Russel Metals
2019 ANNUAL REPORT

OUR CYCLICAL JOURNEY

CITY PIPE & SUPPLY CORP.

On October 1, 2019, we purchased 100% of the issued and outstanding shares of City Pipe & Supply Corp. City Pipe distributes pipe, valves and fittings to oil and gas customers primarily in the Permian basin in Texas and New Mexico. Together with our Apex Remington operation, City Pipe has added breadth to our U.S. energy field stores and the combined business will operate under the new business name Elite Supply Partners.

VALUE-ADDED PROCESSING

In our 2018 Annual Report we highlighted our value-added processing initiatives primarily focused in our Western Canada and JMS Jackson, Tennessee operations. During 2019, these initiatives continued with the addition of Fiber Lasers in Boucherville, Quebec; Halifax, Nova Scotia and Prince George, BC along with Oxy/Plasma Machines in Delta, BC and Milwaukee, Wisconsin.

HEALTH & SAFETY

The Health & Safety of our employees and other stakeholders is of paramount importance. Our commitment to continuous improvement in areas such as lost time incidents, injury prevention, training and early return to work programs were further enhanced in 2019 with several new initiatives such as our new Learning Management Training System, E-Maintenance and Job Observational Audits.

NON-FERROUS GROWTH

We continue to focus on the growth of non-ferrous products across our metals service center regions. In 2019 we relocated our Saskatoon, Calgary, BC and Winnipeg locations to new and/or larger facilities. A combination of additional storage capacity and improved material handling capabilities will allow us to increase our product offering and more importantly improve customer service.

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FINANCIAL HIGHLIGHTS

	<---Years Ended--->				
	2019	2018	2017	2016	2015
OPERATING RESULTS (millions)					
Revenues	$3,675.9	$4,165.0	$3,296.0	$2,578.6	$3,111.6
Net earnings	76.6	219.0	123.8	62.8	(87.6)
EBIT	146.3	330.9	206.4	119.0	(86.1)
EBIT as a % of revenue	4.0%	7.9%	6.3%	4.6%	nm
EBITDA	203.0	366.6	240.6	154.1	(51.0)
EBITDA as a % of revenue	5.5%	8.8%	7.3%	6.0%	nm
Basic earnings per common share ($)	$1.23	$3.53	$2.00	$1.02	($1.42)
BALANCE SHEET INFORMATION (millions)					
Metals					
Accounts receivable	$457.9	$566.4	$445.8	$358.9	$333.4
Inventories	883.6	1,052.5	819.9	615.8	712.5
Prepaid expenses and other assets	18.2	14.1	17.2	8.5	10.7
Accounts payable and accruals	(307.9)	(470.6)	(347.4)	(276.3)	(269.7)
Net working capital - Metals	1,051.8	1,162.4	935.5	706.9	786.9
Fixed assets	288.9	268.0	246.5	239.7	267.8
Right-of-use assets	90.1 (1)	-	-	-	-
Goodwill and intangibles	137.0	86.2	90.5	85.7	92.0
Lease obligations	(111.6) (1)	-	-	-	-
Net assets employed in metals operations	1,456.2	1,516.6	1,272.5	1,032.3	1,146.7
Other operating assets	1.7	0.7	(0.8)	(1.1)	(1.9)
Net income tax assets (liabilities)	10.2	(32.3)	(30.0)	(7.3)	25.4
Pension and benefit assets (liabilities)	(5.0)	(5.8)	(12.0)	(11.0)	(21.7)
Other corporate assets and liabilities	(27.5)	(26.5)	(24.4)	(38.5)	(33.1)
Total net assets employed	$1,435.6	$1,452.7	$1,205.3	$974.4	$1,115.4
CAPITALIZATION (millions)					
Bank indebtedness, net of (cash)	$46.2	$4.2	$82.0	$(146.8)	$(49.2)
Long-term debt (incl. current portion)	444.8	443.6	296.5	295.9	295.7
Total interest bearing debt, net of (cash)	491.0	447.8	378.5	149.1	246.5
Market capitalization	1,378.4	1,324.7	1,805.3	1,579.2	991.6
Total firm value	$1,869.4	$1,772.5	$2,183.8	$1,728.3	$1,238.1
OTHER INFORMATION (Notes)					
Shareholders' equity (millions)	$944.6	$1,004.9	$826.8	$825.3	$868.9
Book value per share ($)	$15.19	$16.18	$13.36	$13.37	$14.08
Free cash flow (millions)	$136.7	$300.1	$180.4	$77.4	$0.6
Capital expenditures (millions)	$34.8	$41.3	$35.7	$16.7	$38.3
Depreciation and amortization (millions)	$56.7	$35.7	$34.2	$35.1	$35.1
Earnings multiple	18.0	6.0	14.6	25.1	nm
Firm value as a multiple of EBIT	12.8	5.4	10.6	14.5	nm
Firm value as a multiple of EBITDA	9.2	4.8	9.1	11.2	nm
Interest bearing debt/EBITDA	2.2	1.2	1.2	1.9	nm
Debt as a % of capitalization	34%	31%	31%	26%	25%
Market capitalization as a % of book value	146%	132%	218%	191%	114%
Return on capital employed	10%	23%	17%	12%	(8%)
Return on equity	8%	22%	15%	8%	(10%)
COMMON SHARE INFORMATION					
Ending outstanding common shares	62,173,430	62,106,895	61,890,197	61,735,485	61,702,560
Average outstanding common shares	62,132,030	62,028,991	61,788,013	61,704,990	61,696,592
Dividend yield	6.9%	7.1%	5.2%	5.9%	9.5%
Dividend per share	$1.52	$1.52	$1.52	$1.52	$1.52
Dividends paid as a % of free cash flow	69%	31%	52%	121%	nm
Share price - High	$25.22	$32.65	$29.78	$27.78	$27.81
Share price - Low	$18.47	$19.72	$23.67	$13.95	$14.36
Share price - Ending	$22.17	$21.33	$29.17	$25.58	$16.07

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

(1) Effective January 1, 2019, the Company adopted IFRS 16 - Leases

A MESSAGE FROM OUR PRESIDENT & CHIEF EXECUTIVE OFFICER

Fellow Shareholders,

Our 2019 front cover highlights the cyclical nature of our industry that we navigate daily. During the last two years we experienced trade actions which impacted pricing, irrespective of demand, and added complexity to our already cyclical industry. These trade actions, that had dramatically increased steel prices in 2018, were resolved by the market in 2019 but created a rapid whipsaw effect on steel prices. In 2019, demand in all our segments decreased modestly and most of our operating units adapted quickly to produce a profitable year. Our counter-cyclical cash flows generated cash from operations of $250 million as working capital needed to support business activity was lower in 2019.

The 2019 acquisition of City Pipe & Supply, an oil & gas field store operation located primarily in the Permian basin, complemented our existing Apex Remington operations and further expanded our energy services footprint. I would like to take this opportunity to welcome Brett Lossin and the entire City Pipe team to the Russel family of companies.

At the end of the 2019, City Pipe & Supply merged with Apex Remington to form Elite Supply Partners under the leadership of Brett Lossin. We look forward to the success and continued growth of the merged entity.

OPERATIONS

Our metals service centers generated revenues of $2.0 billion and operating profit of $74 million. Our metals service centers experienced an overall stellar year in 2018, making the 2019 comparable a challenge. Color Steels had record earnings in 2019 and several of our regions turned in very solid years in what proved to be a difficult environment. We continue to expand our value-added processing offerings and corresponding customer base. Our employees have raised the bar by meeting and exceeding our health & safety initiatives.

Our energy products segment generated revenues of $1.3 billion and operating profit of $69 million. Our Comco Pipe and Apex field store operations turned in yet another solid year with Comco exceeding 2018. Our line pipe and OCTG operations experienced a challenging year as rigs counts dropped to levels reminiscent of 2015/2016. This created an oversupply of product in the distribution channel, ultimately pressuring prices and led to inventory provisions predominately in our U.S. operations.

Our steel distributor segment generated revenues of $0.4 billion and operating profit of $16 million. Our Canadian operation, Wirth Steel had results that exceeded 2018 as the business model for this operation involves preselling a large majority of inventory purchases. Our U.S. steel distributor operation, Sunbelt Group, had a more difficult year as the transactional nature of their business model leaves them exposed to inventory price volatility.

