costs for stock-based compensation are as follows:

(millions)	December 2011	December 2010
Stock options	$ 2.1	$ 1.5
DSU and RSU's	0.2	1.7
Employee Share Purchase Plan	0.6	0.5
	$ 2.9	$ 3.7

16. EARNINGS PER SHARE

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

(millions)	2011	2010
Net income used in calculation of basic earnings per share	$ 118.3	$ 57.3
Interest and accretion expense, net of income taxes	10.6	-
Net income used in calculation of diluted earnings per share	$ 128.9	$ 57.3

(number of shares)	2011	2010
Weighted average shares outstanding	60,043,222	59,717,629
Dilution impact of stock options	130,837	124,395
Dilution impact of convertible debentures	6,796,117	-
Diluted weighted average shares outstanding	66,970,176	59,842,024

As at December 31, 2010, the effect of the conversion of the convertible debenture under the "if converted" method would have been 6,796,117 shares, but the effect was anti-dilutive and has therefore been excluded from the computation of diluted earnings per share. Interest, accretion and fair value adjustments related to convertible debentures for the year ended December 31, 2010, have also been excluded from net earnings used in the calculation of diluted earnings per share.

17. EXPENSES

Details of expense items on the consolidated statements of earnings are as follows:

(millions)	2011	2010
Employee Expenses		
Wages and salaries	$ 172.1	$ 151.3
Other employee related costs	30.2	25.8
	$ 202.3	$ 177.1
Other Operating Expenses		
Plant and other expenses	$ 58.0	$ 64.5
Delivery expenses	45.4	35.0
Repairs and maintenance	9.3	8.2
Selling expenses	8.1	4.8
Professional fees	5.5	4.6
Loss on sale of property, plant and equipment	0.1	0.8
Foreign exchange gains	(0.9)	(1.0)
	$ 125.5	$ 116.9

18. FINANCE EXPENSE

Finance expense (income) is comprised of the following:

(millions)		**2011**		2010
Interest at 6.375% on U.S. Senior Notes	**$**	**10.4**	$	11.9
Interest at 7.75% on convertible debentures		**16.8**		16.5
Other interest expense		**0.3**		0.8
Interest expense		**27.5**		29.2
Interest income		**(2.0)**		(1.6)
Net change in fair value of convertible debentures		**-**		11.1
Other finance expense		**2.5**		-
Gain on investment		**-**		(1.5)
Loss on repurchase of U.S. Senior Notes		**0.1**		-
Other finance expense (income)		**2.6**		(1.5)
Finance expense, net	**$**	**28.1**	$	37.2

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. Accretion and issue cost amortization for the year ended December 31, 2011 was $3.8 million (2010: $3.6 million).

19. INCOME TAXES

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

(millions)		**2011**		2010
Current tax expense	**$**	**51.3**	$	25.6
Deferred tax (recovery) expense		**(0.5)**		3.1
Deferred tax expense (benefit) from a previously unrecognized tax loss		**0.3**		(2.8)
	$	**51.1**	$	25.9

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

	2011	2010
Applicable combined Canadian statutory rate	**27.9%**	29.4%
Rate difference of U.S. companies	**2.5%**	0.2%
Recognition of previously unrecorded tax benefits	**(0.7%)**	(3.9%)
Non deductible items related to derivatives	**-**	4.2%
Stock compensation and non deductible items	**0.4%**	1.2%
Other	**0.1%**	-
Average effective tax rate	**30.2%**	31.1%

The combined Canadian statutory rate is the aggregate of the federal income tax rate of 16.5% (2010: 18%) and the average provincial rate of 11.4% (2010: 11.4%). In 2011, there were changes in the statutory rates from 29.4% to 27.9% due to scheduled rate reductions which were previously enacted. The average effective income tax rates were higher than the average Canadian corporate tax rate due to principally higher tax rates and differing tax rules applicable to certain of the Company's subsidiaries outside Canada.

c) *The movements of deferred income tax assets and liabilities are shown below:*

Deferred Income Tax Assets (*millions*)		Losses		Property Plant and Equipment		Pension And Benefits		Goodwill And Intangibles		Item Charged To Equity		Other Timing		Total
Balance January 1, 2010	$	0.9	$	(3.4)	$	0.6	$	8.0	$	-	$	2.8	$	8.9
(Expense) benefit to statements of earnings		(0.8)		(1.0)		0.4		(0.3)		-		0.1		(1.6)
Translation and other		-		0.2		-		(0.3)		-		(0.1)		(0.2)
Balance December 31, 2010	$	0.1	$	(4.2)	$	1.0	$	7.4	$	-	$	2.8	$	7.1
(Expense) benefit to statements of earnings		1.1		(0.4)		(0.4)		(1.1)		-		(1.0)		(1.8)
Translation and other		-		(0.2)		-		0.2		-		-		-
Balance December 31, 2011	$	1.2	$	(4.8)	$	0.6	$	6.5	$	-	$	1.8	$	5.3

