



Russel Metals



2012

Annual Report

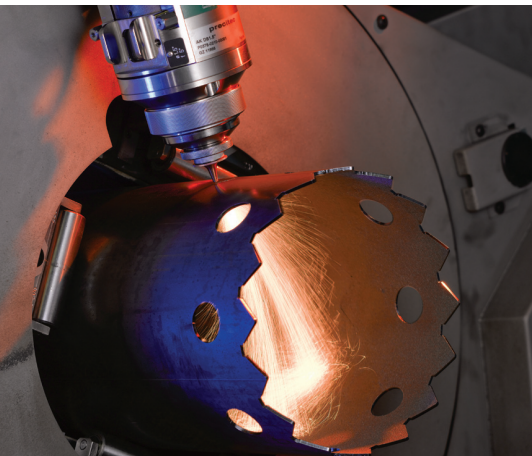


2012

Annual Report

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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 PRODUCTS

These operations distribute oil country tubular goods (OCTG), line pipe, tubes, valves and fittings in Canada and in the U.S. 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 our President and Chief Executive Officer



Brian R. Hedges

*President & Chief
Executive Officer*

As I reflect back on this past year, 2012 was a year where we set the foundation for the future growth of Russel Metals. During the year we employed our capital to complete a major acquisition, two smaller acquisitions and increase our processing capabilities. We extended the duration of our long-term debt by issuing new debt and increased our dividend payout to you, our shareholders. In addition to those specific initiatives, we continued to navigate Russel Metals through the constantly changing economic conditions that seem to have become the norm.

We started the year by tapping the Canadian high yield market and issuing \$300 million 6.0% senior notes that mature in 2022. The new issue represented our first issue in the Canadian high yield market and we are extremely pleased to have 10 year mezzanine financing for an attractive 6.0% interest rate. We now have shareholders equity, excluding convertible debentures, of \$800 million, convertible debentures of \$175 million, and long duration debt of \$300 million – overall a capitalization structure that we are very comfortable with.

We continually evaluate potential acquisition opportunities but since our acquisition of Norton Metals in 2008, none of these opportunities were at a price where we felt that they would add significant shareholder value. During the second quarter of 2012 two attractive service center opportunities presented themselves and both acquisitions were completed for a total purchase price of \$57 million. The first one, Siemens Laserworks, is a value-added laser processor with locations in Saskatoon, Saskatchewan and Edmonton, Alberta. Siemens is a market leader in laser processing in the prairies and complements our growth in value-added processing throughout our Canadian metals service center operations. The second one, Alberta Industrial Metals operates a service center in Red Deer Alberta with cut-to-length capabilities. The acquisition of Alberta Industrial Metals allowed us to realize synergies and close our existing Red Deer facility, combining the operations within the Alberta Industrial facility. For both Siemens and Alberta Industrial Metals, their pre-acquisition management teams continue to lead their respective operations.

On August 29, 2012, we announced that we had entered into a letter of intent to acquire Apex Distribution and its related companies and on November 8, 2012 we closed the transaction. Apex Distribution operates 48 locations in Canada and 15 locations in the U.S. Apex Distribution was and continues to be the largest Canadian-owned oilfield supply company and provides us with both product expansion and a new channel of distribution into the Western Canadian and U.S. oil and gas industry. The Apex Distribution stores are located near various oilfields and they have regular contact with the oil and gas company field engineers. The purchase price was \$227 million plus a five year earnout. Apex Distribution will continue to operate as a standalone operation under the current management team who led Apex Distribution so capably from a start-up operation in 1999 to its emergence as an industry leader.

In addition to growth by acquisition we continue to expand our existing operations with ongoing organic growth initiatives. Currently, we are in the process of adding stretcher leveler capabilities to our Stoney Creek, Ontario and Winnipeg North, Manitoba facilities, which will allow us to provide industry-leading flatness to our cut-to-length customers. We are also in the process of upgrading our cut-to-length capabilities at our Arrow operation in Houston, Texas. We continue to enhance our deep breadth of processing capabilities by adding and upgrading flat lasers, tube lasers, plate and long products processing equipment throughout our operations.

As we look to the future, I would like to welcome some key individuals who joined our management team in 2012. Don White, the President of Apex Distribution joins our team with over 34 years in the metals distribution industry. Don and his management group

bring a wealth of experience and industry knowledge to our energy products segment and we look forward to many successful years with them. In addition, in our metals service center group Shawn Henschel, general manager of Siemens Laserworks, joined our management team. Shawn has over 17 years in the metals distribution industry. I would also like to welcome Marvin Schultz and Brad Stein from Alberta Industrial Metals to our Russel Metals team.

I would like to welcome our two new directors, John Clark and John Hanna to our Board. John Clark and John Hanna bring a wealth of business and financial experience to our Board and we are pleased to have them. I would also like to take this opportunity to thank Carl Fiora, a Russel Metals' director since 1994, who has decided not to stand for reelection this year. Carl, your industry experience, warmth and sage counsel have been invaluable over the years, thank you.

Looking forward to 2013 and beyond, we have positioned your company to be more profitable at all points in the cycle with the addition of Apex Distribution. The speed of change in the steel cycle has accelerated and we believe we are one of the best positioned companies in the industry to take advantage of the constant changes. We believe the economy will continue to lack direction for 2013 which will equate to flat volumes and steel prices that will be flat or slightly stronger. This will be the year when we integrate our exciting acquisitions from 2012 and validate the strong reasons for making these acquisitions.



B.R. Hedges
President and Chief Executive Officer

Russel Metals Inc.

FINANCIAL HIGHLIGHTS

	<-----Years ended----->				
	2012	2011	2010	2009	2008
OPERATING RESULTS (millions)					
Revenues	\$3,000.1	\$2,693.3	\$2,178.0	\$1,971.8	\$3,366.2
Net earnings (loss)	98.8	118.3	57.3	(92.0)	228.5
EBIT	176.2	197.5	110.8	(130.2)	355.2
Adjusted EBIT (Note)	176.2	197.5	111.5 ⁽¹⁾	63.9 ⁽¹⁾	392.9 ⁽¹⁾
EBIT as a % of revenue	5.9%	7.3%	5.1%	3.2%	11.7%
Adjusted EBITDA (Note)	201.7	221.0	136.8 ⁽¹⁾	89.6 ⁽¹⁾	416.3 ⁽¹⁾
EBITDA as a % of revenue	6.7%	8.2%	6.3%	4.5%	12.4%
Basic earnings (loss) per common share (\$)	\$1.64	\$1.97	\$0.96	(\$1.54)	\$3.67
BALANCE SHEET INFORMATION (millions)					
Metals					
Accounts receivable	\$455.6	\$381.7	\$300.5	\$214.2	\$425.9
Inventories	764.0	645.6	544.1	517.9	925.1
Prepaid expenses and other assets	7.1	4.3	2.9	4.6	7.6
Accounts payable and accruals	(381.5)	(343.6)	(259.8)	(231.2)	(393.7)
Net working capital - Metals	845.2	688.0	587.7	505.5	964.9
Fixed assets	225.3	184.1	187.2	213.1	230.4
Goodwill and intangibles	192.1	24.7	24.9	28.4	71.8
Net assets employed in metals operations	1,262.6	896.8	799.8	747.0	1,267.1
Other operating assets	16.0	17.1	17.6	18.9	19.4
Net income tax assets (liabilities)	(8.2)	(12.0)	(11.5)	47.7	(30.2)
Pension and benefit assets (liabilities)	(38.7)	(33.3)	(17.2)	2.1	0.7
Other corporate assets and liabilities	(47.3)	(22.1)	(11.9)	(39.9)	(38.0)
Total net assets employed	\$1,184.4	\$846.5	\$776.8	\$775.8	\$1,219.0
CAPITALIZATION (millions)					
Bank indebtedness, net of (cash)	(\$100.8)	(\$270.7)	(\$323.7)	(\$359.6)	\$20.0
Long-term debt (incl. current portion)	455.8	297.8	319.7	342.1	218.9
Total interest bearing debt, net of (cash)	355.0	27.1	(4.0)	(17.5)	238.9
Market capitalization	1,662.2	1,346.8	1,373.5	1,058.5	1,134.2
Total firm value	\$2,017.2	\$1,373.9	\$1,369.5	\$1,041.0	\$1,373.1
OTHER INFORMATION (Notes)					
Shareholders' equity (millions)	\$829.4	\$819.4	\$772.8	\$793.3	\$980.1
Book value per share (\$)	\$13.78	\$13.64	\$12.88	\$13.29	\$16.42
Free cash flow (millions)	\$99.4	\$129.5	\$85.7	\$95.7	\$235.9
Capital expenditures (millions)	\$33.7	\$18.1	\$11.6	\$18.6	\$22.2
Depreciation and amortization (millions)	\$25.5	\$23.5	\$25.3	\$25.7	\$23.4
Earnings multiple	16.8	11.4	23.9	-	5.2
Firm value as a multiple of EBIT	11.4	7.0	12.3 ⁽¹⁾	16.3 ⁽¹⁾	3.9 ⁽¹⁾
Firm value as a multiple of EBITDA	10.0	6.2	10.0 ⁽¹⁾	11.6 ⁽¹⁾	3.3 ⁽¹⁾
Interest bearing debt/EBITDA	2.3	1.3	2.3 ⁽¹⁾	3.8 ⁽¹⁾	0.5 ⁽¹⁾
Debt as a % of capitalization	35%	27%	29%	30%	18%
Market capitalization as a % of book value	200%	164%	178%	133%	116%
Return on equity	12%	14%	7%	(12%)	23%
Return on capital employed	15%	23%	14% ⁽¹⁾	8% ⁽¹⁾	29% ⁽¹⁾
COMMON SHARE INFORMATION					
Ending outstanding common shares	60,204,636	60,071,698	59,978,173	59,698,690	59,695,290
Average outstanding common shares	60,128,534	60,043,222	59,717,629	59,696,743	62,329,483
Dividend yield	5.1%	5.4%	4.8%	5.6%	5.3%
Dividend per share	\$1.40	\$1.20	\$1.10	\$1.00	\$1.00
Share price - High	\$28.97	\$27.75	\$23.94	\$22.00	\$31.36
Share price - Low	\$22.52	\$18.90	\$16.25	\$9.25	\$15.01
Share price - Ending	\$27.61	\$22.42	\$22.90	\$17.73	\$19.00

Notes:

(1) Adjusted EBIT excludes inventory writedowns in the amount of \$37.7 million in 2008 and \$158.7 million in 2009 and \$35.4 million for asset impairment. It excludes the inventory reversal of \$1.9 million and plant closure costs of \$2.6 million in 2010.

(2) 2012, 2011 and 2010 are reported under IFRS. 2008 and 2009 represent actual results as reported under Canadian GAAP.

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 RESPONSIBILITY FOR FINANCIAL REPORTING

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, 2012, and has disclosed the results of this evaluation in its Management Discussion and Analysis of Financial Condition.

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

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

February 12, 2013



B. R. Hedges
President and
Chief Executive Officer



M. E. Britton
Vice President and
Chief Financial Officer

RUSSEL METALS INC.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS FOR THE YEAR ENDED DECEMBER 31, 2012

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 our audited Consolidated Financial Statements for the year ended December 31, 2012, including the notes thereto and should be read in conjunction with these financial statements. All dollar references in our financial statements and in this report are in Canadian dollars unless otherwise stated.

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

Unless otherwise stated, the discussion and analysis contained herein are as of February 12, 2013.

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; cyclical nature 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 products, and steel distributors.