MANAGEMENT

In our metals service centers, Michel Vaillancourt, our Regional General Manager - Quebec, retired after 48 years of service. I would like to personally thank Michel for his leadership and his ability to keenly direct our operations in the unique Quebec marketplace along with developing a worthy successor. Succeeding Michel is Annick Cadieux who started her career at Acier Leroux in 2001 and has excelled at every level during her career from finance to operational to managerial roles within the region.

In our steel distributors segment, Doug Thompson Chairman - Wirth Steel, retired in 2019. Doug originally started his affiliation with Wirth Steel in the 1960's before leaving to form his own company, Lackner Thompson, and then rejoining Wirth Steel in 1989. Doug's extensive industry knowledge and ability to anticipate market changes were instrumental in the success of our Wirth Steel operation over his tenure. Fernando Ferreira, who has served Wirth Steel for 35 years under Doug's tutelage and was promoted to President during 2016 as part of our succession plan will succeed Doug.

On September 9, 2019 we announced that Marion Britton will be retiring as CFO after more than 35 years with our Company. Marion's professionalism, integrity and dedication were evident in our continuous disclosure documents and the numerous transactions during her tenure. Marion's tireless effort and keen intellectually ability make her unique and it has been an absolute pleasure to work with her since I joined Russel Metals in 2007.

Please join me in saluting their accomplishments, appreciating their indelible mark in their respective areas and wishing them a wonderful and well-deserved retirement.

I also want to welcome Martin Juravsky who joins us in May and will succeed Marion as CFO. Marty brings extensive CFO experience in finance, capital markets and M&A.

Finally, I would like to thank our Board of Directors for their representation of our shareholders' interests. Our open and honest discussions around the Board table have provided support, guidance and healthy debate for the entire management team.

FUTURE

We saw steel prices stabilize and improve very late in 2019 and into early 2020. We believe the 2019 steel prices marginally over-corrected and this was compounded by a dip in industrial demand and a slide in the North American rig count. We are experiencing demand levels consistent with early 2019 as we kickoff 2020. Prices appear to have found solid footing and inventory levels throughout the service center and steel distributor operations have returned to sustainable levels. The energy distribution supply chains are moving toward acceptable levels. We look forward to a successful 2020.

John G. Reid
President and Chief Executive Officer

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, 2019, 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 11, 2020

J. G. Reid
President and
Chief Executive Officer

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

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS FOR THE YEAR ENDED DECEMBER 31, 2019

This Management's Discussion and Analysis of Financial Condition and Results of Operations ("MD&A") of Russel Metals Inc. and its subsidiaries provides information to assist readers of our audited Consolidated Financial Statements for the year ended December 31, 2019, including the notes thereto and should be read in conjunction with these financial statements. All dollar references in our financial statements and in this report are in Canadian dollars unless otherwise stated.

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

Unless otherwise stated, the discussion and analysis contained in this MD&A are as of February 11, 2020.

FORWARD-LOOKING STATEMENTS

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

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

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

NON-GAAP MEASURES

This MD&A includes a number of measures that are not prescribed by Canadian generally accepted accounting principles ("GAAP") and as such may not be comparable to similar measures presented by other companies. We believe these measures are commonly employed to measure performance in our industry and are used by analysts, investors, lenders and other interested parties to evaluate financial performance and our ability to incur and service debt to support our business activities. The measures we use are specifically defined where they are first used in this report.

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

OVERVIEW

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

Revenues for the year ended December 31, 2019 were $3.7 billion compared to $4.2 billion in 2018. Demand declined in all three segments in 2019. Steel prices declined in 2019 resulting in margin pressure compared to rising prices and inventory holding gains experienced in 2018. Our net earnings for 2019 of $77 million were 65% lower than our net earnings of $219 million in 2018. Basic earnings per share was $1.23 for 2019 compared to $3.53 for 2018.

Management believes that adjusted net earnings and adjusted earnings per share are useful measures that can facilitate comparisons between periods as they exclude items that are not part of our normal operations and could distort the analysis of trends in business performance. The exclusion of these items does not necessarily imply that they are non-recurring. These measures do not have any standardized meaning in GAAP and therefore may not be comparable to similar measures presented by other companies.

Our adjusted net earnings for the year ended December 31, 2019 were $99 million or $1.59 per share, which excludes $18 million of inventory provisions on an after-tax basis and $4 million in acquisition-related charges on an after-tax basis for our October 1, 2019 City Pipe acquisition.

We recorded an inventory provision of $5 million related to the decline in OCTG prices and an inventory provision of $14 million related to the decline in line pipe prices, both in our U.S. operations that are part of our energy products segment. In our steel distributor segment, we recorded inventory provisions of $5 million. Also, during 2019, we recorded a pre-tax charge of $4 million related to the fair value adjustment on inventories and expenses of $2 million for our City Pipe acquisition.

The following table provides a reconciliation of net earnings and earnings per share for the year ended December 31, 2019 to adjusted net earnings and adjusted net earnings per share.

2019	millions	per share
Net earnings	$ 77	$ 1.23
Inventory provisions, after tax	18	0.29
City Pipe acquisition, after tax	4	0.07
Adjusted net earnings	$ 99	$ 1.59

Adjusted net earnings and adjusted net earnings per share are non-GAAP measures that exclude non-recurring items; inventory provisions and acquisition related charges. We believe that adjusted net earnings and adjusted net earnings per share may be useful in assessing our operating performance but should not be considered as an alternative to net earnings or net earnings per share.

UPDATE ON TARIFFS AND CANADIAN SAFEGUARDS

Trade actions by government authorities in recent years have increased the volatility in steel prices and have created uncertainty in the industry. The following is a summary of the major actions by government authorities.

In April 2017, the U.S. Department of Commerce self-initiated an investigation under section 232 of the Trade Expansion Act of 1962 to determine whether imports of foreign-made steel were harming U.S. national security. On March 8, 2018, the U.S. President signed executive orders to implement import tariffs of 25% on steel and 10% on aluminum. These tariffs were implemented on March 23, 2018. Canada and Mexico were initially excluded from the tariffs; however, the exclusion was lifted, and the tariffs were implemented on material from Canada and Mexico on June 1, 2018. Canada subsequently implemented retaliatory tariffs on steel and aluminum products from the U.S. effective July 1, 2018. These steel and aluminum tariffs on products produced in Canada, the U.S. and Mexico were eliminated on May 20, 2019.

On September 30, 2018, the U.S., Canada and Mexico reached an agreement to replace NAFTA. On January 29, 2020, the new agreement was signed into law in the U.S. but still requires the approval of the Canadian Parliament prior to implementation. The new agreement should result in a more stable business environment after ratification by all parties.

On October 22, 2018, the Canadian Department of Finance announced provisional safeguards of 25% on seven steel product categories. Material imported into Canada from sources other than the U.S., Israel, Chile, Mexico and a number of developing countries were subject to provisional surcharges once the import volumes exceeded an allowable quota. Formal hearings were conducted in January 2019 and recommendations were announced in April 2019 at which time it was recommended that tariff rate quotas be continued on heavy plate and stainless-steel wire products for three years. On May 10, 2019, the final safeguard order was implemented on these two product categories. No remedy was recommended on the other five product categories, thus the provisional safeguards on these goods were removed effective April 29, 2019.

During the 2019 first quarter, the U.S. International Trade Commission ("ITC") made a preliminary determination that fabricated structural steel from Canada, China and Mexico materially injured the U.S. fabricated steel industry. On January 24, 2020, the Department of Commerce announced affirmative final determinations on anti-dumping duties of imports from Canada at rates of 0-6.70%. As the Department of Commerce reached a negative countervailing determination on exports from Canada, this investigation was terminated, and no countervailing duties will be collected on imports from Canada. The ITC is scheduled to make its final anti-dumping injury determination on March 9, 2020. If the ITC determines that no injury occurred due to imports from Canada, then no order to collect anti-dumping duties will be issued.