Deferred Income Tax Liabilities (*millions*)		Property Plant and Equipment		Pension And Benefits		Goodwill And Intangibles		Item Charged To Equity		Other Timing		Total
Balance January 1, 2010	$	7.1	$	(5.5)	$	(0.3)	$	1.0	$	-	$	2.3
(Benefit) expense to statements of earnings		(1.6)		-		0.3		(0.6)		0.5		(1.4)
Benefit (charge) to equity		-		0.2		-		5.9		-		6.1
Balance December 31, 2010	$	5.5	$	(5.3)	$	-	$	6.3	$	0.5	$	7.0
(Benefit) expense to statements of earnings		(0.3)		0.4		-		(2.1)		(0.2)		(2.2)
Benefit (charge) to equity		-		(4.8)		-		(0.1)		-		(4.9)
Translation and other		-		0.4		-		-		0.1		0.5
Balance December 31, 2011	$	5.2	$	(9.3)	$	-	$	4.1	$	0.4	$	0.4

Net deferred liability at January 1, 2010	$	6.6
Net deferred liability at December 31, 2010	$	0.1
Net deferred liability at December 31, 2011	$	4.9

d) At December 31, 2011, the Company had U.S. state tax losses carried forward which, at U.S. state tax rates, have an estimated value of $1 million. The majority of the tax losses carried forward if not utilized will expire between 2027 and 2031. 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 future probability of generating taxable income from operations in the jurisdictions in which the tax losses arose.

At December 31, 2011, the Company had $13 million (2010: $20 million) of capital losses 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 $2 million.

e) At December 31, 2011, the aggregate amount of temporary differences associated with undistributed earnings of non Canadian subsidiaries was $173 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.

20. PROVISIONS AND OTHER NON-CURRENT LIABILITIES

(millions)	**December 31 2011**	December 31 2010	January 1 2010
Provisions for decommissioning liabilities	**$ 5.4**	$ 5.6	$ 5.5
Other non-current liabilities - deferred compensation and employee incentives	**$ 1.9**	$ 6.5	$ 3.9

a) The following table presents the movement in the provisions for decommissioning liabilities:

(millions)	
Balance, January 1, 2010	$ 5.5
Change in provisions	0.7
Utilization	(0.6)
Balance, December 31, 2010	5.6
Change in provisions	-
Utilization	0.2
Balance, December 31, 2011	$ 5.4

b) Deferred compensation includes the RSU and the DSU liabilities. The RSU's issued in 2008 will be paid in 2012 and consequently $5.1 million has been reclassified as current accrued liabilities.

21. SEGMENTED INFORMATION

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

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

Accordingly, the Company conducts business in Canada and the U.S. in three business 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 tubular products

The Company's energy tubular products operations distribute oil country tubular products, line pipe, tubes, valves 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 offshore.

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 $39.1 million (2010: $26.4 million). These sales, which are at market rates, are eliminated in the following table.

a) Results by business segment:

(millions)	**2011**	2010
Segment Revenues		
Metals service centers	**$ 1,517.2**	$ 1,210.7
Energy tubular products	**826.2**	708.3
Steel distributors	**342.9**	247.8
	2,686.3	2,166.8
Other	**7.0**	11.2
	$ 2,693.3	$ 2,178.0
Segment Operating Profits		
Metals service centers	**$ 115.2**	$ 59.4
Energy tubular products	**60.4**	52.9
Steel distributors	**38.4**	20.9
	214.0	133.2
Corporate expenses	**(17.0)**	(17.0)
Other	**0.5**	4.2
Earnings before interest and income taxes	**197.5**	120.4
Finance expense, net	**(28.1)**	(37.2)
Provision for income taxes	**(51.1)**	(25.9)
Net earnings	**$ 118.3**	$ 57.3
Capital Expenditures		
Metals service centers	**$ 16.6**	$ 10.9
Energy tubular products	**0.9**	0.5
Steel distributors	**0.5**	0.1
Other	**0.1**	0.1
	$ 18.1	$ 11.6
Depreciation Expense		
Metals service centers	**$ 19.1**	$ 20.2
Energy tubular products	**1.6**	1.8
Steel distributors	**0.4**	0.4
Other	**1.0**	1.1
	$ 22.1	$ 23.5

(millions)	2011	2010
Current Identifiable Assets		
Metals service centers	**$ 462.5**	$ 357.9
Energy tubular products	**448.9**	408.4
Steel distributors	**120.3**	81.3
	1,031.7	847.6
Non-Current Identifiable Assets		
Metals service centers	**201.3**	203.9
Energy tubular products	**6.6**	7.4
Steel distributors	**1.0**	0.8
Identifiable assets by segment	**1,240.6**	1,059.7
Assets not included in segments		
Cash and cash equivalents	**270.7**	323.7
Income tax assets	**5.8**	9.9
Deferred financing charges	**0.8**	1.0
Other assets	**2.5**	2.8
Corporate and other operating assets	**18.0**	19.6
Total assets	**$ 1,538.4**	$ 1,416.7
Liabilities		
Metals service centers	**$ 199.2**	$ 146.3
Energy tubular products	**136.0**	105.6
Steel distributors	**8.5**	13.7
Liabilities by segment	**343.7**	265.6
Liabilities not included in segments		
Income taxes payable and deferred income tax liabilities	**17.8**	21.4
Long-term debt	**297.8**	319.7
Pension and benefits	**33.3**	17.9
Corporate and other liabilities	**26.4**	19.3
Total liabilities	**$ 719.0**	$ 643.9

b) Results by geographic segment:

(millions)	2011	2010
Segment Revenues		
Canada	**$ 1,857.7**	$ 1,544.7
United States	**828.6**	622.1
	$ 2,686.3	$ 2,166.8
Segment Operating Profits		
Canada	**$ 153.1**	$ 94.8
United States	**60.9**	38.4
	$ 214.0	$ 133.2