2012 was a very active year for us. We raised low cost fixed term debt in the capital markets and subsequently used it to complete three acquisitions. The following summarizes these activities:

- (i) On April 19, 2012, we issued \$300 million of 6.0% Senior Notes and on May 25, 2012, we redeemed our 6.375% U.S. Senior Notes. The redemption of our 6.375% U.S. Senior Notes prior to maturity resulted in a charge to earnings for deferred costs, hedging costs and additional interest totaling \$0.07 per share.
- (ii) On May 1, 2012, we completed the acquisition of Siemens Laserworks for consideration of \$27 million which added laser processing capacity through its service center facilities located in Saskatoon, Saskatchewan and Edmonton, Alberta.
- (iii) On May 28, 2012, we completed the acquisition of Alberta Industrial Metals for consideration of \$28 million which increased our service center operations in Red Deer, Alberta and added cut-to-length capacity in Alberta.
- (iv) On November 8, 2012, we completed the acquisition of Alberta-based Apex Distribution and related companies for consideration of \$268 million. The total purchase price consisted of a cash payment of \$227 million and an additional consideration of \$41 million which is contingent on future earnings over the next five years ending December 31, 2017. Apex Distribution is focused on the distribution of valves and fittings to the oil and gas industry in Western Canada. This acquisition provides a new distribution channel and a new product focus in what we view as a growing area of the distribution market.

Revenues increased 11%, led by our energy products segment. Gross margin dollars were flat year over year despite the revenue increase due to margin pressure exerted by declining steel prices, which resulted in lower margins as a percentage of revenues. Higher operating expenses in our energy products segment due to increased volumes and our acquisition, as well as higher interest and finance expense reduced our net earnings for 2012 by \$19 million compared to 2011.

Our earnings for 2012 were \$99 million compared to \$118 million in 2011. Earnings per share were \$1.64 for 2012 compared to \$1.97 for 2011. Our return on equity was 12%.

SUMMARIZED FINANCIAL INFORMATION

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

2012

<i>(in millions, except per share data and volumes)</i>	Quarters Ended				Year Ended Dec. 31
	Mar. 31	June 30	Sept. 30	Dec. 31	
Revenues	\$ 802.9	\$ 718.7	\$ 712.6	\$ 765.9	\$ 3,000.1
Earnings from operations	53.1	46.4	40.3	36.4	176.2
Net earnings	33.1	22.8	22.5	20.4	98.8
Basic earnings per common share	\$ 0.55	\$ 0.38	\$ 0.37	\$ 0.34	\$ 1.64
Diluted earnings per common share	\$ 0.53	\$ 0.38	\$ 0.37	\$ 0.34	\$ 1.64
Market price of common shares					
High	\$ 27.95	\$ 27.92	\$ 28.20	\$ 28.97	\$ 28.97
Low	\$ 22.52	\$ 23.61	\$ 23.73	\$ 25.90	\$ 22.52
Shares outstanding end of quarter	60,102,823	60,129,973	60,155,948	60,204,636	60,204,636
Number of common shares traded	14,759,969	9,475,372	10,831,800	10,378,377	45,445,518

2011

<i>(in millions, except per share data and volumes)</i>	Quarters Ended				Year Ended Dec. 31
	Mar. 31	June 30	Sept. 30	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

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.

<i>(in millions, except percentages)</i>	2012	2011	2012 Change as a % of 2011
Segment Revenues			
Metals service centers	\$ 1,581.1	\$ 1,517.2	4%
Energy products	1,060.2	826.2	28%
Steel distributors	351.1	342.9	2%
Other	7.7	7.0	
	\$ 3,000.1	\$ 2,693.3	11%
Segment Operating Profits			
Metals service centers	\$ 102.1	\$ 115.2	(11%)
Energy products	63.2	60.4	5%
Steel distributors	30.3	38.4	(21%)
Corporate expenses	(19.9)	(17.0)	(17%)
Other	0.5	0.5	
Operating profits	\$ 176.2	\$ 197.5	(11%)
Segment Gross Margin as a % of Revenues			
Metals service centers	20.5%	22.3%	
Energy products	13.5%	14.8%	
Steel distributors	14.0%	16.9%	
Total operations	17.4%	19.5%	
Segment Operating Profit as a % of Revenues			
Metals service centers	6.5%	7.6%	
Energy products	6.0%	7.3%	
Steel distributors	8.6%	11.2%	
Total operations	5.9%	7.3%	

METALS SERVICE CENTERS

a) *Description of operations*

We provide processing and distribution services to a broad base of approximately 39,000 end users through a network of 54 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, Alberta Industrial Metals, B&T Steel, Leroux Steel, Mégantic Métal, Russel Metals Specialty Products, Métaux Russel Produits Spécialisés, McCabe Steel, Siemens Laserworks and York-Ennis. Our U.S. service centers operate under the names Russel Metals Williams Bahcall, JMS Russel Metals, Norton Metals and Baldwin International.

During the second quarter of 2012 we completed two acquisitions, Siemens Laserworks and Alberta Industrial Metals. These two acquisitions increased our revenues by approximately \$28 million in 2012.

b) *Factors affecting results*

The following is a general discussion of the significant factors affecting our metals service centers results. Specific information on how these factors impacted 2012 and 2011 is found in the section that follows.

Steel prices fluctuate significantly throughout the steel cycle. Mill price reductions during the second half of 2012 put downward pressure on selling prices and gross margins. 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. Revenues and operating profits fluctuate 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.

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 22,000 customers mean that our results tend to mirror the performance of the regional economies of Canada. Our U.S. operations, which have approximately 17,000 customers, are impacted by the local economic conditions in the regions that they serve.

The change in the Canadian dollar in 2012 versus 2011 had no material impact on revenues and profits for our U.S. operations translated to Canadian dollars. Revenues and profits of our U.S. operations reported for 2012 were converted at \$0.9994 per US\$1 compared to \$0.9893 per US\$1 for 2011. The exchange rate at December 31, 2012 used to translate the balance sheet was \$0.9949 per US\$1 versus \$1.0170 per US\$1 at December 31, 2011.

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

c) *Metals service centers segment results -- 2012 compared to 2011*

Revenues for 2012 increased 4% to \$1.6 billion compared to 2011 revenues of \$1.5 billion. Tons shipped in metals service centers were approximately 6% higher than those shipped in 2011. Volumes were stronger for the first six months of 2012 resulting in a year over year increase of 14% for that period. The third quarter was flat and the fourth quarter was down 4% compared to 2011 and 7% compared to the third quarter of 2012. Selling price approximated that of 2011 for the first half of 2012 and declined in the second half, resulting in a decline for the year of approximately 2%.

The Metals Service Center Institute reported a decrease of 3% in tons shipped for the industry in 2012 compared to 2011 for Canada and an increase of 2% in tons shipped for the U.S. Our 6% increase in tons shipped indicates that we have captured market share.

Gross margin as a percentage of revenues was 20.5% for 2012 compared to 22.3% for 2011. Gross margin percentage was lower compared to 2011 due to the absence of inventory holding gains experienced in the first half of 2011 and the decline in margins due to falling prices in the second half of 2012.

Our average revenue per invoice for 2012 was approximately \$1,806 compared to \$1,772 for 2011, reflecting higher average orders in tons. We handled approximately 3,502 transactions per day in 2012 compared to 3,426 per day for 2011, an increase of 2%.

Operating expenses for 2012 decreased \$2 million, or by 1%, from 2011 mainly related to lower variable compensation. Operating expenses as a percentage of revenue improved from 15% for 2011 to 14% for 2012.

Our Boucherville, Quebec plant has been on strike since September 2012. Our 2012 earnings were reduced approximately \$0.04 per share due to the strike.

Metals service centers operating profits for 2012 decreased by 11% to \$102 million from \$115 million in 2011. The decrease was due to lower margins compared to 2011 caused by declining steel prices in 2012.

ENERGY 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 yards ready for distribution to customers throughout North America. In addition, we operate from 53 Canadian and 19 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 products segment operates under the names Apex Distribution, Apex Remington, Comco Pipe and Supply Company, Fedmet Tubulars, Triumph Tubular & Supply, Pioneer Pipe and Spartan Energy Tubulars.

On November 8, 2012, we acquired 100% of the operations of Apex Distribution which is a supplier of oil field products, primarily valves and fittings, to the Western Canadian oil and gas industry and the Saskatchewan potash industry. The addition of Apex Distribution complements the operations in this segment and provides a new channel of distribution into the Western Canadian oil and gas industry and the U.S. market through Apex Distribution's start-up operation Apex Remington.

b) Factors affecting results

The following is a general discussion of the significant factors affecting our energy products segment results. Specific information on how these factors impacted 2012 and 2011 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 returned to historically high levels during 2011 and remained high in 2012 although rig activity in 2012 is below that of 2011. Activity in Western Canada is dependent on Canadian oil prices which are below U.S. oil prices due to a shortage of pipeline capacity. Natural gas prices are at very low levels and thus drilling activity related to gas is well below historical levels. Fracking technology, applied to horizontal drilling, enables producers to economically drill in the oil and gas-rich shale fields and remains the focus of our OCTG sales efforts. Sales of large diameter pipe for use in distribution feeder lines has been a very active area for our U.S. operations in 2012 as new shale fields are developed and their output connected to the existing pipelines.

Prices for pipe products 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 and reduce imports of these products.

Our Canadian operations can be affected by the U.S. dollar exchange rate since some products are sourced outside of Canada and are priced in U.S. dollars. Movement in the Canadian dollar impacts the cost of inventory and cost of sales.

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

c) *Energy products segment results -- 2012 compared to 2011*

Revenues increased 28% for 2012 to \$1.0 billion compared to 2011. Our Canadian operations servicing the oil sands and our U.S. operations had increased revenues mainly related to increased tons shipped. Revenues of our U.S. operations increased approximately 52% related to the sale of pipe for large diameter transmission lines. Activities in the oil sands increased 34%, while the addition of Apex Distribution for seven weeks added 8% to sales. Revenues from our Canadian operations servicing oil and gas drilling activity decreased by 12% compared to 2011.

Gross margin as a percentage of revenue was 13.5% for 2012 compared to 14.8% in 2011 due to competitive price pressures and declining steel prices. In addition, we recorded an inventory write-down of \$4 million in the fourth quarter of 2012.

Operating expenses were \$18 million higher in 2012 compared to 2011, mainly due to higher variable compensation, freight costs for higher volumes and the addition of Apex Distribution. Operating expenses as a percentage of revenues were consistent with 2011.

This segment generated operating profits of \$63 million for 2012 compared to \$60 million for 2011. The increase related to the earnings of Apex Distribution for seven weeks offset by lower gross margin on increased 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 significant factors affecting our steel distributors. Specific information on how these factors impacted 2012 and 2011 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. In addition, these factors significantly affect product availability in North America. Current lead times for deliveries from North American mills are short due to excess capacity reducing demand for imports.

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

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.

c) Steel distributors segment results -- 2012 compared to 2011

Revenues for 2012 were 2% higher than that of 2011 mainly due to higher volumes during the first half of 2012. Increased shipments to the service center industry and large equipment manufacturers during the first half of 2012 resulted in increased demand for our steel distributor operations in Canada and the U.S.

Gross margin as a percentage of revenues was 14.0% for 2012 compared to 16.9% for 2011. The decline related to steel pricing pressures from domestic mill price reductions in the second half of 2012 and elevated gross margins in 2011 due to rising steel prices in the first half of 2011.

Operating expenses were \$1.0 million higher for 2012 compared to 2011 due to higher volumes. Operating expenses as a percentage of revenue was consistent with 2011.