SUMMARIZED FINANCIAL INFORMATION

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

2019

	Quarters Ended				Year Ended
(in millions, except per share data and volumes)	Mar. 31	June 30	Sept. 30	Dec. 31	Dec. 31
Revenues	$ 1,032.6	$ 936.7	$ 869.2	$ 837.4	$ 3,675.9
Earnings before interest, finance expense and taxes	58.2	50.9	34.9	2.3	146.3
Net earnings (loss)	34.3	30.8	18.1	(6.6)	76.6
Basic earnings (loss) per common share	$ 0.55	$ 0.50	$ 0.29	$ (0.11)	$ 1.23
Diluted earnings (loss) per common share	$ 0.55	$ 0.50	$ 0.29	$ (0.11)	$ 1.23
Total assets	$ 2,199.2	$ 2,115.9	$ 2,074.9	$ 1,929.0	$ 1,929.0
Non-current financial liabilities	$ 540.0	$ 541.1	$ 538.9	$ 539.2	$ 539.2
Dividends paid	$ 0.38	$ 0.38	$ 0.38	$ 0.38	$ 1.52
Market price of common shares					
High	$ 25.22	$ 24.61	$ 22.56	$ 23.35	$ 25.22
Low	$ 20.75	$ 20.90	$ 18.47	$ 19.85	$ 18.47
Shares outstanding end of quarter	62,109,395	62,109,395	62,173,430	62,173,430	62,173,430
Average shares outstanding	62,107,839	62,108,622	62,170,481	62,173,430	62,132,030
Number of common shares traded on the TSX	13,787,516	10,661,704	12,814,804	14,601,555	51,865,579

2018

(in millions, except per share data and volumes)	Quarters Ended Mar. 31	June 30	Sept. 30	Dec. 31	Year Ended Dec. 31
Revenues	$ 931.3	$ 978.2	$ 1,140.1	$ 1,115.4	$ 4,165.0
Earnings before interest, finance expense and taxes	60.6	97.3	101.6	71.4	330.9
Net earnings	38.5	66.1	68.2	46.2	219.0
Basic earnings per common share	$ 0.62	$ 1.07	$ 1.10	$ 0.74	$ 3.53
Diluted earnings per common share	$ 0.62	$ 1.06	$ 1.09	$ 0.74	$ 3.52
Total assets	$ 1,924.2	$ 2,057.8	$ 2,140.9	$ 2,130.4	$ 2,130.4
Non-current financial liabilities	$ 442.6	$ 443.0	$ 443.3	$ 443.6	$ 443.6
Dividends paid	$ 0.38	$ 0.38	$ 0.38	$ 0.38	$ 1.52
Market price of common shares					
High	$ 32.65	$ 31.33	$ 30.99	$ 28.20	$ 32.65
Low	$ 27.08	$ 26.24	$ 26.20	$ 19.72	$ 19.72
Shares outstanding end of quarter	61,965,644	62,077,045	62,090,045	62,106,895	62,106,895
Average shares outstanding	61,921,421	62,012,928	62,081,187	62,097,921	62,028,991
Number of common shares traded on the TSX	16,027,868	8,981,225	10,136,481	14,371,151	49,516,725

2017

(in millions, except per share data and volumes)	Quarters Ended Mar. 31	June 30	Sept. 30	Dec. 31	Year Ended Dec. 31
Revenues	$ 803.5	$ 816.5	$ 850.9	$ 825.1	$ 3,296.0
Earnings before interest, finance expense and taxes	47.9	54.1	57.5	46.9	206.4
Net earnings	29.6	32.5	33.7	28.0	123.8
Basic earnings per common share	$ 0.48	$ 0.52	$ 0.55	$ 0.45	$ 2.00
Diluted earnings per common share	$ 0.48	$ 0.52	$ 0.55	$ 0.45	$ 2.00
Total assets	$ 1,611.4	$ 1,665.4	$ 1,796.7	$ 1,759.1	$ 1,759.1
Non-current financial liabilities	$ 296.0	$ 296.1	$ 296.3	$ 296.5	$ 296.5
Dividends paid	$ 0.38	$ 0.38	$ 0.38	$ 0.38	$ 1.52
Market price of common shares					
High	$ 29.78	$ 28.65	$ 28.47	$ 29.51	$ 29.78
Low	$ 25.13	$ 23.67	$ 24.61	$ 27.16	$ 23.67
Shares outstanding end of quarter	61,792,194	61,792,194	61,792,194	61,890,197	61,890,197
Average shares outstanding	61,754,827	61,733,614	61,779,875	61,812,162	61,788,013
Number of common shares traded on the TSX	17,146,636	12,951,578	10,603,339	9,812,965	50,514,518

RESULTS OF OPERATIONS

The following table provides earnings before interest, other finance expense and income taxes, which is a non-GAAP measure. The corporate expenses included are not allocated to specific operating segments. Gross margins (revenues minus cost of sales) as a percentage of revenues for the operating segments are also shown below. The table shows the segments as they are reported to management and are consistent with the segment reporting in our consolidated financial statements.

(millions, except percentages)	2019	2018	variance as a % of 2018
Segment Revenues			
Metals service centers	$ 1,958.0	$ 2,100.8	(7%)
Energy products	1,310.7	1,597.5	(18%)
Steel distributors	395.9	456.5	(13%)
Other	11.3	10.2	
	$ 3,675.9	$ 4,165.0	(12%)
Segment Operating Profits			
Metals service centers	$ 73.7	$ 169.4	(56%)
Energy products	68.8	133.6	(49%)
Steel distributors	15.8	47.2	(67%)
Corporate expenses	(17.0)	(20.4)	17%
Asset impairment	-	(3.3)	
Other	5.0	4.4	
Earnings before interest, finance expense and income taxes	$ 146.3	$ 330.9	(56%)
Segment Gross Margin as a % of Revenues			
Metals service centers	18.8%	23.3%	
Energy products	16.6%	18.6%	
Steel distributors	11.0%	19.1%	
Total operations	17.4%	21.2%	
Segment Operating Profit as a % of Revenues			
Metals service centers	3.8%	8.1%	
Energy products	5.2%	8.4%	
Steel distributors	4.0%	10.3%	
Total operations	4.0%	7.9%	

On January 1, 2019, we adopted *IFRS 16 - Leases* which resulted in an increase in our segment operating profits and interest expense but had no impact on net income.

EFFECTS OF IFRS 16

	2019	
(millions)	As reported	Pre-IFRS 16
Segment Operating Profits		
Metals service centers	$ 73.7	$ 70.0
Energy products	68.8	65.0
Steel distributors	15.8	15.4
Corporate expenses	(17.0)	(17.0)
Other	5.0	4.9
	$ 146.3	$ 138.3
Interest	40.9	33.2
Provision for taxes	28.8	28.5
Net earnings	$ 76.6	$ 76.6

Results of our U.S. operations for the year ended December 31, 2019 were converted at $1.3268 per US$1 compared to $1.2961 per US$1 for the year ended December 31, 2018. Our U.S. operations represented approximately 30% of our total revenues. The exchange rate used to translate the balance sheet at December 31, 2019 was $1.2988 per US$1 versus $1.3642 per US$1 at December 31, 2018.

ANNUAL FINANCIAL HIGHLIGHTS

(millions, except per share amounts)	2019	2018	2017
Revenues	$ 3,676	$ 4,165	$ 3,296
Earnings before interest, finance expense and income taxes	146	331	206
Net earnings	77	219	124
Basic earnings per share	1.23	3.53	2.00

METALS SERVICE CENTERS

a) Description of operations

We provide processing and distribution services to a broad base of approximately 33,000 end users through a network of 48 Canadian locations and 16 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, Alberta Industrial Metals, B&T Steel, Color Steels, Leroux Steel, Mégantic Métal, Pemco Steel, Russel Metals Processing, Russel Metals Specialty Products, Métaux Russel Produits Spécialisés, McCabe Steel and York-Ennis. Our U.S. service centers operate under the names Russel Metals Williams Bahcall, DuBose Steel, JMS Russel Metals, Norton Metals and Baldwin International.

b) Factors affecting results

The following is a general discussion of the significant factors affecting our metals service centers results. More specific information on how these factors impacted 2019 and 2018 is found in the section that follows.

Steel prices fluctuate significantly throughout the steel cycle. Steel prices are influenced by overall international demand, domestic demand, trade sanctions, iron ore prices, scrap steel prices and product availability. Changing metal prices cause fluctuations in our operating margins. Hot rolled coil products and sheet prices softened during 2019 and U.S. long products and plate pricing softened in the 2019 third quarter. Price increases for hot rolled sheet and plate were announced late in the 2019 fourth quarter. During the second half of 2018 and early 2019, due to tariffs on material between Canada and the U.S., product prices in Canada for coil, structural tubing and hot rolled plate were not based on the currency adjusted U.S. pricing as had been the historical practice of the mills. Canadian coil and structural tubing prices were lower than the equivalent U.S. price whereas plate prices were higher until tariffs were removed in May 2019 when the prices reverted to currency-adjusted prices.