(millions)	2011	2010
Identifiable Assets		
Canada	**$ 904.8**	$ 786.4
United States	**335.8**	273.3
	$ 1,240.6	$ 1,059.7

22. RELATED PARTY TRANSACTIONS

During the years ended December 31, 2011 and 2010 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, 2011 there were no loans or credit transactions outstanding with key management personnel or directors. Key management personnel includes the Chief Executive Officer, Chief Financial Officer and certain Vice Presidents. Compensation cost of key management personnel and directors were as follows:

(millions)	2011	2010
Salaries and other benefits	**$ 5.4**	$ 3.0
Share based payments	**2.6**	1.3
Post - employment benefits	**0.4**	0.4
	$ 8.4	$ 4.7

23. FINANCIAL INSTRUMENTS

a) Financial assets and liabilities

Financial assets and liabilities are as follows:

December 31, 2011 ***(millions)***	**Asset/(liabilities) At Fair Value Through Profit or Loss**	**Loans and Receivables**	**Derivative Used for Hedging**	**Other Financial Liabilities**	**Total**
Cash and cash equivalents	**$ -**	**$ 270.7**	**$ -**	**$ -**	**$ 270.7**
Accounts receivable	**-**	**382.4**	**-**	**-**	**382.4**
Financial assets	**-**	**0.8**	**-**	**-**	**0.8**
Accounts payables and accrued liabilities	**-**	**-**	**-**	**(362.8)**	**(362.8)**
Current portion of long-term debt	**-**	**-**	**-**	**(1.3)**	**(1.3)**
Long-term debt	**-**	**-**	**-**	**(296.5)**	**(296.5)**
Total	**$ -**	**$ 653.9**	**$ -**	**$ (660.6)**	**$ (6.7)**

December 31, 2010 *(millions)*	Asset/(liabilities) At Fair Value Through Profit or Loss	Loans and Receivables	Derivative Used for Hedging	Other Financial Liabilities	Total
Cash and cash equivalents	$ -	$ 323.7	$ -	$ -	$ 323.7
Accounts receivable	-	301.4	-	-	301.4
Financial assets	-	1.0	-	-	1.0
Accounts payables and accrued liabilities	-	-	-	(272.8)	(272.8)
Current portion long-term debt	-	-	-	(1.2)	(1.2)
Long-term debt	-	-	-	(318.5)	(318.5)
Total	$ -	$ 626.1	$ -	$ (592.5)	$ 33.6

January 1, 2010 (millions)	Asset/(liabilities) At Fair Value Through Profit or Loss	Loans and Receivables	Derivative Used for Hedging	Other Financial Liabilities	Total
Cash and cash equivalents	$ -	$ 359.6	$ -	$ -	$ 359.6
Accounts receivable	-	217.8	-	-	217.8
Financial assets	4.5	1.8	-	-	6.3
Accounts payables and accrued liabilities	-	-	-	(245.4)	(245.4)
Current portion long-term debt	-	-	-	(1.3)	(1.3)
Long-term debt	-	-	-	(333.1)	(333.1)
Derivatives	(22.2)	-	(30.9)	-	(53.1)
Total	$ (17.7)	$ 579.2	$ (30.9)	$ (579.8)	$ (49.2)

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

	2011		2010	
(millions)	**Fair value Gain(loss) Through Earnings**	**Fair value Gain(loss) Through AOCI**	Fair value Gain(loss) Through Earnings	Fair value Gain(loss) Through AOCI
Embedded derivatives	**$ 0.1**	**$ -**	$ 11.1	$ -
Forward contracts	**(0.3)**	**-**	0.1	-
Hedging instruments				
Cross currency interest rate swaps - cash flow hedges	**1.1**	**-**	0.1	(2.5)
US Senior notes - net investment hedges	**-**	**(2.5)**	-	8.8

On January 22, 2010, the Company terminated its US$100 million cross currency swaps. The Company paid $35.2 million to its swap counterparties to terminate the swaps which represented the fair value of the swaps. Concurrent with the termination of the swaps, the Company designated its entire US$175 million Senior Notes, due March 1, 2014, as a hedge of its net investment in foreign subsidiaries. During 2011, $1.6 million (2010: $1.6 million) related to the swaps was reclassified from accumulated other comprehensive income (loss) to net earnings before income tax.

b) Fair Value

The fair values 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 of long-term debt and related derivative instruments is set forth below.

Debt and Related Derivative Instruments

Carrying Amounts

Amounts recorded in the consolidated statements 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" and the carrying amounts of derivative instruments are included in "Derivatives".

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, 2011, December 31, 2010 and January 1, 2010 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 and related derivative instruments:

December 31, 2011 (millions)	**Carrying amount** Primary Debt Instruments	**Carrying amount** Derivative Instruments	**Fair value** Primary Debt Instruments	**Fair value** Derivative Instruments
7.75% $175 million convertible debentures due September 30, 2016	**$ 154.3**	**$ -**	**$ 195.1**	**$ -**
6.375% US$138.9 million Senior Notes due March 1, 2014	**139.8**	**-**	**141.6**	**-**
Finance lease obligations	**3.7**	**-**	**3.7**	**-**
Total	**$ 297.8**	**$ -**	**$ 340.4**	**$ -**
Current portion	**$ 1.3**	**$ -**		
Long-term portion	**$ 296.5**	**$ -**		