Operating profits for 2012 were \$30 million compared to \$38 million in 2011. The decrease in operating profit from 2011 was mainly a result of lower gross margins.

CORPORATE EXPENSES -- 2012 COMPARED TO 2011

Corporate expenses were \$20 million in 2012 compared to \$17 million in 2011. Corporate expenses were higher due to increases in the value of deferred and restricted stock units, a result of our increased share price. In addition, as required under IFRS, we expensed legal, consulting and audit services of approximately \$1 million related to our three acquisitions.

CONSOLIDATED RESULTS -- 2012 COMPARED TO 2011

Operating profits from operations were \$176 million for 2012, compared to \$198 million in 2011. Reduced gross margins in metals service centers and steel distributors and higher expenses due to increased volumes in the energy products segment were the primary factors contributing to the decrease.

INTEREST EXPENSE AND INCOME

Net interest expense was \$33 million for 2012 compared to \$26 million for 2011. We issued \$300 million of 6% Senior Notes on April 19, 2012 and a portion of the proceeds was used to redeem the outstanding US\$139 million Senior Notes on May 25, 2012. Higher outstanding debt as well as the additional interest between the issue of the new debt and the redemption of the US\$139 million Senior Notes resulted in higher interest expense.

OTHER FINANCE INCOME AND EXPENSE

Net finance expense was \$5 million for 2012 compared to \$3 million for 2011. We recorded a \$4 million charge related to deferred costs and hedging costs on the redemption of the U.S. Senior Notes in the second quarter of 2012.

INCOME TAXES

Our income tax provision for 2012 was \$39 million. Our effective income tax rate for 2012 was 28.5% compared to 30.2% for 2011. The effective income tax rate decreased due to lower statutory rates. We estimate our normalized effective income tax rate to be 28.5% for 2013. Our normalized effective income tax rate excludes the fair value adjustment on the Apex Distribution contingent consideration which will not have a tax benefit.

NET EARNINGS

Net earnings for 2012 were \$99 million compared to \$118 million for 2011. Basic earnings per common share for 2012 were \$1.64 compared to \$1.97 per common share in 2011.

SHARES OUTSTANDING AND DIVIDENDS

The weighted average number of common shares outstanding for 2012 was 60,128,534 compared to 60,043,222 for 2011. The average number of common shares outstanding has increased as a result of stock options being exercised. As at December 31, 2012, we had 60,204,636 common shares outstanding and at February 12, 2013 we had 60,204,907 common shares outstanding.

We paid common share dividends of \$81 million or \$1.35 per share in 2012 as compared to \$69 million or \$1.15 per share in 2011.

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. During the year ended December 31, 2012, Convertible Debentures of \$10,000 principal were converted into 388 common shares.

During the second quarter of 2012, we issued \$300 million 6.0% Senior Notes due April 19, 2022. The indenture for our Senior Notes has restrictions related to quarterly dividends in excess of \$0.35 per share. We currently have a basket of approximately \$110 million available for restricted payments, which is adjusted for 50% of our net earnings or losses on a quarterly basis. This basket would be available for increased dividend payments.

Under our syndicated bank facility, the payment of dividends is subject to excess borrowing base availability of not less than four times the declared dividend. We do not believe this requirement will restrict our ability to pay dividends as our borrowing base, which is based on percentages of accounts receivable and inventories, has traditionally been in excess of borrowings plus four times the current dividend.

EBITDA

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

<i>(millions)</i>	2012	2011
Net earnings	\$ 98.8	\$ 118.3
Provision for income taxes	39.3	51.1
Interest and finance expense, net	38.1	28.1
Earnings before interest, finance and income taxes (EBIT)	176.2	197.5
Depreciation and amortization	25.5	23.5
Earnings before interest, finance, income taxes, depreciation and amortization (EBITDA)	\$ 201.7	\$ 221.0

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 \$34 million for 2012 compared to \$18 million for 2011. Depreciation expense was \$24 million in 2012 and \$22 million in 2011.

In the first quarter of 2012, we acquired land adjacent to our Comco Pipe's operation in Edmonton, Alberta for \$6 million to allow us to expand our storage of pipe for large projects in the oil sands. In the second quarter of 2012, we purchased a leased facility from our landlord for \$4 million.

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; however, due to lower expenditures on processing equipment when volumes were lower, our 2012 expenditures were in excess of depreciation. We are in the process of upgrading four cut-to-length lines to improve our processing capabilities. Expenditures related to these projects commenced during 2012 and will be completed in 2013. These expenditures support our organic growth initiatives

LIQUIDITY

At December 31, 2012, we had cash of \$115 million compared to \$271 million at December 31, 2011. In addition, at December 31, 2012, we had bank indebtedness of \$14 million resulting in net cash of \$101 million.

We generated \$133 million from operations during 2012 and utilized \$57 million in working capital to support our growth as well as \$34 million for capital expenditures and \$81 million for dividends to shareholders. We also generated \$293 million from the issuance of our 6.0% Senior Notes offset by \$141 million used to repay our 6.375% U.S. Senior Notes and \$281 million used to acquire Apex Distribution, Siemens Laserworks and Alberta Industrial Metals. In 2011, we invested \$91 million in working capital to support our growth and \$18 million for capital expenditures. In 2011, we repurchased \$29 million of our U.S. Senior Notes, 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 bad debts and increased days outstanding for accounts receivable, which may affect the timing of collections. Total assets were \$1.8 billion at December 31, 2012 and \$1.5 billion at December 31, 2011. At December 31, 2012, current assets excluding cash represented 73% of our total assets excluding cash, versus 81% at December 31, 2011.

Cash utilized for inventory was \$29 million in 2012, mainly related to increased tons in all three segments. Inventories represented 42% of our total assets at December 31, 2012 and 2011.

Inventory by Segment

<i>(millions)</i>	Dec. 31 2012	Sept. 30 2012	June 30 2012	Mar. 31 2012	Dec. 31 2011
Metals service centers	\$ 274	\$ 286	\$ 294	\$ 300	\$ 270
Energy products	411	350	341	308	304
Steel distributors	79	87	88	84	72
Total	\$ 764	\$ 723	\$ 723	\$ 692	\$ 646

Energy products includes inventories of \$85 million relating to the Apex Distribution acquisition. Inventory turns are calculated using annualized quarterly cost of sales dollars, divided by inventory in dollars at the end of the quarter.

Quarters Ended

<i>Inventory Turns</i>	Dec. 31 2012	Sept. 30 2012	June 30 2012	Mar. 31 2012	Dec. 31 2011
Metals service centers	3.9	4.3	4.7	4.5	4.4
Energy products	3.4	2.5	1.9	3.1	2.6
Steel distributors	3.6	3.1	3.6	4.0	4.8
Total	3.6	3.3	3.3	3.8	3.6

At December 31, 2012, our metals service centers had higher tons of inventory priced at a lower average price than at December 31, 2011. Lower revenues in the fourth quarter of 2012 reduced inventory turns.

Our energy products operations had inventory at the end of 2012 slightly higher than 2011; however, higher revenues resulted in improved inventory turns for 2012.

Our steel distributors segment had only a slightly higher level of inventory compared to the end of 2011 but due to the lower revenues in the fourth quarter of 2012 had significantly lower turns.

Accounts receivable utilized cash of \$25 million during 2012 due to increased revenues in our energy segment. Accounts receivable represented 25% of our total assets at December 31, 2012 and 2011.

During 2012, we made income tax payments of \$60 million compared to \$46 million for 2011.

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

FREE CASH FLOW

<i>(millions)</i>	2012	2011
Cash from operating activities before non-cash working capital	\$ 133.1	\$ 147.6
Purchase of property, plant and equipment	(33.7)	(18.1)
	\$ 99.4	\$ 129.5

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

CASH, DEBT AND CREDIT FACILITIES

<i>Debt As at December 31 (millions)</i>	2012	2011
Long-term debt		
6.0% \$300 million Senior Notes due April 19, 2022	\$ 293	\$ -
7.75% \$175 million Convertible Debentures due September 30, 2016	158	154
6.375% U.S. Senior Notes due March 1, 2012 (2011: US\$138.9 million)	-	140
Finance leases obligations, maturing 2014 to 2017	5	4
	456	298
Current portion	(2)	(1)
	\$ 454	\$ 297

During 2012, we issued \$300 million of 6.0% Senior Notes for net proceeds of \$293 million due on April 19, 2022.

Our Convertible Debentures have been split between debt and equity. The amount allocated to equity represented the valuation of the holders' option to convert the Convertible Debentures into common shares and the fair value adjustments on the cash conversion feature were treated as a derivative prior to the amendment of the Trust Indenture in December 2010. The debt allocated to equity is accreted as a charge through interest expense over the life of the debentures.

<i>Cash and Bank Credit Facilities As at December 31, 2012 (millions)</i>	Russel Metals Facility	U.S. Subsidiary Facility	Total
Bank loans	\$ (37)	\$ -	\$ (37)
Cash net of outstanding cheques	132	6	138
Net cash	95	6	101
Letters of credit	(37)	(20)	(57)
	\$ 58	\$ (14)	\$ 44
Facilities			
Borrowings and letters of credit	\$ 202	\$ 30	\$ 232
Letters of credit	50	-	50
Facilities availability	\$ 252	\$ 30	\$ 282
Available line based on borrowing base	\$ 252	\$ 30	\$ 282

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 2012, we renewed our U.S. subsidiary facility with an expiry of July 2013 and reduced availability to US\$30 million.

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, 2012, we were entitled to borrow and issue letters of credit totaling \$252 million under this facility. At December 31, 2012, we had borrowings of US\$37 million under this facility and at December 31, 2011 we had no borrowings. At December 31, 2012, we had letters of credit of \$37 million compared to \$44 million at December 31, 2011.

The maximum borrowings including letters of credit under the U.S. subsidiary's facility are US\$30 million. At December 31, 2012, this subsidiary had no borrowings and had letters of credit of US\$20 million. At December 31, 2011, this subsidiary had no borrowings and had letters of credit of US\$20 million.

With our cash, cash equivalents and our bank facilities we have access to approximately \$287 million of cash based on our December 31, 2012 balances. The use of our bank facilities has been predominantly to fund working capital requirements, finance acquisitions and trade letters of credit for inventory purchases. These lines may be used to support increased working capital needs when volumes and steel prices increase.

CONTRACTUAL OBLIGATIONS

As at December 31, 2012, 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. The following table sets forth such payments.

<i>Contractual Obligations</i>	Payments due in				Total
	2013	2014 and 2015	2016 and 2017	2018 and thereafter	
<i>(millions)</i>					
Debt	\$ -	\$ -	\$ 175.0	\$ 300.0	\$ 475.0
Long-term debt interest	31.6	63.2	46.2	77.3	218.3
Finance lease obligations	2.4	2.1	0.6	-	5.1
Operating leases	19.7	30.6	19.3	26.8	96.4
Total	\$ 53.7	\$ 95.9	\$ 241.1	\$ 404.1	\$ 794.8

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

We have obligations related to multiple defined benefit pension plans in Canada, as disclosed in Note 14 of our 2012 consolidated financial statements. During 2012, we contributed \$6 million to these plans. We expect to contribute approximately \$5 million to these plans during 2013. The defined benefit obligations reported in the financial statements use different assumptions than the going concern actuarial valuations prepared for funding. In addition, the actuarial valuations provide a solvency valuation, which is a valuation assuming the plan is wound up at the valuation date. Our funding obligations reported would increase by \$6 million on a solvency basis and thus additional funding could be required based on solvency if the plans were wound up. We estimate the impact of a change in the discount rate on the solvency obligation would be similar to that disclosed in Note 14.