In 2018, the implementation by the U.S. of import tariffs on steel led to a substantial increase in North American steel prices, as further described in the "Update on Tariffs and Canadian Safeguards" included in this MD&A. During 2019, the market adjusted to these tariffs and the U.S., Mexico and Canada agreed to remove import tariffs in May 2019. Steel prices consequently decreased in the year.

Supply side management, practiced by steel producers in North America, and international supply and demand, which impact steel imports, have historically affected product availability. Trade sanctions on specific products have been initiated either by steel mills or by North American government agencies.

Our operating results are affected by the cyclicality of the metals industry and the industries that purchase our products. Demand for our products is significantly affected by economic cycles. Revenues and operating profits fluctuate with the level of general business activity in the markets we serve. We are most impacted by several sectors of the North American economy including natural resources, oil and gas, manufacturing and construction.

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 market share and diverse customer base of approximately 19,000 Canadian customers mean that our results tend to mirror the performance of the regional economies of Canada.

Our U.S. operations, which have approximately 14,000 customers, are also impacted by the local economic conditions in the regions that they serve. In April 2018, we acquired DuBose Steel which expanded our geographic presence in the Southeastern United States.

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

c) Metals service centers segment results -- 2019 compared to 2018

(millions)	2019	2018	% Change
Financial Highlights			
Revenues	$ 1,958	$ 2,101	(7%)
Gross margin ($)	368	490	(25%)
Gross margin (%)	18.8%	23.3%	
Earnings from operations	74	169	(56%)

Our 2019 revenues decreased compared to 2018 due to lower steel prices and demand. The average selling price was 1% lower than 2018 and same store tons shipped in 2019 were approximately 6% lower than tons shipped in 2018. Based on 2019 data obtained from the Metals Service Center Institute, the Canadian and U.S. service center industries both had a reduction in shipments of 7%. All of our regions had volume declines except Alberta and Color Steels. Our Manitoba/Saskatchewan and British Columbia regions had lower demand than our other regions due to declines in the agriculture and forestry industries.

The reduction of gross margin as a percentage of revenues was due to the absence of inventory holding gains relating to the rising price environment experienced in 2018 offset by an increase in value-added processing which has a positive impact on margins.

Our average revenue per invoice for 2019 was approximately $2,371 compared to $2,422 for 2018, reflecting decreased steel prices and demand. We handled approximately 3,303 transactions per day in 2019 compared to 3,274 per day in 2018.

ENERGY PRODUCTS

a) Description of operations

We distribute oil country tubular goods (OCTG), line pipe, tubes, valves and fittings, primarily to the energy industry in Western Canada and the United States. A significant portion of our business units are clustered in Alberta and Saskatchewan, Canada, and in the U.S., in Colorado and Texas. A large portion of our inventories are located in third-party yards ready for distribution to customers throughout North America. In addition, we operate from 49 Canadian and 24 U.S. facilities mainly to support our valve and fitting operations. The majority of these facilities are oil field stores, which form the Apex Distribution and Elite Supply Partners networks. We purchase our products from the pipe division of North American steel mills, independent manufacturers of pipe, valves and fittings, international steel mills and other distributors. Our energy products segment operates under the names Apex Distribution, Apex Monarch, Apex Western Fiberglass, Comco Pipe & Supply Company, Elite Supply Partners, Fedmet Tubulars, Triumph Tubular & Supply, Pioneer Pipe and Spartan Energy Tubulars.

b) Factors affecting results

The following is a general discussion of the factors affecting our energy products segment operations. More specific information on how these factors impacted 2019 and 2018 is found in the section that follows.

The prices of oil, including the Western Canadian select discount, and natural gas can impact rig count and drilling activities, which in turn affects demand for our products. Oil prices increased throughout the beginning of 2019 but decreased at the end of the second quarter and was range bound for the balance of 2019. During 2019, rig activity in the U.S. and Canada was lower than the same period in 2018.

On October 1, 2019, we completed the acquisition of City Pipe and on December 31, 2019 City Pipe merged with Apex Remington to form Elite Supply Partners.

Prices for pipe products are influenced by overall demand, trade sanctions, product availability and metal prices. Trade sanctions are initiated either by steel mills or by North American government agencies. Both the Canadian and U.S. governments have imposed duties on certain Chinese pipe, which remain in effect and have reduced imports of these products. In August 2018, anti-dumping duties were imposed by the U.S. on imported large diameter pipe from six countries including Canada. The U.S. section 232 investigation and the resulting tariffs and retaliatory tariffs increased pipe prices. The subsequent removal of these tariffs and retaliatory tariffs in North America and quotas on Korean product has led to decreased pipe prices. Large projects such as the Kitimat LNG project should result in stronger demand in our industry. Valves and fittings prices are not as sensitive to steel price fluctuations because they are highly engineered products.

Results of our Canadian operations can be affected by the U.S. dollar exchange rate since some products are sourced outside of Canada and are priced in U.S. dollars. Movement in the Canadian dollar has a short-term impact on inventory prices. Drilling related to oil and natural gas in Western Canada historically peaks during the period from October to March.

c) Energy products segment results -- 2019 compared to 2018

(millions)	2019	2018	% Change
Financial Highlights			
Revenues	$ 1,311	$ 1,598	(18%)
Gross margin ($)	217	298	(27%)
Gross margin (%)	16.6%	18.6%	
Earnings from operations	69	134	(49%)

Revenues in our energy products segment decreased in 2019 due to lower activity from reduced rig counts and large line pipe projects in 2018 which were not replicated in 2019. Our oilfield stores and Comco Pipe operation had solid results in 2019 with Comco Pipe's results exceeding 2018.

Gross margin as a percentage of revenues was lower than 2018 mainly due to lower industry-wide OCTG and line pipe prices in reaction to lower demand caused by reduced North American rig counts. The lower line pipe prices resulted in a $14 million inventory provision and the lower OCTG prices resulted in a $5 million inventory provision.

The October 1, 2019 acquisition of City Pipe resulted in revenues of $34 million and operating earnings of $2 million in the 2019 fourth quarter. The acquisition accounting resulted in a charge of $6 million consisting of a decrease in gross margin of $4 million and an increase in operating expenses of $2 million.

STEEL DISTRIBUTORS

a) Description of operations

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

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

b) Factors affecting results

The following is a general discussion of the significant factors affecting our steel distributors. More specific information on how these factors impacted 2019 and 2018 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. The imposition of steel tariffs under the section 232 investigation, discussed in more detail under "Update on Tariffs and Canadian Safeguards", led to higher prices and shifted supply channels for steel distributor customers in the second half of 2018. Certain products purchased by our Canadian steel distributors operation were subject to the Canadian provisional safeguards that went into effect October 25, 2018. On May 10, 2019, these safeguards were removed, and provisional surcharges were implemented on heavy plate and stainless-steel wire products.

Demand for steel that is sourced offshore 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 operation sources product outside of Canada that is priced in U.S. dollars and may be impacted by movements in the Canadian dollar.

c) *Steel distributors segment results -- 2019 compared to 2018*

(millions)	2019	2018	% Change
Financial Highlights			
Revenues	$ 396	$ 457	(13%)
Gross margin ($)	43	87	(50%)
Gross margin (%)	11.0%	19.1%	
Earnings from operations	16	47	(66%)

Steel distributors' 2019 revenues decreased compared to 2018, due to reduced volumes and selling prices primarily at our U.S. steel distributor operation.

Gross margin as a percentage of revenues decreased in our U.S. operation due to lower steel prices. There was no change in our gross margin as a percentage of revenues in our Canadian operation as their model incorporates pre-selling prior to purchase of material in contrast to the U.S. operation which is more transactional. Our U.S. operation recorded an inventory provision of $5 million in 2019.

CORPORATE EXPENSES -- 2019 COMPARED TO 2018

Corporate expenses were $17 million in 2019 compared to $20 million in 2018 due to lower variable compensation attributable to lower net earnings.

LOSS ON ASSET IMPAIRMENT

During the quarter ended March 31, 2018, we recorded an asset impairment charge of $3 million relating to costs associated with our ERP modernization project, as we decided to move in another direction to meet the needs of the business.

CONSOLIDATED RESULTS -- 2019 COMPARED TO 2018

Operating profits of $146 million in 2019 compared to $331 million in 2018 due to decreased steel prices and demand.