December 31, 2010 (millions)	Carrying amount Primary Debt Instruments	Carrying amount Derivative Instruments	Fair value Primary Debt Instruments	Fair value Derivative Instruments
7.75% $175 million convertible debentures due September 30, 2016	$ 151.1	$ -	$ 199.5	$ -
6.375% US$167.2 million Senior Notes due March 1, 2014	163.7	-	168.5	-
Finance lease obligations	4.9	-	4.9	-
Total	$ 319.7	$ -	$ 372.9	$ -
Current portion	$ 1.2	$ -		
Long-term portion	$ 318.5	$ -		

January 1, 2010 (millions)	Carrying amount Primary Debt Instruments	Carrying amount Derivative Instruments (asset) liability	Fair value Primary Debt Instruments	Fair value Derivative Instruments (asset) liability
7.75% $175 million convertible debentures due September 30, 2016 (Note 12)	$ 148.5	$ 22.2	$ 184.7	$ 22.2
6.375% US$175 million Senior Notes due March 1, 2014	179.7	30.9	164.5	30.9
Finance lease obligations	6.2	-	6.2	-
Total	$ 334.4	$ 53.1	$ 355.4	$ 53.1
Current portion	$ 1.3	$ -		
Long-term portion	$ 333.1	$ 53.1		

c) Credit risk

Credit risk is the risk of financial loss to the Company if 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 receivables.

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, 2011, nearly all cash and cash equivalents held were issued by institutions that were rated R1 High by DBRS;
- Counterparties to derivative contracts are members of the syndicated banking facility (Note 10);

- 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, 2011 (2010: $nil), other than the allowance for doubtful accounts (see Note 5). As at December 31, 2011, trade accounts receivable greater than 90 days represented less than 3% of trade accounts receivable (2010: 3%).

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, 2011, the Company had outstanding forward foreign exchange contracts in the amount of US$27.5 million, maturing in 2012 (2010: US$22.5 million). A 1% change in foreign exchange rates would result in an increase or decrease in the liability or net earnings of $nil.

In order to mitigate its foreign exchange exposure, the Company has designated its entire US$138.9 million Senior Notes as a hedge of its net investment in foreign subsidiaries.

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. A centralized treasury function ensures that the Company maintains funding flexibility by assessing future cash flow expectations and by maintaining its committed borrowing facilities. Cash, which is surplus to working capital requirements, is managed by the centralized treasury function and is invested in money market instruments or bank deposits, with durations ranging from current to sixty days.

As at December 31, 2011, the Company was contractually obligated to make payments under its financial liabilities that come due during the following periods:

(millions)	Long-Term Debt Maturities	Long-Term Debt Interest	Operating Lease Obligations	Total
2012	$ -	$ 22.8	$ 12.9	$ 35.7
2013	-	22.7	9.6	32.3
2014	141.3	15.2	6.8	163.3
2015	-	13.6	3.7	17.3
2016	175.0	10.2	3.0	188.2
2017 and beyond	-	-	6.1	6.1
Total	$ 316.3	$ 84.5	$ 42.1	$ 442.9

As at December 31, 2011, the Company was contractually obligated to make payments under finance leases as follows:

(millions)

2012	$	1.6
2013		1.5
2014		0.7
2015		0.3
2016		0.1
Total minimum lease payments		4.2
Interest at rates varying between 1.2% and 14.9%		(0.5)
Net minimum lease payments		3.7
Less: current portion		(1.3)
Long-term portion	$	2.4

At December 31, 2011, the Company was contractually obligated to repay its letters of credit under both its bank facilities at maturity (Note 10).

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. During 2011, the Company amended and extended its syndicated banking facility, renewed its U.S. subsidiary facility, repurchased US$28.3 million of its Senior Notes and increased its common share dividend.

24. CONTINGENCIES, COMMITMENTS AND GUARANTEES

a) Lawsuits and legal claims

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

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. The Company does not expect to make any payments on these indemnifications and, accordingly, no liability has been accrued.

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 three sites. Decommissioning liabilities have been estimated using discounted cash flow valuation techniques for cleanup costs based on management's best estimates of the amount required to settle the liability.

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

c) Business combinations and investments

The Company may have an obligation to pay additional consideration up to US$5.0 million for its acquisition of Norton Metals, based upon achievement of performance measures contractually agreed to at the time of purchase. The obligation accrued during the year ended December 31, 2011 was $1.6 million (2010: $nil).

25. OTHER COMPREHENSIVE INCOME

Income taxes on other comprehensive income are as follows:

(millions)	**2011**	2010
Income tax on unrealized (losses) gains on items designated as net investment hedges	**$ 0.6**	$ (1.3)
Income tax on unrealized losses on items designated as cash flow hedges	**-**	1.2
Income tax on losses on derivatives designated as cash flow hedges transferred to net earnings during the year	**(0.5)**	-
Income tax on actuarial (losses) gains on pension and similar obligations	**4.8**	(0.3)
	$ 4.9	$ (0.4)

26. TRANSITION TO IFRS

The Company adopted IFRS in accordance with IFRS 1, First-time Adoption of International Financial Reporting Standards. The first date at which IFRS was applied was January 1, 2010 ("Transition Date"). In accordance with IFRS, the Company has:

- provided comparative financial information for 2010 restated to IFRS;
- applied the same accounting policies throughout all periods presented; and
- applied certain optional exemptions and certain mandatory exceptions as applicable for first time IFRS adopters.

The Company's consolidated financial statements were previously prepared in accordance with Canadian GAAP.