As part of the purchase consideration for Apex Distribution we agreed to pay additional consideration during the next five years based on earnings before interest and taxes and return on net assets. The fair value of this consideration was determined to be \$41 million at the date of acquisition. This amount will be reviewed quarterly and adjusted through income for increases or decreases in the liability. Any changes in this amount will not be tax affected. As the fair value includes a discount related to future payments, we estimate the change in fair value on the Apex Distribution acquisition which will be recorded as other finance expense, to be \$7 million in 2013.

OFF-BALANCE SHEET ARRANGEMENTS

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

ACCOUNTING ESTIMATES

The preparation of our 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, contingent consideration, litigation and assigned values on net assets acquired. We base our estimates on historical experience and on various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgements about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

Our most significant assets are accounts receivable and inventories.

Accounts Receivable

An allowance for doubtful accounts is maintained for estimated losses resulting from the inability of our customers to make required payments. Assessments are based on aging of receivables, legal issues (bankruptcy status), past collection experience, current financials 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, 2012 approximates our reserve at December 31, 2011; however, our accounts receivable balance at December 31, 2012 is higher. Bad debt expense for 2012 as a percentage of revenue approximates that of 2011.

Inventories

We review our inventories to ensure that the cost of inventories is not in excess of its estimated net realizable value and for obsolete and slow moving product. Inventory reserves or write-downs are recorded when cost exceeds the estimated selling price less cost to sell and when product is determined to be slow moving or obsolete. During 2012, we increased cost of sales and our inventory write-down reserve by \$5 million related to the energy products segment.

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.

Business Combinations

We review the fair value of assets acquired for acquisitions. Where we deem it appropriate we hire outside business valuers to assist in the assessment of the fair value of property, plant, equipment and intangibles of acquired businesses. The assessment of fair values requires significant judgement including the contingent consideration which will be fair valued quarterly.

Employee Benefit Plans

Our actuaries 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 \$86 million in plan assets at December 31, 2012, which is an increase of approximately \$1 million from December 31, 2011. Due to a change in the discount rate used from 4.5% in 2011 to 4% in 2012, which reflects the current interest rate environment, our accrued benefit obligations increased by \$6 million to \$125 million at December 31, 2012 as compared to \$119 million at December 31, 2011. An actuarial loss on employee future benefit plans of \$6 million, net of tax, was charged to other comprehensive income in 2012 and \$14 million was charged in 2011. Our projected 2013 pension expense has also increased by approximately \$2 million.

FUTURE ACCOUNTING AND REPORTING CHANGES

The following standards are effective for our consolidated financial statements commencing January 1, 2013. The adoption of these standards is not expected to have a significant impact on the Company's financial position or results of operations.

- a) IFRS 10, Consolidated Financial Statements, replaces IAS 27 Consolidated and Separate Financial Statements and SIC-12 Consolidation - Special Purpose Entities and introduces a new principle-based definition of control to determine whether an investment needs to be consolidated.
- b) IFRS 12, Disclosure of Interests in Other Entities, provides guidance on minimum disclosure requirements when a reporting entity holds an interest in other entities.
- c) IFRS 13, Fair Value Measurement, clarifies the definition of fair value, provides guidance on measuring fair value and disclosure requirements related to fair value measurement.
- d) IAS 27, (Amended), Separate Financial Statements, was amended to focus solely on accounting and disclosure requirements when an entity presents financial statements, separate from its consolidated financial statements.
- e) IAS 28 (Amended), Investments in Associates and Joint Ventures, was republished to set out the requirements for the application of equity method accounting for interests in joint ventures and interests in associates.
- f) IAS 1 Presentation of Financial Statements: Other Comprehensive Income, was amended to require entities to group items presented in other comprehensive income based on whether those items will, or will not, be classified to profit or loss in the future.
- g) IAS 19 (Amended), Post Employment Benefits, was amended to make improvements to recognition, presentation and disclosures of defined benefit plans in the financial statements. The amendments eliminate the use of the corridor method, streamline the presentation of changes in assets and liabilities and enhance the disclosure requirements.

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, 2012. 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, for operations other than those related to Apex Distribution which we acquired on November 8, 2012, 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.

Apex Distribution was a private company prior to our acquisition on November 8, 2012 and does not have documented internal controls and lacks appropriate controls in its computer system to ensure all transactions are recorded in accordance with our generally accepted accounting principles. We will be working with Apex Distribution's management during 2013 to add appropriate manual and computer controls and document the internal control processes.

Summary Financial Information - Apex Distribution

*For the period November 8 to December 31, 2012
(millions)*

Revenue	\$ 66
Earnings before interest and tax	5

*As at December 31, 2012
(millions)*

Current assets	\$ 172
Current liabilities excluding contingent consideration	(49)
Goodwill and intangibles	183
Other non-current assets	15
Deferred income tax liability	(19)
Contingent consideration	(41)
Other non-current liabilities	(1)

The line items that could be affected by this lack of appropriate controls are revenue, earnings before interest and taxes, current assets and current liabilities excluding contingent consideration.

VISION AND STRATEGY

The metals distribution business is a segment of a mature, cyclical industry. The use of service centers 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 in the last five years. 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 this strategy will result in higher profits throughout a cycle and we will 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 metals businesses that have strong market niches or provide mass to our existing operations. New acquisitions could be either major stand-alone operations or ones that complement our existing operations. During 2012, we completed two acquisitions in the metals service center segment totaling \$55 million and one in the energy products segment totaling \$268 million. We continue to review opportunities for acquisitions.

We believe that the steel-based pricing cycle will continue to be short and volatile, and a management structure and philosophy that allows the fastest reaction to changes that affect the industry will be the most successful. We will continue to invest in our business systems to enable faster reaction times to changing business conditions. 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 returning to pre-2009 levels in all regions other than Ontario and the U.S. We will continue to make structural changes where necessary based on demand levels. Our Apex Distribution acquisition in 2012 increased our exposure to the Western Canadian oil and gas segment. We believe that this continues to be an area of growth; however, our exposure to the cyclical nature of oil and gas pricing has increased. Management believes the acquisition of Apex Distribution provides a more stable stream of revenues and earnings for the energy products segment. Our Annual Information Form includes a summary of risks related to our business.

FOURTH QUARTER RESULTS

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

<i>(millions, except percentages)</i>	Quarters Ended December 31,		
	2012	2011	2012 change as a % of 2011
Segment Revenues			
Metals service centers	\$ 338.5	\$ 375.1	(10%)
Energy products	344.4	233.5	48%
Steel distributors	81.3	101.0	(20%)
Other	1.7	2.0	
	\$ 765.9	\$ 711.6	7%
Segment Operating Profits			
Metals service centers	\$ 16.9	\$ 21.3	(21%)
Energy products	18.0	16.9	7%
Steel distributors	6.6	11.1	(41%)
Corporate expenses	(4.2)	(3.4)	(24%)
Other	(0.9)	0.4	
Operating profits	\$ 36.4	\$ 46.3	(21%)
Segment Gross Margin as a % of Revenues			
Metals service centers	20.2%	20.1%	
Energy products	13.1%	14.0%	
Steel distributors	13.2%	15.6%	
Total operations	16.4%	17.7%	
Segment Operating Profit as a % of Revenues			
Metals service centers	5.0%	5.7%	
Energy products	5.2%	7.2%	
Steel distributors	8.0%	11.0%	
Total operations	4.5%	6.5%	

Fourth quarter results for 2012 were lower compared to the third quarter of 2012 and the fourth quarter of 2011. Our earnings per share for the fourth quarter of 2012 were \$0.34 compared to fourth quarter of 2011 of \$0.47 and third quarter of 2012 of \$0.37. Tons shipped in the fourth quarter of 2012 for metals service centers were approximately 9% lower than for the third quarter of 2012 and selling prices were 2% lower than the third quarter of 2012.

OUTLOOK

In 2013, our energy products segment will reflect our acquisition of Apex Distribution and will generate higher revenues and earnings. We believe that 2013 volumes for our other operations will be flat compared to 2012. Steel pricing should increase slightly compared to the end of 2012 resulting in higher gross margins as a percentage of revenues.

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, 2012 and December 31, 2011, and the consolidated statements of earnings, comprehensive income, cash flows and changes in equity for the years ended December 31, 2012 and December 31, 2011, 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, 2012 and December 31, 2011 and its financial performance and its cash flows for the years ended December 31, 2012 and December 31, 2011 in accordance with International Financial Reporting Standards.

Deloitte LLP

Deloitte LLP
Chartered Accountants
Licensed Public Accountants

February 12, 2013
Toronto, Ontario

CONSOLIDATED STATEMENTS OF EARNINGS

<i>(in millions of Canadian dollars, except per share data)</i>	Years ended December 31	
	2012	2011
Revenues	\$ 3,000.1	\$ 2,693.3
Cost of materials (Note 7)	2,476.8	2,168.0
Employee expenses (Note 18)	215.3	202.3
Other operating expenses (Note 18)	131.8	125.5
Earnings before interest, finance and income taxes	176.2	197.5
Interest expense (Note 19)	34.2	27.5
Interest income (Note 19)	(1.7)	(2.0)
Other finance expense (Note 19)	5.6	2.6
Earnings before income taxes	138.1	169.4
Provision for income taxes (Note 20)	39.3	51.1
Net earnings for the year	\$ 98.8	\$ 118.3
Basic earnings per common share (Note 17)	\$ 1.64	\$ 1.97
Diluted earnings per common share (Note 17)	\$ 1.64	\$ 1.92

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

<i>(in millions of Canadian dollars)</i>	Years ended December 31	
	2012	2011
Net earnings for the year	\$ 98.8	\$ 118.3
Other comprehensive income (loss) net of tax (Note 26)		
Unrealized foreign exchange (losses) gains on translation of foreign operations	(8.5)	9.1
Unrealized losses on items designated as net investment hedges	(0.9)	(2.5)
Losses on derivatives designated as cash flow hedges transferred to net earnings during the year	2.3	1.1
Actuarial losses on pension and similar obligations	(6.0)	(13.8)
Other comprehensive loss	(13.1)	(6.1)
Total comprehensive income	\$ 85.7	\$ 112.2

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

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

<i>As at December 31</i> <i>(in millions of Canadian dollars)</i>	2012	2011
ASSETS		
Current		
Cash and cash equivalents (Note 5)	\$ 115.1	\$ 270.7
Accounts receivable (Note 6)	456.2	382.4
Inventories (Note 7)	764.0	645.6
Prepaid expenses	7.1	4.6
Income taxes receivable	7.7	0.5
	1,350.1	1,303.8
Property, Plant and Equipment (Note 8)	241.8	201.3
Deferred Income Tax Assets (Note 20)	4.6	5.3
Financial and Other Assets (Note 9)	6.5	3.3
Goodwill and Intangibles (Note 10)	192.1	24.7
	\$ 1,795.1	\$ 1,538.4
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current		
Bank indebtedness (Note 11)	\$ 14.3	\$ -
Accounts payable and accrued liabilities (Note 12)	396.5	362.8
Income taxes payable	-	17.4
Current portion long-term debt (Note 13)	2.2	1.3
	413.0	381.5
Long-Term Debt (Note 13)	453.6	296.5
Pensions and Benefits (Note 14)	38.7	33.3
Deferred Income Tax Liabilities (Note 20)	20.5	0.4
Provisions and Other Non-Current Liabilities (Note 21)	39.9	7.3
	965.7	719.0
Shareholders' Equity (Note 15)		
Common shares	487.9	485.4
Retained earnings	324.3	306.7
Contributed surplus	17.3	15.7
Accumulated other comprehensive loss	(30.2)	(17.1)
Equity component of convertible debentures (Note 13)	28.7	28.7
Total Shareholders' Equity Attributable to Equity Holders	828.0	819.4
Non-controlling interest	1.4	-
Total Shareholders' Equity	829.4	819.4
Total Liabilities and Shareholders' Equity	\$ 1,795.1	\$ 1,538.4