INTEREST EXPENSE

Net interest expense was $41 million for 2019 compared to $32 million for 2018 reflecting additional interest expense of $8 million related to the new lease accounting standard *IFRS 16*.

OTHER FINANCE EXPENSE

We recorded finance expenses of $1 million in 2018 related to the fair value of the contingent consideration on our Apex Distribution acquisition. This reflected the final payment under the agreement.

INCOME TAXES

We recorded a provision for income taxes of $29 million for 2019 compared to a provision of $79 million for 2018. Our effective income tax rate for 2019 was 27.3% compared to 26.5% for 2018. The increase in the 2019 effective tax rate was due to losses in our U.S. operations which were at a lower effective rate compared to our Canadian operations offset in part by the Alberta corporate rate reduction.

NET EARNINGS

Net earnings for 2019 were $77 million compared to $219 million in 2018. Basic earnings per share for 2019 was $1.23 per share compared to $3.53 per share in 2018 as the decline in steel prices and stagnant demand led to decreased results in all segments.

SHARES OUTSTANDING AND DIVIDENDS

The weighted average number of common shares outstanding for 2019 was 62,132,030 compared to 62,028,991 for 2018 as a result of the exercise of options. Common shares outstanding at December 31, 2019 and February 11, 2020 were 62,173,430.

We paid common share dividends of $94 million or $1.52 per share in 2019 and 2018.

We have $150 million of 6% Senior Notes due March 16, 2026. The indenture for these Senior Notes has restrictions related to the payment of quarterly dividends in excess of $0.38 per share. These notes can be redeemed at par on or after March 16, 2024.

We have $300 million of 6% Senior Notes due April 19, 2022. The indenture for these Senior Notes has restrictions related to the payment of quarterly dividends in excess of $0.35 per share. At the current dividend rate, there is sufficient room to continue to pay the dividend to the maturity of these 2022 Senior Notes which can be redeemed at par on or after April 19, 2020.

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. In addition, if our excess borrowing base were to be insufficient, we believe we would be able to obtain a waiver or finance our short-term cash requirements with alternative financing structures and pay the dividend.

EBIT AND EBITDA

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

(millions)	2019	2018
Net earnings	$ 76.6	$ 219.0
Provision for income taxes	28.8	79.1
Interest and finance expense, net	40.9	32.8
Earnings before interest, finance expense and income taxes (EBIT)	146.3	330.9
Depreciation and amortization	56.7	35.7
Earnings before interest, income taxes, depreciation and amortization (EBITDA)	$ 203.0	$ 366.6

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. EBITDA increased by $25 million as a result of the new lease accounting standard *IFRS 16*.

CAPITAL EXPENDITURES

Capital expenditures were $35 million in 2019 compared to $41 million in 2018. We continue to invest in value-added processing equipment in our metals service centers. Depreciation expense was $32 million compared to $29 million for the comparable period in 2018. The implementation of the new lease accounting standard *IFRS 16* resulted in additional depreciation of $17 million in 2019.

LIQUIDITY

At December 31, 2019, we had net bank indebtedness, defined as cash less bank indebtedness, of $46 million compared to $4 million at December 31, 2018. We generated cash of $171 million from operations during 2019 and $144 million from working capital. We invested $35 million for capital expenditures, utilized $66 million for income tax payments and returned $94 million in dividends to our shareholders.

Due to our cyclicality, we experience significant swings in working capital, which impact cash flow. Inventory and accounts receivable represent a large percentage of our total assets employed and utilize cash at the peak of each cycle and generate cash from working capital reductions at the bottom of each cycle. Accounts receivable and inventory comprise our largest liquidity risks and generated $324 million in cash in 2019 due to decreased business activity triggering strong cash flows as we focused on optimizing working capital levels.

Total assets were $1.9 billion at December 31, 2019, compared to $2.1 billion at December 31, 2018. At December 31, 2019, current assets excluding cash represented 72% of our total assets excluding cash, compared to 80% at December 31, 2018. This ratio was impacted by the addition of $90 million in right-of-use assets as a result of *IFRS 16*.

Reduced inventory levels yielded cash of $203 million in 2019. Inventories were lower due to both decreased tons and steel prices. Inventories represented 46% of our total assets at December 31, 2019 compared to 49% at December 31, 2018.

Inventory by Segment (millions)	Dec. 31 2019	Sept. 30 2019	June 30 2019	Mar. 31 2019	Dec. 31 2018
Metals service centers	$ 295	$ 334	$ 378	$ 429	$ 427
Energy products	494	507	506	465	475
Steel distributors	95	123	124	137	150
Total	$ 884	$ 964	$ 1,008	$ 1,031	$ 1,052

Inventory Turns (quarters ended)	Dec. 31 2019	Sept. 30 2019	June 30 2019	Mar. 31 2019	Dec. 31 2018
Metals service centers	4.5	4.6	4.6	4.1	3.9
Energy products	2.5	2.0	1.9	2.6	3.0
Steel distributors	3.3	2.7	2.8	3.1	3.6
Total	3.2	3.0	3.0	3.3	3.4

At December 31, 2019, our metals service inventory tons and average cost per ton were lower compared to December 31, 2018 as our operations reduced purchases consistent with business levels.

During 2019 inventory levels decreased in our energy products operations, excluding City Pipe, due to decreased demand in the sector caused by lower rig counts.

Inventory levels at steel distributors were lower due to decreased demand and lower costs per ton.

Accounts receivable generated cash of $121 million in 2019 reflecting lower revenues in the 2019 fourth quarter. Accounts receivable represented 24% of our total assets excluding cash at December 31, 2019 compared to 28% in 2018.

During 2019, we made income tax payments of $66 million compared to $78 million for 2018 due to lower earnings.

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

FREE CASH FLOW

(millions)	2019	2018
Cash from operating activities before non-cash working capital	$ 171.5	$ 341.4
Purchase of property, plant and equipment	(34.8)	(41.3)
	$ 136.7	$ 300.1

We believe that free cash flow may be useful in assessing our ability to pay dividends, interest, 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. The purchase of property, plant and equipment excludes the non-cash addition of right-of-use assets.

DEBT

As at December 31 (millions)	2019	2018
Long-term debt		
6% $300 million Unsecured Senior Notes due April 19, 2022	$ 298	$ 297
6% $150 million Unsecured Senior Notes due March 16, 2026	147	147
	$ 445	$ 444

CASH AND BANK CREDIT FACILITY

(millions)	2019	2018
Bank loans	$ (57)	$ (148)
Cash net of outstanding cheques	11	144
Net debt	(46)	(4)
Letters of credit	(33)	(76)
	$ (79)	$ (80)
Facility		
Borrowings and letters of credit	$ 400	$ 500
Letters of credit	50	50
Facility availability	$ 450	$ 550
Available line based on borrowing base	$ 450	$ 550

On February 6, 2018, we increased and extended our credit facility to $450 million expiring September 21, 2021. The facility with a syndicate of Canadian and U.S. banks provides $50 million for letters of credit and $400 million which can be utilized for borrowings or additional letters of credit. On August 31, 2018, we amended our credit facility to increase availability by $100 million for borrowings or additional letters of credit for a period of one year for a total availability of $550 million. On August 30, 2019, this increase expired and the availability reverted back to $450 million. The borrowings and letters of credit are available on a revolving basis, up to an amount equal to the sum of specified percentages of our eligible accounts receivable and inventories, to a maximum of $450 million.

As of December 31, 2019, we were entitled to borrow and issue letters of credit totaling $450 million under this facility. At December 31, 2019, we had $57 million in borrowings and $33 million of letters of credit outstanding. At December 31, 2018 we had $148 million in borrowings and letters of credit of $76 million.

At December 31, 2019, we were in compliance with all of our financial covenants.

With our cash, cash equivalents and our bank facility we have access to approximately $354 million of cash based on our December 31, 2019 balances. The use of our bank facilities has been predominantly to fund working capital requirements, acquisitions and trade letters of credit for inventory purchases.