Initial Elections Upon Adoption

Set forth below are the IFRS 1 applicable exemptions and exceptions applied in the conversion from Canadian GAAP to IFRS.

IFRS Exemption Options

1. Business combinations - IFRS 1 provides the option to apply IFRS 3, Business Combinations, retrospectively or prospectively from the Transition Date. The retrospective basis would require restatement of all business combinations that occurred on or after a selected date prior to the Transition Date. The election could have resulted in changes in the accounting for business combinations including the amount computed for goodwill. The Company elected not to apply IFRS 3 retrospectively to business combinations that occurred prior to its Transition Date and such business combinations have not been restated. Any goodwill arising on such business combinations before the Transition Date has not been adjusted from the carrying value previously determined under Canadian GAAP as a result of applying this exemption.

2. Employee benefits - IFRS 1 provides the option to retrospectively apply the provisions of IAS 19, Employee Benefits, for the recognition of actuarial gains and losses, or to recognize all cumulative actuarial gains and losses deferred under Canadian GAAP in opening retained earnings at the Transition Date. The Company elected to recognize all cumulative actuarial gains and losses that existed at its Transition Date in opening retained earnings for all of its employee benefit plans.

3. Currency translation differences - Cumulative translation adjustment is a component of comprehensive income. Retrospective application of IFRS would require the Company to determine cumulative currency translation differences in accordance with IAS 21, The Effects of Changes in Foreign Exchange Rates, from the date a subsidiary was acquired. IFRS 1 permits cumulative translation gains and losses to be reset to zero at Transition Date. The Company elected to reset all cumulative translation gains and losses to zero in opening retained earnings at its Transition Date.

4. Revaluation of property, plant and equipment - IFRS 1 provides an option to revalue individual items of property, plant and equipment to fair value at the Transition Date. Fair value would then become the deemed cost for the purpose of depreciation. The Company elected not to apply this exemption and continues to measure property, plant and equipment at historical cost.

5. Borrowing costs - IAS 23, Borrowing Costs, requires an entity to capitalize borrowing costs that are directly attributable to the acquisition, construction or production of certain assets as part of the cost of that asset. The Company utilized the IFRS 1 exemption and elected not to apply this policy to pre-transition borrowing costs. Therefore, borrowing costs prior to January 1, 2010 are expensed.

IFRS Mandatory Exceptions

Set forth below are the applicable mandatory exceptions in IFRS 1 applied in the conversion from Canadian GAAP to IFRS.

1. Hedge accounting - Hedge accounting is applied prospectively from the Transition Date to transactions that satisfy the hedge accounting criteria in IAS 39, Financial Instruments: Recognition and Measurement, at the transition date. Hedging relationships cannot be designated retrospectively and the supporting documentation cannot be created retrospectively. The Company's hedge accounting documentation met the IAS 39 criteria for hedge accounting.

2. Estimates - Hindsight cannot be used to create or revise estimates. The estimates previously made by the Company under Canadian GAAP were not revised for application of IFRS except where necessary to reflect any difference in accounting policies.

Reconciliations of Canadian GAAP to IFRS

IFRS 1 requires an entity to reconcile prior period financial statements from prior GAAP to IFRS. The Company's first time adoption of IFRS did not have a significant impact on the total operating, investing or financing cash flows.

The following represents the reconciliations from Canadian GAAP to IFRS for the respective periods noted for equity:

The Canadian GAAP statement of Shareholder's equity as at January 1, 2010 and December 31, 2010 has been reconciled to IFRS as follows:

(in millions of Canadian dollars)	December 31 2010	January 1 2010	Notes
Shareholders' equity under Canadian GAAP	**$ 798.1**	$ 793.2	
Differences increasing (decreasing) reported shareholders' equity:			
Retained earnings under Canadian GAAP	**325.3**	315.3	
Cumulative retained earnings January 1, 2010 transitional adjustment	**(55.4)**	-	
IFRS adjustments:			
Employee future benefits	**0.5**	(22.8)	i
Share based compensation	**(0.2)**	(2.4)	ii
Financial instruments	**(11.9)**	(2.9)	iii
Decommissioning liabilities	**(0.4)**	(1.8)	iv
Property, plant and equipment	**(0.4)**	(4.5)	v
Asset impairment	**-**	(7.6)	vi
Foreign currency translation	**(0.3)**	(22.9)	vii
Income taxes	**0.3**	9.5	viii
Retained earnings under IFRS	**$ 257.5**	$ 259.9	
Contributed surplus under Canadian GAAP	**12.5**	11.4	
Share based compensation	**1.4**	1.8	ii
Contributed surplus under IFRS	**$ 13.9**	$ 13.2	
AOCI under Canadian GAAP	**(35.0)**	(24.0)	
Foreign currency translation	**23.2**	22.9	vii
Actuarial gains/losses on employee benefits	**0.8**	-	i
AOCI under IFRS	**$ (11.0)**	$ (1.1)	
Share capital under Canadian GAAP and IFRS	**$ 483.7**	$ 478.9	
Equity component of convertible debentures under Canadian GAAP	**11.6**	11.6	
Reclass of convertible debentures call option to derivative liability	**(11.6)**	(11.6)	iii
Reclass of convertible debentures call option to equity (Note 12)	**28.7**	-	
Equity component of convertible debentures under IFRS	**$ 28.7**	$ -	
Total equity under IFRS	**$ 772.8**	$ 750.9	