ON BEHALF OF THE BOARD,



A. Laberge
Director



L. Lachapelle
Director

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

CONSOLIDATED STATEMENTS OF CASH FLOW

<i>(in millions of Canadian dollars)</i>	Years ended December 31	
	2012	2011
Operating activities		
Net earnings for the year	\$ 98.8	\$ 118.3
Depreciation and amortization	25.5	23.5
Deferred income taxes	1.3	(0.2)
(Gain) loss on sale of property, plant and equipment	(1.2)	0.1
Stock-based compensation	2.1	2.1
Difference between pension expense and amount funded	(3.1)	(2.6)
Debt accretion, amortization and other	9.7	6.4
Cash from operating activities before non-cash working capital	133.1	147.6
Changes in non-cash working capital items		
Accounts receivable	25.4	(78.6)
Inventories	(28.5)	(97.5)
Accounts payable and accrued liabilities	(34.3)	79.0
Income tax receivable/payable	(19.6)	7.2
Other	(0.1)	(1.5)
Change in non-cash working capital	(57.1)	(91.4)
Cash from operating activities	76.0	56.2
Financing activities		
Increase in bank borrowings	14.6	-
Issue of common shares	2.0	1.4
Dividends on common shares	(81.2)	(69.1)
Issuance of long-term debt	300.0	-
Repayment of long-term debt	(142.4)	(29.3)
Deferred financing	(7.0)	(0.6)
Cash from (used in) financing activities	86.0	(97.6)
Investing activities		
Purchase of property, plant and equipment	(33.7)	(18.1)
Proceeds on sale of property, plant and equipment	1.8	0.8
Purchase of business	(281.3)	-
Cash used in investing activities	(313.2)	(17.3)
Effect of exchange rates on cash and cash equivalents	(4.4)	5.7
Decrease in cash and cash equivalents	(155.6)	(53.0)
Cash and cash equivalents, beginning of the year	270.7	323.7
Cash and cash equivalents, end of the year	\$ 115.1	\$ 270.7
Supplemental cash flow information:		
Income taxes paid	\$ 60.0	\$ 45.8
Interest paid (net)	\$ 31.2	\$ 25.5

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

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

<i>(in millions of Canadian dollars)</i>	Common Shares	Retained Earnings	Contributed Surplus	Accumulated Other Comprehensive Loss	Equity Component of Convertible Debentures	Non- Controlling Interest	Total
Balance, January 1, 2012	\$ 485.4	\$ 306.7	\$ 15.7	\$ (17.1)	\$ 28.7	\$ -	\$ 819.4
Acquired during the year (Note 4)	-	-	-	-	-	1.4	1.4
Payment of dividends	-	(81.2)	-	-	-	-	(81.2)
Net earnings for the year	-	98.8	-	-	-	-	98.8
Other comprehensive loss for the year	-	-	-	(13.1)	-	-	(13.1)
Recognition of stock-based compensation	-	-	1.6	-	-	-	1.6
Stock options exercised	2.5	-	-	-	-	-	2.5
Balance, December 31, 2012	\$ 487.9	\$ 324.3	\$ 17.3	\$ (30.2)	\$ 28.7	\$ 1.4	\$ 829.4

<i>(in millions of Canadian dollars)</i>	Common Shares	Retained Earnings	Contributed Surplus	Accumulated Other Comprehensive Loss	Equity Component of Convertible Debentures	Non- Controlling Interest	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

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 12, 2013.

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").

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

d) *Business combinations*

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

- (i) cost of consideration is measured as the fair value of the assets given, equity instruments issued, liabilities incurred or assumed and any non-controlling interest acquired at the acquisition date;
- (ii) identifiable assets acquired and liabilities assumed are measured at fair value at the acquisition date;
- (iii) the excess of acquisition cost over the fair value of the identifiable net assets acquired is recorded as goodwill;
- (iv) if the acquisition cost is less than the fair value of the net assets acquired, the fair value of the net assets is re-assessed and any 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 at fair value at the acquisition date and changes in fair value 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 estimated not 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 or declining balance 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 or more frequently if events or changes in circumstances indicate that the assets might be impaired. When testing goodwill, the carrying values of the cash-generating units (CGUs) or group of CGUs including goodwill are compared with their respective recoverable amounts (higher of fair value less costs to sell and value in use) and an impairment loss, if any, is recognized for the excess. A CGU is the smallest identifiable group of assets that generates cash flows that are largely independent of the cash flows from other assets or group of assets.

Intangibles

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

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

k) Impairment of long lived non-financial assets

Non-financial tangible and definite life 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 CGU exceeds its recoverable amount. 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 CGU on a pro-rata basis.

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

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 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 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 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 financial position date, which was \$0.9949 per US\$1 at December 31, 2012 (December 31, 2011: \$1.0170 per US\$1). Monetary items receivable or payable to a foreign subsidiary for which settlement is neither planned nor likely to occur form part of the net investment in the foreign subsidiary. 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 subsidiary are treated as assets and liabilities of the foreign subsidiary 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, 2012, the U.S. dollar published average exchange rate was \$0.9994 per US\$1 (2011: \$0.9893 per US\$1). The resulting gains or losses are included in other comprehensive income.

x) *Financial Instruments*

(i) *Financial Assets*

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

Financial assets at fair value through profit or loss

♦ *Classification*

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

♦ *Recognition and measurement*

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

Loans and receivables

♦ *Classification*

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

(ii) *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 asset's carrying value is reduced with the loss recognized in net earnings.

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

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

(iii) Financial liabilities and equity instruments

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

Other financial liabilities

◆ Classification

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

◆ Recognition and measurement

Short-term borrowings are recorded at the fair value of the proceeds received. Long-term debt is measured at amortized cost using the effective interest method, with interest expense recognized in net earnings. Eligible costs related to long-term debt financing are carried at amortized cost and amortized using the effective interest method over the period of the related financing.

(iv) 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 these 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 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" 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 expense" 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 cost of that asset. Other borrowing costs not directly attributable to a qualifying asset are expensed in the period incurred.

z) Non-controlling interests

Non-controlling interest in the Company's subsidiaries are classified as a separate component of equity. Each period the net income or loss and the components of other comprehensive income or loss are attributed to the Company and non-controlling interest in proportion to their shareholdings.

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.

Business Combinations

Fair value of assets acquired and liabilities assumed in a business combination is estimated based on information available at the date of acquisition and involves considerable judgement in determining the fair values assigned to property, plant and equipment and intangible assets acquired and liabilities including contingent consideration, assumed on acquisition. The determination of these fair values involves analysis including the use of discounted cash flow analysis, estimated future margins and estimated future customer attrition.

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, 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 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.

b) 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.

c) IFRS 13 Fair Value Measurement

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

d) *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 IFRS 10 which is specific to consolidated financial statements.

e) *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 *Interest in Joint Ventures*, 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.

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

IAS 1 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.

g) *IAS 19 Post Employment Benefits*

IAS 19 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. The adoption of these standards is not expected to have a significant impact on the Company's financial position or results of operations.

4. BUSINESS ACQUISITIONS

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

a) On November 8, 2012, the Company completed its acquisition of Apex Distribution Inc., and its subsidiaries ("Apex") through the purchase of 100% of the shares. The following summarizes the preliminary allocation of the consideration for the Apex acquisition:

(millions)

Net working capital	\$	131.8
Property, plant and equipment		12.3
Investment and advances		3.3
Deferred income tax liability		(18.1)
Other non-current liabilities		(2.3)
Non-controlling interest		(1.4)
Intangibles		68.8
Goodwill		73.8
Net identifiable assets acquired		\$ 268.2
Consideration:		
Cash	\$	226.8
Fair value of contingent consideration		41.4
		\$ 268.2

The fair value of accounts receivable acquired is \$91.4 million, which were included in net working capital. Any accounts receivable which are not collected will result in a reduction of the consideration.

Apex is a leading Canadian oilfield supply company predominantly servicing the Western Canadian and U.S. oil and gas industry. The addition of Apex complements the Company's existing energy products segment and provides a new channel of distribution. The Company views this as one of the fastest growing segments of the oil and gas industry. The amount of goodwill, none of which is deductible for tax purposes, reflects the expected future growth potential.

An additional purchase price consideration of \$41.4 million is uncapped and contingent on future earnings over the five year period ending December 31, 2017. The fair value of the contingent consideration was calculated by applying the income approach using the probability weighted expected contingent consideration and a discount rate of 13.1%. The undiscounted expected cash outflow relating to contingent consideration is estimated to be \$60.2 million.

The allocations described above are preliminary and subject to change following the final settlement of various holdbacks which may impact net working capital. Apex was consolidated into the Company's operating results effective November 8, 2012.

b) On May 1, 2012, the Company completed its acquisition of all the operating assets of Siemens Laserworks, a metals distribution and processing service center with operations in Saskatoon, Saskatchewan and Edmonton, Alberta. The following summarizes the preliminary allocation of the consideration for the Siemens Laserworks acquisition:

(millions)

Net working capital	\$	5.7
Property, plant and equipment		11.4
Deferred income tax liability		(0.2)
Intangibles		2.4
Goodwill		7.7
<hr/>		
Net identifiable assets acquired	\$	27.0
<hr/>		
Consideration:		
Cash	\$	27.0

Accounts receivable of \$6.5 million, which were included in net working capital, represented gross contractual accounts receivable of which none was considered uncollectible at the time of acquisition. Any accounts receivable which are not collected will result in a reduction of the consideration.

The goodwill recorded on the transaction represents the addition of a market leader to the core metals service centers segment that complements the Company's growth into value-added processing and streamlines service center logistics. The Company expects that approximately \$5.6 million of acquired goodwill will be deductible for tax purposes.

The allocations described above are preliminary and subject to change following the final settlement of various holdbacks which may impact net working capital. Siemens Laserworks was consolidated into the Company's operating results effective May 1, 2012.

c) On May 28, 2012, the Company acquired the operating assets of Alberta Industrial Metals, a metals distribution and processing service center located in Red Deer, Alberta. The following summarizes the allocation of the consideration for the Alberta Industrial Metals acquisition:

(millions)

Net working capital	\$	4.3
Property, plant and equipment		8.3
Deferred income tax liability		(1.6)
Intangibles		5.5
Goodwill		11.0
<hr/>		
Net identifiable assets acquired	\$	27.5
<hr/>		
Consideration:		
Cash (net of cash acquired)	\$	27.5

Accounts receivable of \$3.4 million, which were included in net working capital, represented gross contractual accounts receivable of which none was considered uncollectible at the time of acquisition.

The goodwill from this acquisition corresponds to the growth potential of the core metals service centers segment and capturing unique synergies that can be realized within the Alberta Region. The Company expects that approximately \$4.6 million of acquired goodwill will be deductible for tax purposes.

The operating results of the acquired businesses, which are included in the statements of earnings of the Company for the year ended December 31, 2012, are as follows:

(millions)	Apex	Siemens Laserworks	Alberta Industrial Metals	Total 2012
Revenue	\$ 66.0	\$ 20.0	\$ 10.3	\$ 96.3
Earnings before interest, finance and income taxes	5.1	0.7	1.1	6.9

If the acquisitions had taken place at the beginning of the fiscal year 2012, the acquired businesses would have increased the Company's sales by \$539.4 million and earnings before interest, finance and provision for income tax by an additional \$42.8 million. The transaction costs for the three acquisitions were \$1.4 million.