CONTRACTUAL OBLIGATIONS

As at December 31, 2019, we were contractually obligated to make payments as per the following table:

Contractual Obligations *(millions)*	Payments due in 2020	2021 and 2022	2023 and 2024	2025 and thereafter	Total
Bank loans	$ 57	$ -	$ -	$ -	$ 57
Accounts payable	331	-	-	-	331
Debt	-	300	-	150	450
Long-term debt interest	27	44	18	14	103
Operating leases	26	42	31	59	158
Total	$ 441	$ 386	$ 49	$ 223	$ 1,099

We provide defined contribution pension plans for a majority of our Canadian and U.S. employees; however, we have obligations related to multiple defined benefit pension plans in Canada, as disclosed in Note 15 of our 2019 consolidated financial statements. During 2019 we contributed $4 million to these plans. We expect to contribute approximately $5 million to these plans during 2020. The defined benefit obligations reported in the consolidated financial statements use different assumptions than the going concern actuarial valuations prepared for funding. In addition, the actuarial valuations provide a solvency valuation, which is a valuation assuming the plan is wound up at the valuation date. Our reported funding obligations would increase by $11 million on a solvency basis and thus additional funding could be required based on solvency if the plans were wound up. We estimate the impact of a 0.25% change in the discount rate on the solvency obligation would be approximately $6 million.

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

OFF-BALANCE SHEET ARRANGEMENTS

Our off-balance sheet arrangements consist of the letters of credit disclosed in the bank credit facilities table and short-term and low value operating lease obligations disclosed in the contractual obligations table. On January 1, 2019, we adopted the new lease accounting standard *IFRS 16* and our leases, excluding short-term and low value leases, that were previously off-balance sheet were recorded on the balance sheet.

ACCOUNTING ESTIMATES

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

Our most significant assets are accounts receivable and inventories.

Accounts Receivable

An allowance for doubtful accounts is maintained for estimated losses resulting from the inability of our customers to make required payments. Assessments are based on aging of receivables, legal issues (bankruptcy status), past collection experience, current financials, credit agency reports and the experience of our credit personnel. Accounts receivable reserves are estimated in the period in which revenue is recorded. 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, 2019 approximated our reserve level at December 31, 2018. Bad debt expense for 2019 as a percentage of revenues was less than 1%.

Inventories
We review our inventories to ensure that the cost of inventories is not in excess of 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. When recent selling prices are not available, future selling prices are estimated using current replacement cost plus an applicable margin. The inventory reserve level at December 31, 2019 was $24 million greater than the level at December 31, 2018.

Other areas involving significant estimates and judgements include:

Goodwill Impairment
The determination of whether goodwill and intangibles are impaired requires the estimation of future cash flows and an appropriate discount rate to determine value in use. An impairment occurs when the book value of the assets associated with a particular cash-generating unit is greater than the value in use. The assessment of future cash flows and the discount rate requires significant judgement. Goodwill is tested for impairment on an annual basis which resulted in no impairment for the years ended December 31, 2019 and 2018.

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

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

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

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

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

We had approximately $153 million in plan assets at December 31, 2019, which is approximately $18 million higher than December 31, 2018. The discount rate used on the employee benefit plan obligation for December 31, 2019 was 3.0%, which is 75 basis points lower than the discount rate at December 31, 2018.

CONTROLS AND PROCEDURES

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

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

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

The President & Chief Executive Officer and the Executive Vice President & Chief Financial Officer have caused management and other employees to design and document our disclosure controls and procedures and our internal controls over financial reporting. An evaluation of the design and operating effectiveness of the disclosure controls and internal controls over financial reporting was conducted as at December 31, 2019. The design and evaluation of internal controls was completed using the framework and criteria established in "Internal Control - Integrated Framework" issued by the Committee of Sponsoring Organizations of the Treadway Commission.

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

VISION AND STRATEGY

The metals distribution business is a segment of a mature, cyclical industry. We believe we enhance profitability by operating with the lowest possible net assets. This reduces borrowings and minimizes interest expense in all periods of the economic cycle and creates returns on net assets that are more stable. Our conservative management approach creates relatively stronger trough earnings but could cause potential peak earnings to be somewhat muted. Management believes that this strategy will result in higher average profits and that we will generate earnings over the cycle in the top quartile of the industry.

Growth from selective acquisitions is also part of our strategy. We focus on investment opportunities in metals and energy distribution 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. In addition, we will continue to invest in value-added processing that allows for growth and will further stabilize our returns. We completed the acquisition of Color Steels in 2017 which provided a new product line to our Canadian service center operations. On April 16, 2018, we completed the acquisition of the operating assets and facilities of DuBose Steel which adds a new geographic area to our U.S. service center operations. On October 1, 2019, we completed the acquisition of City Pipe & Supply Corp. which added energy field service facilities, primarily in the Permian basin, to our existing Apex Remington strength in Oklahoma, Texas and North Dakota. We continue to review opportunities for additional acquisitions.

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

RISK

The timing and extent of future price changes from steel producers and their impact on us cannot be predicted with any certainty due to the cyclical nature of the steel industry, fluctuation in capacity utilization rates for North American steel producers and high import levels. The tariffs implemented under the section 232 investigation supported higher steel prices and North American production in 2018. The removal of the North American tariffs reduced steel prices for 2019 below those experienced in late 2017. Future changes to country or product exemptions may impact steel prices and product availability

We are one of the largest energy services companies in Canada. Approximately 40% of our North American revenues are dependent on the oil and gas industry whose activity fluctuates with oil and gas prices. Our oil field store operations provide a more stable stream of earnings as their products are used in maintenance and repair as well as new drilling activity. Our OCTG and line pipe operations are experiencing an increasingly price competitive market place with the North American supply channel evolving as certain pipe manufacturers have elected to hold inventory in an effort to bypass the distributors. This has reduced margins and created an oversupply of inventories throughout the supply chain during a period of reduced demand driven by lower rig counts.

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

FOURTH QUARTER RESULTS

Revenues in the fourth quarter of 2019 were 25% lower than the same quarter in 2018. Operating income was $2 million compared to $71 million in 2018 and our net loss was $7 million compared to net income of $46 million in 2018.

During the quarter ended December 31, 2019, we recorded inventory provisions of $14 million related to the decline in line pipe prices in our U.S. energy product operation and $4 million on various products at our U.S. steel distributor operation. Also during the fourth quarter we recorded a pre-tax charge of $6 million attributed to the fair value adjustment and expenses on our City Pipe acquisition.

Management believes that adjusted net earnings and adjusted earnings per share are useful measures that can facilitate comparisons between periods as they exclude items that are not part of our normal operations and could distort the analysis of trends in business performance. The exclusion of these items does not necessarily imply that they are non-recurring. These measures do not have any standardized meaning in GAAP and therefore may not be comparable to similar measures presented by other companies.

Our adjusted net earnings for the quarter ended December 31, 2019 were $11 million or $0.19 per share which excludes $14 million of inventory provisions on an after-tax basis and $4 million in acquisition-related charges on an after-tax basis for our October 1, 2019 City Pipe acquisition.

The following table provides a reconciliation of net earnings and earnings per share for the quarter ended December 31, 2019 to adjusted net earnings and adjusted earnings per share.

2019 Fourth Quarter	millions	per share
Net earnings (loss)	$ (7)	$ (0.11)
Inventory provisions, net of tax	14	0.23
City Pipe acquisition, net of tax	4	0.07
Adjusted net earnings	$ 11	$ 0.19

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

(millions, except percentages)	Quarters Ended December 31 2019	2018	variance as a % of 2018
Segment Revenues			
Metals service centers	$ 411.6	$ 524.3	(21%)
Energy products	342.6	431.7	(21%)
Steel distributors	80.6	156.8	(49%)
Other	2.6	2.6	
	$ 837.4	$ 1,115.4	(25%)
Segment Operating Profits (Loss)			
Metals service centers	$ 8.8	$ 28.3	(69%)
Energy products	(1.8)	32.5	(105%)
Steel distributors	(3.2)	10.8	(130%)
Corporate expenses	(2.6)	(1.6)	
Other	1.1	1.4	
Earnings before interest, finance expense and income taxes	$ 2.3	$ 71.4	(97%)
Segment Gross Margin as a % of Revenues			
Metals service centers	18.8%	20.9%	
Energy products	11.4%	17.8%	
Steel distributors	3.6%	13.3%	
Total operations	14.6%	18.8%	
Segment Operating Profit as a % of Revenues			
Metals service centers	2.1%	5.4%	
Energy products	(0.5%)	7.5%	
Steel distributors	(4.0%)	6.9%	
Total operations	0.3%	6.4%	

Metals service centers revenues were 21% lower than the same quarter in 2018 as a result of decreased activity and lower selling prices. Tons shipped in the fourth quarter of 2019 for metals service centers were 7% lower than the fourth quarter of 2018 and selling prices were 15% lower than the fourth quarter of 2018. Gross margin as a percentage of revenues decreased to 18.8% for the fourth quarter of 2019 from 20.9% for the fourth quarter of 2018 but were consistent with year to date margins at September 30, 2019 and improved over the 2019 third quarter.