The Canadian GAAP statement of financial position as at January 1, 2010 has been reconciled to IFRS as follows:

(in millions of Canadian dollars)	Canadian GAAP Balances	Effect of Transition to IFRS	IFRS Balances	Notes
ASSETS				
Current				
Cash and cash equivalents	$ 359.6	$ -	$ 359.6	
Accounts receivable	217.8	-	217.8	
Inventories	517.9	-	517.9	
Prepaid expenses	4.9	-	4.9	
Income taxes receivable	53.0	(2.4)	50.6	ix
	1,153.2	(2.4)	1,150.8	
Property, Plant and Equipment	231.9	(10.0)	221.9	v
Deferred Income Tax Assets	5.9	3.0	8.9	viii
Pensions and Benefits	8.0	(8.0)	-	i
Financial Asset	-	4.5	4.5	xi
Other Assets	8.3	(4.5)	3.8	xi
Goodwill and Intangibles	28.4	(2.0)	26.4	vi
	$ 1,435.7	$ (19.4)	$ 1,416.3	
LIABILITIES AND SHAREHOLDERS' EQUITY				
Current				
Accounts payable and accrued liabilities	$ 252.3	$ (6.9)	$ 245.4	x
Income taxes payable	1.4	(1.4)	-	viii
Current portion long-term debt	1.3	-	1.3	
	255.0	(8.3)	246.7	
Derivatives	30.9	22.2	53.1	iii
Long-Term Debt	340.8	(7.7)	333.1	iii
Pensions and Benefits	5.9	14.9	20.8	i
Provision	-	5.5	5.5	iv,x
Deferred Income Tax Liabilities	9.9	(7.6)	2.3	viii
Other Non-Current Liabilities	-	3.9	3.9	x
	642.5	22.9	665.4	
Shareholders' Equity				
Common shares	478.9	-	478.9	
Retained earnings	315.3	(55.4)	259.9	i - viii
Contributed surplus	11.4	1.8	13.2	ii
Accumulated other comprehensive income (loss)	(24.0)	22.9	(1.1)	vii
Equity component of convertible debenture	11.6	(11.6)	-	iii
	793.2	(42.3)	750.9	
	$ 1,435.7	$ (19.4)	$ 1,416.3	

The Canadian GAAP statement of earnings and statement of comprehensive income for the year ended December 31, 2010 have been reconciled to IFRS as follows:

CONSOLIDATED STATEMENT OF EARNINGS

Year Ended December 31, 2010 (in millions of Canadian dollars, except per share data)	Canadian GAAP Balances	Effect of Transition to IFRS	IFRS Balances	Notes
Revenue	$ 2,175.4	$ 2.6	$ 2,178.0	xii
Cost of materials	1,764.9	(1.3)	1,763.6	xii
Employee expenses	-	177.1	177.1	xii,ii,i
Other operating expenses	287.0	(170.1)	116.9	xii
Earnings before the following	123.5	(3.1)	120.4	
Other expense	0.9	(0.9)	-	xii
Interest expense	26.7	2.5	29.2	xii
Interest income	-	(1.6)	(1.6)	xii
Finance expense convertible debentures		11.1	11.1	iii
Other finance expense (income)	-	(1.5)	(1.5)	xii
Earnings before income taxes	95.9	(12.7)	83.2	
Provision for income taxes	26.2	(0.3)	25.9	viii
Net earnings for the year	$ 69.7	$ (12.4)	$ 57.3	
Basic and diluted earnings per common share	$ 1.17		$ 0.96	

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Year Ended December 31, 2010 (in millions of Canadian dollars)	Canadian GAAP Balances	Effect of Transition to IFRS	IFRS Balances	
Net earnings for the year	$ 69.7	$ (12.4)	$ 57.3	
Other comprehensive income (loss) net of tax				
Unrealized foreign exchange losses on translation of foreign U.S. operations	(17.5)	0.3	(17.2)	
Reclassification adjustment for realized foreign exchange gains included in net income	0.1	-	0.1	
Unrealized gains on items designated as net investment hedges	8.8	-	8.8	
Unrealized losses on items designated as cash flow hedges	(2.5)	-	(2.5)	
Losses on derivatives designated as cash flow hedges transferred to net earnings during the year	0.1	-	0.1	
Actuarial gains on pension and similar obligations	-	0.8	0.8	i
Other comprehensive income (loss)	(11.0)	1.1	(9.9)	
Total comprehensive income	$ 58.7	$ (11.3)	$ 47.4	

The Canadian GAAP statement of financial position as at December 31, 2010 has been reconciled to IFRS as follows:

(in millions of Canadian dollars)	Canadian GAAP Balances	Effect of Transition to IFRS	IFRS Balances	Notes
ASSETS				
Current				
Cash and cash equivalents	$ 323.7	$ -	$ 323.7	
Accounts receivable	301.4	-	301.4	
Inventories	544.1	-	544.1	
Prepaid expenses	3.0	-	3.0	
Income taxes receivable	4.8	(2.0)	2.8	ix
	1,177.0	(2.0)	1,175.0	
Property, Plant and Equipment	215.7	(10.5)	205.2	v
Deferred Income Tax Assets	3.8	3.3	7.1	viii
Pensions and Benefits	9.9	(9.2)	0.7	i
Other Assets	3.8	-	3.8	
Goodwill and Intangibles	26.9	(2.0)	24.9	vi
	$ 1,437.1	$ (20.4)	$ 1,416.7	
LIABILITIES AND SHAREHOLDERS' EQUITY				
Current				
Accounts payable and accrued liabilities	$ 281.3	$ (8.5)	$ 272.8	x
Income taxes payable	15.4	(1.0)	14.4	viii
Current portion long-term debt	1.2	-	1.2	
Current portion pension and benefit liability	-	0.4	0.4	
	297.9	(9.1)	288.8	
Long-Term Debt	325.5	(7.0)	318.5	iii
Pensions and Benefits	5.9	11.6	17.5	i
Deferred Income Tax Liabilities	9.7	(2.7)	7.0	viii
Provision	-	5.6	5.6	iv,x
Other Non-current Liabilities	-	6.5	6.5	x
	639.0	4.9	643.9	
Shareholders' Equity				
Common shares	483.7	-	483.7	
Retained earnings	325.3	(67.8)	257.5	i - viii
Contributed surplus	12.5	1.4	13.9	ii
Accumulated other comprehensive income (loss)	(35.0)	24.0	(11.0)	vii
Equity component of convertible debenture	11.6	17.1	28.7	iii
	798.1	(25.3)	772.8	
	$ 1,437.1	$ (20.4)	$ 1,416.7	

Changes in Accounting Policies

In addition to the exemption options and mandatory exceptions discussed above, the following explains the significant differences between the Company's previous Canadian GAAP accounting policies and our selected IFRS accounting policies.

i. EMPLOYEE FUTURE BENEFITS

As stated in the section entitled "IFRS Exemption Options", the Company elected to recognize all cumulative actuarial gains and losses that existed at the Transition Date in opening retained earnings for all of its employee defined benefit plans.

Actuarial Gains and Losses

Canadian GAAP - Actuarial gains and losses that arise in calculating the present value of the defined benefit obligation and the fair value of plan assets are amortized on a straight-line basis over the estimated average remaining service lives of the employee groups utilizing the corridor approach.

IFRS - The Company elected to recognize all unamortized actuarial gains and losses as an adjustment to retained earnings on transition. Subsequent to transition, actuarial gains and losses are not amortized to the statement of earnings but rather are recorded directly to other comprehensive income at the end of each reporting period. The Company adjusted its 2010 pension expense to remove the amortization of actuarial gains and losses that were charged to retained earnings on transition.

Accrued Benefit Asset

Canadian GAAP - When a defined benefit plan gives rise to an accrued benefit asset, a valuation allowance is recognized for any excess of the accrued benefit asset over the expected future benefit. The accrued benefit asset is presented in the statement of financial position net of the valuation allowance. A change in the valuation allowance is recognized in earnings for the period in which the change occurs.

IFRS - IFRS limits the recognition of the net benefit asset under certain circumstances to the total of the cumulative unrecognized net actuarial losses and past service costs and the present value of any economic benefits available in the form of plan refunds or reduction in future contributions. Since the Company has elected to recognize all actuarial gains and losses in other comprehensive income, changes in asset ceilings limits, will also be recognized in other comprehensive income in the period in which the changes occurred. The Company's pension expense subsequent to transition has been adjusted to reflect this treatment.

Benefit Improvements

Canadian GAAP - The employees in one of the pension plans are members of numerous collective bargaining groups. These groups have historically negotiated pension benefits which increase annually, creating an expectation for future increases. The future increase is not a legal obligation and therefore no provision was recorded.

IFRS - The Company has made a provision for constructive obligations representing the cost of these assumed increases, in accordance with IFRS, resulting in an increase in defined benefit obligations as at January 1, 2010.

ii. SHARE BASED COMPENSATION

Recognition of Expense

Canadian GAAP - For grants of share-based awards with graded vesting, the total fair value of the award is recognized on a straight-line basis over the employment period necessary to vest the award.

IFRS - Each tranche of an award with graded vesting is considered a separate grant with a different vesting date and fair value. Each grant is accounted for on that basis. The Company has adjusted its expense for share-based awards to reflect graded vesting by tranche.

iii. FINANCIAL INSTRUMENTS

Compound Financial Instruments

Canadian GAAP - The Company recorded its convertible debentures by valuing the debt portion using a discounted cash flow valuation technique. The remaining value of the convertible debenture, which represents the cash conversion feature relating to the holders' option to convert the debentures into common shares, is classified as equity.

IFRS - The Company valued the cash conversion feature relating to the holder's option to convert the debenture into common shares using the Black Scholes valuation model and the residual was recorded as the debt portion. The conversion feature in the convertible debentures is considered to be a derivative under IFRS since the Company has the right in certain circumstances to settle the conversion in cash, or in a combination of cash and common shares in lieu of common shares. This derivative is classified as a financial liability and was recorded at fair value on the Transition Date and changes in fair value from the date of transition are recorded through earnings.

During December 2010, the Company amended its trust indenture and removed the cash conversion feature. The fair value of the conversion feature at the date of the amendment was reclassified to equity.

iv. DECOMMISSIONING LIABILITIES

Constructive Obligations

Canadian GAAP - The Company is incurring site cleanup and restoration costs related to properties of former non-metals operations. The estimated costs of the cleanups on certain of these properties have been previously provided and were evaluated based on the Company's legal obligations.