5. CASH AND CASH EQUIVALENTS

(millions)	2012	2011
Cash on deposit	\$ 115.1	\$ 217.8
Short-term investments	-	52.9
	\$ 115.1	\$ 270.7

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

6. ACCOUNTS RECEIVABLE

(millions)	2012	2011
Trade receivables	\$ 449.9	\$ 380.1
Other receivables	6.3	2.3
	\$ 456.2	\$ 382.4

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. Trade receivables are analyzed on a case by case basis taking into account a customer's past credit history as well as its current ability to pay and changes are recorded as an allowance for doubtful accounts.

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

<i>(millions)</i>	2012	2011
Allowance for Doubtful Accounts		
Balance, beginning of the year	\$ 3.3	\$ 3.4
Increases to reserve	1.4	1.2
Amounts written off	(1.7)	(1.5)
Adjustments	0.1	0.2
Balance, end of the year	\$ 3.1	\$ 3.3

At December 31, 2012 and 2011 the allowance was less than 1.0%, of the gross trade accounts receivable balance. An increase to the reserve of 1% of accounts receivable would decrease pre-tax earnings by approximately \$4.5 million for the year ended December 31, 2012 (2011: \$3.8 million).

As at December 31, 2012 <i>(millions)</i>	Current	Past Due 1-30 Days	Past Due 31-60 Days	Past Due Over 60 Days	Total Trade Receivables
Trade Receivables					
Gross trade receivables	\$ 248.2	\$ 150.4	\$ 39.6	\$ 14.8	\$ 453.0
Allowance for doubtful accounts	-	-	-	(3.1)	(3.1)
Total net trade receivables	\$ 248.2	\$ 150.4	\$ 39.6	\$ 11.7	\$ 449.9
As at December 31, 2011 <i>(millions)</i>					
	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

7. 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, 2012, the Company recorded an inventory impairment charge of \$5.0 million (2011: \$nil). Inventories of \$2.5 billion (2011: \$2.2 billion) were expensed in cost of materials. The Company did not have any reversals of previous inventory impairment charges during 2012 and 2011.

8. PROPERTY, PLANT AND EQUIPMENT

<i>Cost (millions)</i>	Land and Buildings	Machinery and Equipment	Leasehold Improvements	Total
Balance, 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, December 31, 2011	188.6	268.0	27.0	483.6
Business acquisition (Note 4)	9.0	21.7	1.3	32.0
Additions	12.6	20.7	0.4	33.7
Disposals	(0.8)	(9.3)	-	(10.1)
Effect of movements in exchange rates	(0.7)	(1.0)	-	(1.7)
Balance, December 31, 2012	\$ 208.7	\$ 300.1	\$ 28.7	\$ 537.5
<i>Depreciation and impairment (millions)</i>				
Balance, 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, December 31, 2011	73.9	188.8	19.6	282.3
Depreciation and amortization	6.7	15.9	1.0	23.6
Disposals	(0.5)	(9.0)	-	(9.5)
Effect of movements in exchange rates	(0.2)	(0.5)	-	(0.7)
Balance, December 31, 2012	\$ 79.9	\$ 195.2	\$ 20.6	\$ 295.7
<i>Net Book Value (millions)</i>				
December 31, 2011				\$ 201.3
December 31, 2012				\$ 241.8

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

Land, included in land and buildings, was \$32.9 million (2011: \$24.0 million).

Depreciation of \$6.8 million was included in cost of materials (2011: \$6.3 million) and depreciation of \$16.8 million (2011: \$15.8 million) was included in other operating expense.

9. FINANCIAL AND OTHER ASSETS

<i>(millions)</i>	2012	2011
Deferred charges on short-term revolving credit facility	\$ 0.4	\$ 0.8
Investments and advances	3.6	-
Other	2.5	2.5
	\$ 6.5	\$ 3.3

Amortization of deferred financing charges was \$0.4 million (2011: \$0.9 million). Investments and advances were acquired in the Apex acquisition and have been initially recorded at fair value.

10. GOODWILL AND INTANGIBLES

<i>(millions)</i>	2012	2011
Goodwill	\$ 110.7	\$ 18.4
Trademarks	5.0	-
Intangibles	76.4	6.3
	\$ 192.1	\$ 24.7

a) *The Continuity of goodwill and trademarks*

Goodwill <i>(millions)</i>	Metals Service Centers	Energy Products	Total 2012	Total 2011
Balance, December 31	\$ 18.4	\$ -	\$ 18.4	\$ 18.2
Business acquisition (Note 4)	18.7	73.8	92.5	-
Foreign exchange	(0.2)	-	(0.2)	0.2
Balance, December 31	\$ 36.9	\$ 73.8	\$ 110.7	\$ 18.4

Trademarks <i>(millions)</i>	Metals Service Centers	Energy Products	Total 2012
Balance, December 31	\$ -	\$ -	\$ -
Business acquisition (Note 4)	-	5.0	5.0
Balance, December 31	\$ -	\$ 5.0	\$ 5.0

b) *Impairment of goodwill and trademarks*

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

Allocation of Goodwill and Trademarks *(millions)*

Apex	\$ 78.8
Metals service centers	
U.S.	
JMS	10.1
Canadian	
Alberta	11.0
Manitoba/Saskatchewan	7.7
Other	8.1
	\$ 115.7

The Company uses a discounted cash flow technique to determine the value in use for the above noted CGUs or groups of CGUs. Key assumptions used by management include forecasted 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 weighted average cost of capital (WACC) to calculate the present value of its projected cash flows. 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 2012, pre-tax weighted average cost of capital used was 14.0% (2011: 14.7%). To monitor potential impairment exposure, the Company performs a sensitivity analysis. For 2012 and 2011 a 1% increase in the respective discount rate will not trigger a goodwill and trademarks impairment. The Company's management does not expect that a negative change in material assumptions will occur.

The Company performed goodwill impairment tests during the fourth quarter of 2012 and 2011. The estimated recoverable amount of all units exceeded their carrying values. As a result, no impairment was recorded.

c) Continuity of intangibles

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

<i>Cost (millions)</i>	Metals Service Centers	Energy Products	Total 2012	Total 2011
Balance, December 31	\$ 10.1	\$ -	\$ 10.1	\$ 9.9
Business acquisition (Note 4)	7.9	63.8	71.7	-
Foreign exchange	(0.1)	-	(0.1)	0.2
Balance, December 31	\$ 17.9	\$ 63.8	\$ 81.7	\$ 10.1

<i>Accumulated amortization (millions)</i>	Metals Service Centers	Energy Products	Total 2012	Total 2011
Balance, December 31	\$ (3.8)	\$ -	\$ (3.8)	\$ (3.2)
Amortization	(1.0)	(0.5)	(1.5)	(0.6)
Balance, December 31	\$ (4.8)	\$ (0.5)	\$ (5.3)	\$ (3.8)

<i>Carrying amount</i>	
December 31, 2011	\$ 6.3
December 31, 2012	\$ 76.4

The carrying amount of intangible assets as at December 31, 2012 relates to customer relationships and non-competition agreements arising from the acquisition of JMS Metals Services, Inc., Norton Metal Products, Inc., Siemens Laserworks, Alberta Industrial Metals and Apex Distribution Inc. The remaining amortization period for customer relationships is 10 to 17 years and for non-competition agreements is three years.

11. 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 an additional \$50 million for letters of credit. 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 9). 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, 2012. 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, 2012, the Company had borrowings of US\$37.0 million (2011: \$nil) and letters of credit of \$36.8 million (2011: \$44.2 million) under this facility.

In July 2012, the Company renewed its U.S. subsidiary one year credit facility. The maximum credit available under this facility is US\$30 million (2011: US\$45 million). At December 31, 2012 and 2011, this subsidiary had no borrowings and letters of credit of US\$20.6 million and US\$6.3 million respectively under this facility.

12. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

<i>(millions)</i>	2012	2011
Trade accounts payable and accrued expenses	\$ 378.4	\$ 356.2
Contingent consideration	10.9	-
Accrued interest	7.2	6.6
	\$ 396.5	\$ 362.8

13. LONG-TERM DEBT

Long-term debt was comprised of the following:

<i>(millions)</i>	2012	2011
6.0% \$300 million Senior Notes due April 19, 2022	\$ 293.4	\$ -
7.75% \$175 million Convertible Debentures due September 30, 2016	157.8	154.3
6.375% U.S. Senior Notes (2011: US\$138.9 million)	-	139.8
Finance lease obligations (Note 23)	4.6	3.7
Less: current portion	(2.2)	(1.3)
	\$ 453.6	\$ 296.5

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

The Company may redeem up to 35% of the Notes prior to April 19, 2014 with the net proceeds of certain equity offerings at the redemption price of 106% of their principal amount plus accrued and unpaid interest. Prior to April 19, 2017, the Company may redeem the Notes in whole or in part at an amount which is the greater of (a) the present value of future interest and principal payments based on Canada bond yield or (b) 101% of the principal amount plus accrued and unpaid interest. After April 19, 2017, the Company may redeem the Notes in whole or in part at any time at 103% of the principal amount declining rateably to 100% of the principal amount on or after April 19, 2020.

The Notes contain certain restrictions on the payment of common share dividends in excess of \$0.35 per share per quarter. The Notes also contain certain covenants that limit the Company's ability to incur additional indebtedness. The Company was in compliance with these covenants at December 31, 2012. Fees associated with the issue of the debt are included in the carrying amount of debt and are amortized using the effective interest method.

b) In October 2009, the Company issued \$175 million of 7.75% Convertible Unsecured Subordinated Debentures (the "Convertible 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. During the year ended December 31, 2012, Convertible Debentures of \$10,000 principal were converted to 388 shares.

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. 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 no longer met 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.

c) On May 25, 2012, the Company redeemed its US\$138.9 million 6.375% U.S. Senior Notes at par. The total payment of US\$141.5 million included US\$138.9 million of principal plus accrued interest. The after tax charge to net earnings relating to the redemption was \$3.2 million due to the write-off of deferred financing charges and hedging costs.

14. 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.

Five of 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, one plan had a valuation date of January 1, 2011 and one plan had a valuation date of July 29, 2011.

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

<i>(millions)</i>	2012	2011
Defined benefit pension plans		
Current service cost	\$ 3.1	\$ 2.6
Interest cost on benefit obligation	5.0	5.1
Expected return on plan assets	(4.8)	(5.2)
Other	(0.1)	0.1
	3.2	2.6
Post-retirement benefits	0.2	0.3
Defined contribution plans - contributions	1.5	1.9
Pension and benefit expense	\$ 4.9	\$ 4.8

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

<i>(millions)</i>	2012	2011
Defined benefit pension plans		
Change in actuarial losses	\$ (8.4)	\$ (18.6)
Change in other comprehensive income	\$ (8.4)	\$ (18.6)
Cumulative other comprehensive income (loss) relating to pension and benefits		
Balance of actuarial (losses) gains at January 1	\$ (17.5)	\$ 1.1
Net actuarial losses recognized in the year	(8.4)	(18.6)
Balance of actuarial losses at December 31	\$ (25.9)	\$ (17.5)

There was no adjustment related to asset ceiling limits in other comprehensive income for the years ended December 31, 2012 and 2011.

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

	2012	2011
Assumed discount rate - year end	4.00%	4.50%
Expected long-term rate of return on plan assets	5.75%	5.75%
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 \$4.6 million as of December 31, 2012 (2011: \$4.1 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, 2012 and 2011.