Revenues at our energy products segment were 21% lower than 2018. Lower demand was experienced in the 2019 fourth quarter as a result of lower North American rig counts and large line pipe projects in 2018 that were not replicated. The energy products segment had an operating loss in the fourth quarter due to inventory provisions of $14 million at our U.S. line pipe operation.

Our steel distributors reported an operating loss in the 2019 fourth quarter due to inventory provisions of $4 million at our U.S. operation.

Corporate expenses were higher than 2018 due to stock-based compensation.

Loss per share for the fourth quarter of 2019 was $0.11 compared to earnings of $0.74 for the fourth quarter of 2018.

OUTLOOK

Late in the 2019 fourth quarter and early 2020, we experienced an increase in steel prices which will benefit our metals service center and steel distributor operations. Demand remains consistent with early 2019. In energy products, pipe prices have not yet recovered as the North American distribution network remains overstocked and capital spending in the industry remains under pressure due to lower rig counts, particularly in the U.S.

INDEPENDENT AUDITOR'S REPORT

To the Shareholders and the Board of Directors of Russel Metals Inc.

Opinion

We have audited the consolidated financial statements of Russel Metals Inc. (the "Company"), which comprise the consolidated statements of financial position as at December 31, 2019 and 2018, and the consolidated statements of earnings, comprehensive income, changes in equity and cash flows for the years then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies (collectively referred to as the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2019 and 2018, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards ("IFRS").

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards ("Canadian GAAS"). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other Information

Management is responsible for the other information. The other information comprises:

- Management's Discussion and Analysis
- The information, other than the financial statements and our auditor's report thereon, in the Annual Report.

Our opinion on the financial statements does not cover the other information and we do not and will not express any form of assurance conclusion thereon. In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

We obtained Management's Discussion and Analysis prior to the date of this auditor's report. If, based on the work we have performed on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact in this auditor’s report. We have nothing to report in this regard.

The Annual Report is expected to be made available to us after the date of the auditor's report. If, based on the work we will perform on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact to those charged with governance.

Responsibility of Management and those Charged with Governance for the Financial Statements

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

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian GAAS will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Canadian GAAS, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Company to express an opinion on the financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

The engagement partner on the audit resulting in this independent auditor's report is Stacey Nagle.

Deloitte LLP
Chartered Professional Accountants
Licensed Public Accountants

Toronto, Ontario
February 11, 2020

CONSOLIDATED STATEMENTS OF EARNINGS

For the years ended December 31 *(in millions of Canadian dollars, except per share data)*	2019	2018
Revenues	$ 3,675.9	$ 4,165.0
Cost of materials (Note 7)	3,035.9	3,280.4
Employee expenses (Note 19)	295.9	335.1
Other operating expenses (Note 19)	197.8	215.3
Asset impairment (Note 8)	-	3.3
Earnings before interest, finance expense and provision for income taxes	146.3	330.9
Interest expense (Note 20)	40.9	31.6
Other finance expense (Note 20)	-	1.2
Earnings before provision for income taxes	105.4	298.1
Provision for income taxes (Note 21)	28.8	79.1
Net earnings for the year	$ 76.6	$ 219.0
Basic earnings per common share (Note 18)	$ 1.23	$ 3.53
Diluted earnings per common share (Note 18)	$ 1.23	$ 3.52

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

For the years ended December 31 *(in millions of Canadian dollars)*	2019	2018
Net earnings for the year	$ 76.6	$ 219.0
Other comprehensive income (loss)		
Items that may be reclassified to earnings		
Unrealized foreign exchange (losses) gains on translation of foreign operations	(27.8)	44.8
Items that may not be reclassified to earnings		
Actuarial (losses) gains on pension and similar obligations, net of taxes of $nil million (2018: $1.2 million)	(0.1)	3.4
Other comprehensive (loss) income	(27.9)	48.2
Total comprehensive income	$ 48.7	$ 267.2

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

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

As at December 31 *(in millions of Canadian dollars)*	2019	2018
ASSETS		
Current		
Cash and cash equivalents (Note 5)	$ 16.0	$ 124.3
Accounts receivable (Note 6)	458.1	567.5
Inventories (Note 7)	883.6	1,052.5
Prepaids and other	18.1	14.1
Income taxes receivable	18.9	5.2
	1,394.7	1,763.6
Property, Plant and Equipment (Note 8)	288.9	268.9
Right-of-Use Assets (Note 9)	90.1	-
Deferred Income Tax Assets (Note 21)	4.8	4.2
Pension and Benefits (Note 15)	5.4	3.1
Financial and Other Assets (Note 10)	4.0	4.4
Goodwill and Intangibles (Note 11)	137.0	86.2
	$ 1,924.9	$ 2,130.4
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current		
Bank indebtedness (Note 12)	$ 62.1	$ 128.5
Accounts payable and accrued liabilities (Note 13)	326.4	494.7
Short-term lease obligations (Note 9)	17.1	-
Income taxes payable	0.3	21.5
	405.9	644.7
Long-Term Debt (Note 14)	444.8	443.6
Pensions and Benefits (Note 15)	10.4	8.9
Deferred Income Tax Liabilities (Note 21)	13.2	20.1
Long-term Lease Obligations (Note 9)	94.4	-
Provisions and Other Non-Current Liabilities (Note 22)	11.6	8.2
	980.3	1,125.5
Shareholders' Equity (Note 16)		
Common shares	543.7	542.1
Retained earnings	284.5	318.6
Contributed surplus	15.7	15.7
Accumulated other comprehensive income	100.7	128.5
Total Shareholders' Equity	944.6	1,004.9
Total Liabilities and Shareholders' Equity	$ 1,924.9	$ 2,130.4

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

ON BEHALF OF THE BOARD,

J. Clark
Director

A. Benedetti
Director

CONSOLIDATED STATEMENTS OF CASH FLOW

For the years ended December 31 *(in millions of Canadian dollars)*	2019	2018
Operating activities		
Net earnings for the year	$ 76.6	$ 219.0
Depreciation and amortization	56.7	35.7
Provision for income taxes	28.8	79.1
Interest expense	40.9	31.6
(Gain) loss on sale of property, plant and equipment	(0.5)	2.8
Share-based compensation	0.3	0.5
Difference between pension expense and amount funded	(0.9)	(1.6)
Debt accretion, amortization and other	1.2	1.0
Change in fair value of contingent consideration	-	1.2
Interest paid, including interest on lease obligations	(31.6)	(27.9)
Cash from operating activities before non-cash working capital	171.5	341.4
Changes in non-cash working capital items		
Accounts receivable	121.1	(101.0)
Inventories	202.5	(195.5)
Accounts payable and accrued liabilities	(175.7)	117.7
Other	(3.8)	3.2
Change in non-cash working capital	144.1	(175.6)
Income tax paid, net	(65.9)	(77.9)
Cash from operating activities	249.7	87.9
Financing activities		
Decrease in bank indebtedness	(66.3)	(79.3)
Issue of common shares	1.3	4.7
Dividends on common shares	(94.5)	(94.3)
Issuance of long-term debt	-	146.0
Lease obligations	(17.2)	-
Deferred financing costs	-	(1.1)
Cash used in financing activities	(176.7)	(24.0)
Investing activities		
Purchase of property, plant and equipment	(34.8)	(41.3)
Proceeds on sale of property, plant and equipment	1.4	2.4
Payment of contingent consideration	-	(4.5)
Purchase of business	(139.4)	(36.8)
Cash used in investing activities	(172.8)	(80.2)
Effect of exchange rates on cash and cash equivalents	(8.5)	14.8
Decrease in cash and cash equivalents	(108.3)	(1.5)
Cash and cash equivalents, beginning of the year	124.3	125.8
Cash and cash equivalents, end of the year	$ 16.0	$ 124.3