IFRS - IAS 37 includes an evaluation of legal and constructive obligations arising out of environmental liabilities. The Company is not under a legal obligation to cleanup one of the properties noted above but has a constructive obligation. The amount recognized as the provision is the best estimate of the amount required to settle the obligation at the end of the reporting period and was calculated using a discounted cash flow technique as of the Transition Date.

v. PROPERTY, PLANT AND EQUIPMENT

Componentization

Canadian GAAP - Property, plant and equipment are recorded at cost. Depreciation is provided on a straight-line basis at rates that charge the original cost of such assets less their residual values to operations over their estimated useful lives.

IFRS - The standards provide that the components of assets with different useful lives are depreciated separately. Depreciation is provided on a straight-line basis at rates that charge the original cost less the residual value of such components to operations over their estimated useful lives. Useful lives and residual values are evaluated at least annually.

vi. ASSET IMPAIRMENT

Canadian GAAP - If an indication of impairment is identified, the asset group's carrying value is compared to its undiscounted cash flows. If the undiscounted cash flows are less than the carrying value, the impairment losses recognized are allocated first to reduce the carrying value of the long lived assets on a pro-rata basis and then to reduce the carrying value of the goodwill.

IFRS – If an indication of impairment is identified, the cash generating unit's carrying value is compared to its discounted cash flows. If the discounted cash flows are less than the carrying value, the impairment losses recognized in respect of a cash-generating unit are allocated first to reduce the carrying value of any goodwill allocated to the cash-generating units and then to reduce the carrying value of the other assets in the unit on a pro-rata basis. The Company booked an additional impairment of goodwill and long lived assets in certain cash generating units in its energy tubular products and metal service centers segments.

vii. FOREIGN CURRENCY TRANSLATION

As noted in the section entitled "IFRS Exemption Options", the Company has applied the one-time exemption to set the foreign currency cumulative translation adjustment ("CTA") to zero as of January 1, 2010. The CTA balance as of January 1, 2010 was recognized as an adjustment to opening retained earnings. The application of the exemption had no impact on shareholders' equity.

viii. INCOME TAXES

Income Tax Effect on Reconciling Differences between Canadian GAAP and IFRS

Differences for income taxes include the effect of recording, where applicable, the income tax effect of the differences between Canadian GAAP and IFRS.

Presentation Reclassifications

ix. TAX RECLASSIFICATION

Deferred Tax

Canadian GAAP

Deferred taxes are split between current and non-current components on the basis of either the underlying asset or liability, or the expected reversal of items not related to an asset or liability.

IFRS

All deferred tax assets and liabilities are classified as non-current.

x. PROVISION AND OTHER NON-CURRENT LIABILITIES RECLASSIFICATION

Canadian GAAP

Provisions and accruals balances are presented under accounts payable and accrued liabilities.

IFRS

Provisions are presented on a separate line. Non-current accruals are separately disclosed as non-current liabilities on the statement of financial position.

xi. FINANCIAL ASSETS RECLASSIFICATION

Canadian GAAP

Financial assets are presented under Financial and Other Assets.

IFRS

Financial assets are presented on a separate line.

xii. STATEMENTS OF EARNINGS RECLASSIFICATION

Due to our selection of the nature presentation of expenses in our statement of earnings under IFRS, certain operating and other expenses have been segregated and presented on a separate line.

The following have been re-classified:

Canadian GAAP

Rental income is offset against lease expense and presented under operating expense on the statement of earnings.

IFRS

Rental income is recognized and presented as revenue on the statement of earnings.

Russel Metals Inc. Directory

HEAD OFFICE

1900 Minnesota Court, Suite 210
Mississauga, Ontario, Canada L5N 3C9
T: 905.819.7777   F: 905.819.7409
info@russelmetals.com
www.russelmetals.com

TRANSFER AGENT AND REGISTRAR

CIBC Mellon Trust Company
P.O. Box 700, Station B
Montreal, Quebec, Canada H3B 3K3
T: 416.682.3860 / 1.800.387.0825
inquiries@canstockta.com
www.canstockta.com

SHAREHOLDER INFORMATION

Stock Symbols:
The Toronto Stock Exchange - **RUS**
- **RUS.DB**

BOARD OF DIRCTORS

Alain Benedetti
Corporate Director

Carl R. Fiora
Corporate Director
Steel Industry Executive

Brian R. Hedges
President & Chief Executive Officer, Russel Metals Inc.

Lise Lachapelle
Corporate Director

John W. Robinson
Corporate Director
Steel Industry Executive

James F. Dinning
Chair of the Board
Western Financial Group

Anthony F. Griffiths
Corporate Director
Chair of the Board
Russel Metals Inc.

Alice D. Laberge
Corporate Director

William M. O'Reilly
Corporate Director

CORPORATE DIRECTORY

Please refer to our website at www.russelmetals.com for a listing of all Company locations.

CORPORATE GOVERNANCE

Detailed disclosure concerning the Company's governance practices may be found in the Information Circular.

OFFICERS

Anthony F. Griffiths
Chair of the Board
Toronto

Brian R. Hedges
President & Chief Executive Officer, Russel Metals Inc.
Mississauga

Marion E. Britton
Vice President,
Chief Financial Officer
and Secretary
Mississauga

Lesley M.S. Coleman
Vice President, Controller &
Assistant Secretary
Mississauga

Sherri Mooser
Assistant Secretary
Mississauga

Russel Metals Inc.
1900 Minnesota Court, Suite 210
Mississauga, Ontario Canada L5N 3C9
T: 905.819.7777 F: 905.819.7409
info@russelmetals. com
www.russelmetals.com