The health care cost trend rates used were 5% for dental and 8.5% graded out for medical, which is reduced 0.5% per year until 5% and 5% thereafter. A 1% change in trend rates would not result in a significant increase or decrease in either the present value of the defined benefit obligation or the net periodic cost.

The 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.

<i>(millions)</i>	Pension Plans		Other Benefit Plans	
	2012	2011	2012	2011
Reconciliation of present value of the defined benefit obligation				
Balance, beginning of the year	\$ 113.5	\$ 99.3	\$ 5.6	\$ 5.5
Current service costs	3.1	2.6	-	-
Participant contribution	0.2	0.2	-	-
Interest cost	5.0	5.1	0.2	0.3
Benefits paid	(10.4)	(5.5)	(0.2)	(0.3)
Plan amendments	(0.2)	-	-	-
Actuarial losses (gains)	9.1	11.8	(0.4)	0.1
Balance, end of the year	\$ 120.3	\$ 113.5	\$ 5.2	\$ 5.6

<i>(millions)</i>	Pension Plans		Other Benefit Plans	
	2012	2011	2012	2011
Reconciliation of present value of the plan assets				
Balance, beginning of the year	\$ 85.3	\$ 87.0	\$ -	\$ -
Expected return of plan assets	4.8	5.2	-	-
Employer contributions	6.2	5.1	0.2	0.3
Employee contributions	0.2	0.2	-	-
Benefits paid	(10.4)	(5.5)	(0.2)	(0.3)
Actuarial gains (losses)	0.3	(6.7)	-	-
Balance, end of the year	\$ 86.4	\$ 85.3	\$ -	\$ -
Defined benefit obligation	33.9	28.2	5.2	5.6
Unrecognized prior service costs	(0.4)	(0.5)	-	-
Defined benefit obligation, net	\$ 33.5	\$ 27.7	\$ 5.2	\$ 5.6

As at December 31, 2010, the present value of defined benefit obligation was \$99.3 million and the present value of plan assets was \$85.3 million.

As at December 31, 2012 and 2011, all of the defined benefit pension plans, including executive pension plans in the above table had unfunded obligations. The following table provides the defined benefit obligation for partially funded plans and unfunded plans.

<i>(millions)</i>	Pension Plans		Other Benefit Plans	
	2012	2011	2012	2011
Defined benefit obligation				
Partially funded plans	\$ 33.5	\$ 27.7	\$ -	\$ -
Unfunded plans	-	-	5.2	5.6
Defined benefit obligation	\$ 33.5	\$ 27.7	\$ 5.2	\$ 5.6

c) As at December 31, 2012, approximately 52% of the fair value of all pension plan assets were invested in equities (2011: 48%), 30% in fixed income securities (2011: 27%), and 18% in cash and cash equivalents (2011: 25%). The plan assets are not invested in 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.

The Company expects to make contributions of \$4.1 million to its defined benefit pension plans and \$0.4 million to its post retirement benefits medical plans in the next financial year.

15. SHAREHOLDERS' EQUITY

a) *At December 31, 2012 and 2011, 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, December 31, 2010	59,978,173	\$ 483.7
Stock options exercised	93,525	1.7
Balance, December 31, 2011	60,071,698	485.4
Stock options exercised	132,550	2.5
Debentures converted	388	-
Balance, December 31, 2012	60,204,636	\$ 487.9

The continuity of contributed surplus is as follows:

(millions)

Balance, December 31, 2010	\$ 13.9
Stock-based compensation expense	2.1
Exercise of options	(0.3)
<hr/>	
Balance, December 31, 2011	15.7
Stock-based compensation expense	2.1
Exercise of options	(0.5)
<hr/>	
Balance, December 31, 2012	\$ 17.3

Dividends paid and declared are as follows:

	2012	2011
Dividends paid (millions)	\$ 81.2	\$ 69.1
Dividends per share	\$ 1.35	\$ 1.15
Quarterly dividend per share declared on February 12, 2013 (February 15, 2012)	\$ 0.35	\$ 0.30

16. 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 issued prior to 2012, representing 2,679,489 options, 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	
	2012	2011	2012	2011
Balance, beginning of period	2,857,939	2,684,662	\$ 25.44	\$ 25.08
Granted	382,189	307,127	26.18	25.70
Exercised	(132,550)	(93,525)	15.31	15.19
Expired or forfeited	(52,150)	(40,325)	28.78	27.07
<hr/>				
Balance, end of the period	3,055,428	2,857,939	\$ 25.92	\$ 25.44
<hr/>				
Exercisable	2,330,492	2,169,719	\$ 26.41	\$ 26.23

The weighted average share price for the options exercised during the year was \$26.97 (2011: \$25.22)

The outstanding options had an exercise price range as follows:

(number of options)	2012	2011
\$ 25.75 - \$ 33.81	2,227,065	1,892,126
\$ 15.86 - \$ 25.74	745,263	808,913
\$ 9.15 - \$ 15.85	83,100	156,900
<hr/>		
Options outstanding	3,055,428	2,857,939

The options expire in the years 2013 to 2022 and have a weighted average remaining contractual life of 4.8 years (2011: 5.1 years)

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

	2012	2011
Dividend yield	5%	5%
Expected volatility	41%	41%
Expected life	5 yrs	5 yrs
Risk free rate of return	3.5%	4%
Weighted average fair value of options granted	\$ 6.78	\$ 6.83

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 as the daily average of the high and low board lot on the Toronto Stock Exchange for the last five trading days immediately prior to the grant date. DSU's are granted quarterly to each non-executive director's account by dividing \$7,500 by the market price. 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, 2012, there were 92,492 DSU's outstanding (2011: 84,470). During 2012, 12,463 DSU's were redeemed (2011: nil). The liability and fair value of DSU's was \$2.6 million at December 31, 2012 (2011: \$1.9 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, 2012, there were 69,610 RSU's issued and outstanding (2011: 240,738). During 2012, 228,991 RSU's matured and were paid (2011: nil). The RSU liability at December 31, 2012 was \$1.3 million (2011: \$5.3 million). The fair value of RSU's was \$1.9 million at December 31, 2012 (2011: \$5.4 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:

<i>(millions)</i>	2012	2011
Stock options	\$ 2.1	\$ 2.1
DSU and RSU's	2.8	0.2
Employee Share Purchase Plan	0.6	0.6
	\$ 5.5	\$ 2.9

17. EARNINGS PER SHARE

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

<i>(millions)</i>	2012	2011
Net income used in calculation of basic earnings per share	\$ 98.8	\$ 118.3
Interest and accretion expense, net of income taxes	10.9	10.6
Net income used in calculation of diluted earnings per share	\$ 109.7	\$ 128.9
<i>(number of shares)</i>	2012	2011
Weighted average shares outstanding	60,128,534	60,043,222
Dilution impact of stock options	115,104	130,837
Dilution impact of Convertible Debentures	6,795,729	6,796,117
Diluted weighted average shares outstanding	67,039,367	66,970,176

18. EXPENSES

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

<i>(millions)</i>	2012	2011
Employee Expenses		
Wages and salaries	\$ 183.8	\$ 172.1
Other employee related costs	31.5	30.2
	\$ 215.3	\$ 202.3
Other Operating Expenses		
Plant and other expenses	\$ 59.9	\$ 58.0
Delivery expenses	50.7	45.4
Repairs and maintenance	9.8	9.3
Selling expenses	6.8	8.1
Professional fees	6.3	5.5
(Gain) loss on sale of property, plant and equipment	(1.2)	0.1
Foreign exchange gains	(0.5)	(0.9)
	\$ 131.8	\$ 125.5

19. FINANCE EXPENSE

Finance expense (income) is comprised of the following:

<i>(millions)</i>	2012	2011
Interest on 6.0% Senior Notes	\$ 13.1	\$ -
Interest on 7.75% Convertible Debentures	17.1	16.8
Interest on 6.375% U.S. Senior Notes	3.8	10.4
Other interest expense	0.2	0.3
Interest expense	34.2	27.5
Interest income	(1.7)	(2.0)
Other finance expense	3.6	2.5
Loss on repurchase of U.S. Senior Notes	-	0.1
Deferred costs on redemption of U.S. Notes	1.5	-
Change in fair value of contingent consideration	0.5	-
Other finance expense	5.6	2.6
Finance expense, net	\$ 38.1	\$ 28.1

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, 2012 was \$4.2 million (2011: \$3.8 million).

20. INCOME TAXES

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

<i>(millions)</i>	2012	2011
Current tax expense	\$ 38.0	\$ 51.3
Deferred tax expense (recovery)	1.3	(0.2)
	\$ 39.3	\$ 51.1

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

	2012	2011
Applicable combined Canadian statutory rate	26.3%	27.9%
Rate difference of U.S. companies	1.9%	2.5%
Stock compensation and non-deductible items	0.6%	0.4%
Change in contingent consideration	0.1%	-
Other	(0.4%)	(0.6%)
Average effective tax rate	28.5%	30.2%

The combined Canadian statutory rate is the aggregate of the federal income tax rate of 15.0% (2011: 16.5%) and the average provincial rate of 11.3% (2011: 11.4%). In 2012, there were changes in the statutory rates from 27.9% to 26.3% due to scheduled rate reductions which were previously enacted. The average effective tax rate was higher than the average Canadian corporate tax rate principally due to differing tax rules applicable to certain of the Company's subsidiaries outside Canada.

c) *The movements of deferred income tax assets and liabilities were as follows:*

<i>Deferred Income Tax Assets</i>									
<i>(millions)</i>	Losses	Property Plant and Equipment	Pension And Benefits	Goodwill And Intangibles	Item Charged To Equity	Other Timing	Total		
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		
(Expense) benefit to statements of earnings	(0.3)	(1.6)	(1.4)	(1.0)	0.6	1.8	(1.9)		
Benefit (charge) to other comprehensive income	-	-	2.4	-	-	(1.0)	1.4		
Business acquisition (Note 4)	-	(0.7)	-	(1.1)	-	-	(1.8)		
Reclass assets/liabilities and other	-	(2.5)	9.4	(0.1)	(4.1)	(1.1)	1.6		
Balance December 31, 2012	\$ 0.9	\$ (9.6)	\$ 11.0	\$ 4.3	\$ (3.5)	\$ 1.5	\$ 4.6		
<i>Deferred Income Tax Liabilities</i>									
<i>(millions)</i>		Property Plant and Equipment	Pension And Benefits	Goodwill And Intangibles	Item Charged To Equity	Other Timing	Total		
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 other comprehensive income		-	(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		
(Benefit) expense to statements of earnings		-	-	-	-	0.6	0.6		
Business acquisition (Note 4)		0.8	-	17.9	-	(0.6)	18.1		
Reclass assets/liabilities and other		(2.8)	9.3	-	(4.1)	(1.0)	1.4		
Balance December 31, 2012		\$ 3.2	\$ -	\$ 17.9	\$ -	\$ (0.6)	\$ 20.5		

Net deferred liability at December 31, 2011

\$ 4.9

Net deferred liability at December 31, 2012

\$ (15.9)

d) At December 31, 2012, the Company had U.S. state tax losses carried forward which, at U.S. state tax rates, have an estimated value of \$1 million (2011: \$1 million). The majority of the tax losses carried forward if not utilized will expire between 2029 and 2032. Deferred tax assets are recognized for tax loss carry-forwards to the extent that the realization of the related tax benefit through future taxable profits is probable. The ability to realize the tax benefits of these losses is dependent upon a number of factors, including the probability of generating taxable income from operations in the future in the jurisdictions in which the tax losses arose.

At December 31, 2012, the Company had \$10 million (2011: \$13 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 \$1.3 million.

e) At December 31, 2012, the aggregate amount of temporary differences associated with undistributed earnings of non-Canadian subsidiaries was \$198 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.

21. PROVISIONS AND OTHER NON-CURRENT LIABILITIES

<i>(millions)</i>	2012	2011
Contingent consideration (Note 4)	\$ 31.0	\$ -
Provisions for decommissioning liabilities	5.0	5.4
Deferred compensation and employee incentives	3.9	1.9
	\$ 39.9	\$ 7.3

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

<i>(millions)</i>	2012	2011
Balance, beginning of the year	\$ 5.4	\$ 5.6
Change in provisions	-	-
Utilization	(0.4)	(0.2)
Balance, end of the year	\$ 5.0	\$ 5.4

22. 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 products

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

iii) Steel distributors

The Company's steel distributors act as master distributors selling steel to customers in large volumes, mainly on an "as is" basis. Steel distributors source their steel domestically and 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 \$41.5 million (2011: \$39.1 million). These sales, which are at market rates, are eliminated in the following table.

a) *Results by business segment:*

<i>(millions)</i>	2012	2011
Segment Revenues		
Metals service centers	\$ 1,581.1	\$ 1,517.2
Energy products	1,060.2	826.2
Steel distributors	351.1	342.9
<hr/>		
Other	2,992.4 7.7	2,686.3 7.0
<hr/>		
	\$ 3,000.1	\$ 2,693.3
<hr/>		
Segment Operating Profits		
Metals service centers	\$ 102.1	\$ 115.2
Energy products	63.2	60.4
Steel distributors	30.3	38.4
<hr/>		
Corporate expenses	195.6	214.0
Other	(19.9) 0.5	(17.0) 0.5
<hr/>		
Earnings before interest and income taxes	176.2	197.5
Finance expense, net	(38.1)	(28.1)
Provision for income taxes	(39.3)	(51.1)
<hr/>		
Net earnings	\$ 98.8	\$ 118.3
<hr/>		
Capital Expenditures		
Metals service centers	\$ 17.6	\$ 16.6
Energy products	12.9	0.9
Steel distributors	3.1	0.5
Other	0.1	0.1
<hr/>		
	\$ 33.7	\$ 18.1
<hr/>		
Depreciation Expense		
Metals service centers	\$ 20.3	\$ 19.1
Energy products	2.1	1.6
Steel distributors	0.2	0.4
Other	1.0	1.0
<hr/>		
	\$ 23.6	\$ 22.1
<hr/>		

<i>(millions)</i>	2012	2011
Current Identifiable Assets		
Metals service centers	\$ 439.8	\$ 462.5
Energy products	670.1	448.9
Steel distributors	116.9	120.3
	1,226.8	1,031.7
Non-Current Identifiable Assets		
Metals service centers	242.1	201.3
Energy products	171.6	6.6
Steel distributors	3.7	1.0
Total identifiable assets included in segments	1,644.2	1,240.6
Assets not included in segments		
Cash and cash equivalents	115.1	270.7
Income tax assets	12.3	5.8
Deferred financing charges	0.4	0.8
Other assets	6.1	2.5
Corporate and other operating assets	17.0	18.0
Total assets	\$ 1,795.1	\$ 1,538.4
Liabilities		
Metals service centers	\$ 156.4	\$ 199.2
Energy products	220.3	136.0
Steel distributors	5.2	8.5
Liabilities by segment	381.9	343.7
Liabilities not included in segments		
Bank indebtedness	14.3	-
Income taxes payable and deferred income tax liabilities	20.5	17.8
Long-term debt	455.8	297.8
Pension and benefits	38.7	33.3
Corporate and other liabilities	54.5	26.4
Total liabilities	\$ 965.7	\$ 719.0

b) Results by geographic segment:

<i>(millions)</i>	2012	2011
Segment Revenues		
Canada	\$ 2,006.8	\$ 1,857.7
United States	985.6	828.6
	\$ 2,992.4	\$ 2,686.3
Segment Operating Profits		
Canada	\$ 144.1	\$ 153.1
United States	51.5	60.9
	\$ 195.6	\$ 214.0

<i>(millions)</i>	2012	2011
Identifiable Assets		
Canada	\$ 1,225.7	\$ 904.8
United States	418.5	335.8
	\$ 1,644.2	\$ 1,240.6

23. RELATED PARTY TRANSACTIONS

During the years ended December 31, 2012 and 2011 the Company did not have any transactions with subsidiaries outside the normal course of business. All subsidiaries except Apex Advanced Solutions Inc., which was acquired in the Apex acquisition are wholly owned and all transactions with subsidiaries are recorded at fair value and have been eliminated upon consolidation.

At December 31, 2012 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:

<i>(millions)</i>	2012	2011
Salaries and other benefits	\$ 4.5	\$ 5.4
Share based compensation cost	2.8	2.6
Post-employment benefits	0.4	0.4
	\$ 7.7	\$ 8.4

24. FINANCIAL INSTRUMENTS

a) *Financial assets and liabilities*

Financial assets and liabilities are as follows:

December 31, 2012 <i>(millions)</i>	Loans and Receivables	Other Financial Liabilities	Total
Cash and cash equivalents	\$ 115.1	\$ -	\$ 115.1
Accounts receivable	456.2	-	456.2
Financial assets	0.4	-	0.4
Bank indebtedness	-	(14.3)	(14.3)
Accounts payables and accrued liabilities	-	(396.5)	(396.5)
Current portion of long-term debt	-	(2.2)	(2.2)
Contingent consideration	-	(31.0)	(31.0)
Long-term debt	-	(453.6)	(453.6)
Total	\$ 571.7	\$ (897.6)	\$ (325.9)

December 31, 2011 <i>(millions)</i>	Loans and Receivables	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 long-term debt	-	(1.3)	(1.3)
Long-term debt	-	(296.5)	(296.5)
Total	\$ 653.9	\$ (660.6)	\$ (6.7)

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:

(millions)	2012		2011	
	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	\$ (0.8)	\$ -	\$ 0.1	\$ -
Forward contracts	0.1	-	(0.3)	-
Hedging instruments				
Cross currency interest rate swaps - cash flow hedges	2.3	-	1.1	-
US Senior Notes - net investment hedges	-	(0.9)	-	(2.5)

The Company had designated its 6.375% U.S. Senior Notes as a hedge of its net investment in foreign subsidiaries. During 2012, the Company redeemed its U.S. Senior Notes and \$2.3 million (2011: \$1.6 million) related to cross-currency interest rate swaps previously held was reclassified from accumulated other comprehensive loss to net earnings.

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 contingent consideration is recorded at fair value (Note 4). 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".

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, 2012 and 2011 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:

<i>December 31, 2012</i> <i>(millions)</i>	Primary Debt Instrument	
	Carrying Amount	Fair Value
6.0% \$300 million Senior Notes due April 19, 2022	\$ 293.4	\$ 309.0
7.75% \$175 million Convertible Debentures due September 30, 2016	157.8	207.8
Finance lease obligations	4.6	4.6
Total	\$ 455.8	\$ 521.4
Current portion	\$ 2.2	
Long-term portion	\$ 453.6	

Primary Debt Instrument

<i>December 31, 2011</i> <i>(millions)</i>	Carrying Amount	Fair Value
7.75% \$175 million Convertible Debentures due September 30, 2016	\$ 154.3	\$ 195.1
6.375% US\$167.2 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	

c) Credit risk

Credit risk is the risk of financial loss to the Company if the counterparty to a financial instrument fails to meet its contractual obligation. Credit risk arises from cash and cash equivalents and derivative financial instruments, as well as credit exposure to customers including accounts 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, 2012, the Company did not have any cash investments;
- ◆ Counterparties to derivative contracts are members of the syndicated banking facility (Note 11);
- ◆ Credit limits minimize exposure to any one customer; and
- ◆ The customer base is geographically diverse and in different industries.

No allowance for credit losses on financial assets was required as of December 31, 2012 (2011: \$nil), other than the allowance for doubtful accounts (Note 6). As at December 31, 2012, trade accounts receivable greater than 90 days represented less than 4% of trade accounts receivable (2011: 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, 2012, the Company had outstanding forward foreign exchange contracts in the amount of US\$14.1 million, maturing in 2013 (2011: US\$27.5 million). A 1% change in foreign exchange rates would not result in a significant increase or decrease in accounts payable or net earnings.

f) Liquidity risk

Liquidity risk is the risk that the Company will not meet its financial obligations when due. Liquidity adequacy is assessed in view of seasonal needs, growth requirements, capital expenditures, and the maturity profile of indebtedness. 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, 2012, the Company was contractually obligated to make payments under its financial liabilities that come due during the following periods:

<i>(millions)</i>	Long-Term Debt Maturities	Long-Term Debt Interest	Operating Lease Obligations	Total
2013	\$ -	\$ 31.6	\$ 19.7	\$ 51.3
2014	-	31.6	16.9	48.5
2015	-	31.6	13.7	45.3
2016	175.0	28.2	11.3	214.5
2017	-	18.0	8.0	26.0
2018 and beyond	300.0	77.3	26.8	404.1
Total	\$ 475.0	\$ 218.3	\$ 96.4	\$ 789.7

Operating lease expense for the year ended December 31, 2012 was \$13.6 million (2011: \$14.1 million).

As at December 31, 2012, the Company was contractually obligated to make payments under finance leases as follows:

<i>(millions)</i>	
2013	\$ 2.4
2014	1.2
2015	0.9
2016	0.4
2017	0.2
Total minimum lease payments	5.1
Interest at rates varying between 1.8% and 14.5%	(0.5)
Net minimum lease payments	4.6
Less: current portion	(2.2)
Long-term portion	\$ 2.4

At December 31, 2012, the Company was contractually obligated to repay its letters of credit under its bank facilities at maturity (Note 11).

g) Capital management

The Company manages capital in order to safeguard its ability to continue as a going concern, provide returns to shareholders through its dividend policy and provide the ability to finance future growth. Capital includes shareholders' equity, bank indebtedness and long-term debt, net of cash. The Company manages its capital structure and may make adjustments to the amount of dividends paid to shareholders, purchase shares for cancellation pursuant to issuer bids, issue new shares, issue new debt, repurchase existing debt and extend or amend its banking facilities. During 2012, the Company issued \$300 million of 6.0% Senior Notes due April 19, 2022, redeemed its 6.375% U.S. Senior Notes and increased its common share dividend. The increase in debt was used to finance three acquisitions in 2012.

25. 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 for its acquisitions of Apex and Norton Metals, based upon achievement of performance measures contractually agreed to at the time of purchase.

The continuity of contingent considerations is as follows:

<i>(millions)</i>	Apex	Norton Metals	Total 2012	Total 2011
Balance, beginning of year	\$ -	\$ 1.6	\$ 1.6	\$ -
Business acquisitions (Note 4)	41.4	-	41.4	1.6
Paid during the year	-	(0.5)	(0.5)	-
Change in fair value	0.5	-	0.5	-
Effect of movements in exchange rates	-	(0.1)	(0.1)	-
	\$ 41.9	\$ 1.0	\$ 42.9	\$ 1.6

26. OTHER COMPREHENSIVE INCOME

Income taxes on other comprehensive income are as follows:

<i>(millions)</i>	2012	2011
Income tax on unrealized losses on items designated as net investment hedges	\$ 0.1	\$ 0.6
Income tax on losses on derivatives designated as cash flow hedges transferred to net earnings during the year	(1.1)	(0.5)
Income tax on actuarial losses on pension and similar obligations	2.4	4.8
	\$ 1.4	\$ 4.9

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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.

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Assistant Secretary