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

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

(in millions of Canadian dollars)	Common Shares	Retained Earnings	Contributed Surplus	Accumulated Other Comprehensive Income	Total
Balance, January 1, 2019	$ 542.1	$ 318.6	$ 15.7	$ 128.5	$ 1,004.9
Payment of dividends	-	(94.5)	-	-	(94.5)
Change in accounting policy (Note 3)	-	(16.1)	-	-	(16.1)
Net income for the year	-	76.6	-	-	76.6
Other comprehensive loss for the year	-	-	-	(27.9)	(27.9)
Recognition of share-based compensation	-	-	0.3	-	0.3
Share options exercised	1.6	-	(0.3)	-	1.3
Transfer of net actuarial losses on defined benefit plans	-	(0.1)	-	0.1	-
Balance, December 31, 2019	**$ 543.7**	**$ 284.5**	**$ 15.7**	**$ 100.7**	**$ 944.6**

(in millions of Canadian dollars)	Common Shares	Retained Earnings	Contributed Surplus	Accumulated Other Comprehensive Income	Total
Balance, January 1, 2018	$ 536.6	$ 190.5	$ 16.0	$ 83.7	$ 826.8
Payment of dividends	-	(94.3)	-	-	(94.3)
Net income for the year	-	219.0	-	-	219.0
Other comprehensive income for the year	-	-	-	48.2	48.2
Recognition of share-based compensation	-	-	0.5	-	0.5
Share options exercised	5.5	-	(0.8)	-	4.7
Transfer of net actuarial gains on defined benefit plans	-	3.4	-	(3.4)	-
Balance, December 31, 2018	$ 542.1	$ 318.6	$ 15.7	$ 128.5	$ 1,004.9

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 GENERAL BUSINESS DESCRIPTION

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

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

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

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

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

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

NOTE 2 BASIS OF PRESENTATION

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

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

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

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

These consolidated financial statements were authorized for issue by the Board of Directors on February 11, 2020.

ACCOUNTING POLICIES

a) Basis of consolidation

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

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

b) Impairment of long lived non-financial assets

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

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

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

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

c) Revenue from contracts with customers

Revenue is recognized at an amount that reflects the expected consideration receivable in exchange for transferring goods or services to a customer applying the following steps:

1. Identify the contract with a customer
2. Identify the performance obligation
3. Determine the transaction price
4. Allocate the transaction price to the performance obligation in the contract
5. Recognize revenue when (or as) the entity satisfies a performance obligation

The Company generates revenue primarily from the delivery of metal and metal products to customers. The primary contracts to provide goods and services to customers are purchase orders (written or verbal) which provide the Company's performance obligations and transaction prices. The primary performance obligation in the Company's contracts is to provide metal products to customers in accordance with their specifications. These specifications could require the Company to cut, bend and provide other metal processing prior to delivery. The Company's performance obligation is satisfied upon transfer of control of product to the customers, which occurs when it has been packed and loaded for delivery. Credit terms for customers are short-term in nature.

d) Foreign currency

The accounts of foreign subsidiaries whose functional currency is the U.S. dollar are translated from U.S. dollars to Canadian dollars at the closing rate in effect at the statement of financial position date, which was $1.2988 per US$1 at December 31, 2019 (December 31, 2018: $1.3642 per US$1). Monetary items receivable or payable to a foreign subsidiary for which settlement is neither planned nor likely to occur form part of the net investment in the foreign subsidiary. Revenues and expenses are translated at the average rate of exchange during the year. For the year ended December 31, 2019, the average U.S. dollar Bank of Canada closing exchange rate was $1.3268 per US$1 (2018: $1.2961 per US$1). The resulting gains or losses from the translation of foreign subsidiaries and those items forming part of the net investment are included in other comprehensive income.

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

ACCOUNTING ESTIMATES AND JUDGEMENTS

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

The Company's management also makes estimates for net realizable value and obsolescence provisions relating to inventory, fair values, guarantees, long-lived asset and goodwill impairment, decommissioning obligations, lease obligations, contingencies and litigation. These estimates are based on historical experience and on various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgements about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

NOTE 3 CHANGE IN ACCOUNTING POLICIES

IFRS 16 Leases

In January 2016, the IASB issued *IFRS 16, Leases ("IFRS 16"),* which set out the principles for the recognition, measurement, presentation and disclosure of leases for both parties to a contract, i.e. the lessee and the lessor. Effective January 1, 2019, the Company adopted this standard using the modified retrospective approach under which the cumulative effect of initial application was recognized in retained earnings at January 1, 2019. The majority of the Company's off balance sheet leases became on balance sheet liabilities. The impact of this change in accounting policy is noted below.

For contracts entered into before January 1, 2019, the Company determined whether the arrangement contained a lease under *IAS 17* and *IFRIC 4*. Prior to the adoption of *IFRS 16*, these leases were classified as operating or finance leases based on an assessment of whether the lease transferred significantly all the risks and rewards of ownership of the underlying asset. The Company leases warehouse locations, field stores, office space, land, equipment, trucks and other vehicles.

On transition, the Company elected to apply the practical expedient to grandfather the determination of which contract was or contained a lease and applied *IFRS 16* to those contracts that were previously identified as leases. Upon transition to the new standard, lease liabilities were measured at the present value of the remaining lease payments discounted by the Company's incremental borrowing rate as at January 1, 2019. Right-of-use assets and lease liabilities were recognized on the statement of financial position with the cumulative difference recognized in retained earnings.

The Company has elected not to recognize right-of-use assets and lease liabilities for leases with a lease term of less than 12 months or low value assets and recognizes the lease payments associated with these leases in other operating expenses on a straight-line basis over the lease term, as permitted by *IFRS 16*.

Impact of Change in Accounting Policy

At transition, lease liabilities of $112.7 million, right-of-use assets of $90.8 million and reduction in net deferred tax liabilities of $5.8 million were recognized in the statement of financial position. The difference of $16.1 million was recognized as a reduction of retained earnings.

The Company's lease commitments as disclosed in its December 31, 2018 notes to its consolidated financial statements of $138.4 million compare to the transitional lease obligation of $112.7 million. The lease obligation commitments decreased by $45.3 million due to the discounting of the obligations using the Company's incremental borrowing rate and increased by $24.0 million due to the assessment of extension options on certain real estate leases. The remaining difference relates to variable payments, low value leases and short-term leases which are not recorded on the balance sheet.

NOTE 4 BUSINESS ACQUISITIONS

ACCOUNTING POLICIES

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

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

(i) cost of consideration is measured as the fair value of the assets provided, equity instruments issued, liabilities incurred or assumed and any non-controlling interest acquired at the acquisition date;

(ii) identifiable assets acquired and liabilities assumed are measured at fair value at the acquisition date;

(iii) the excess of acquisition cost over the fair value of the identifiable net assets acquired is recorded as goodwill;

(iv) if the acquisition cost is less than the fair value of the net assets acquired, the fair value of the net assets is re-assessed and any residual difference is recognized directly in net earnings;

(v) any costs directly attributable to the business combination are expensed as incurred; and

(vi) contingent consideration is measured at fair value at the acquisition date and changes in fair value are recognized in net earnings.

ACCOUNTING ESTIMATES AND JUDGEMENTS

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

SUPPORTING INFORMATION

2019 Acquisition

On October 1, 2019, the Company completed its acquisition of 100% of the issued and outstanding shares of City Pipe & Supply Corp. ("City Pipe"), a distributor of pipe, valves and fittings to oil and gas companies primarily in the Permian basin through its five distribution locations in Odessa, Big Spring, Weatherford and Longview, Texas and Hobbs, New Mexico. The transaction costs for this acquisition were $1.4 million. The following summarizes the preliminary allocation of the consideration for this acquisition:

(millions)	
Inventory	$ 46.6
Accounts receivable	16.9
Prepaid and other	0.5
Property, plant and equipment	22.2
Intangibles	45.5
Goodwill	14.2
Accounts payable and accrued liabilities	(6.3)
Income tax payable	(0.2)
Net identifiable assets acquired	$ 139.4
Consideration:	
Cash	$ 139.4

The preliminary allocation is subject to change following the final settlement of the holdbacks which may result in an adjustment to working capital. Accounts receivable of $16.9 million represented gross contractual accounts receivable of which none was considered uncollectible at the time of acquisition.

Goodwill represents the expansion of our geographical footprint in the Permian basin and the expected growth potential of the business. City Pipe complements our Apex Remington operation and on December 31, 2019 City Pipe was merged with Apex Remington to form Elite Supply Partners Inc. ("Elite Supply Partners"). The goodwill is deductible for tax purposes.

The consolidated statements of earnings for the year ended December 31, 2019 includes supplementary revenues of $33.5 million and earnings before interest, acquisition costs, finance expense and provision for income taxes of $1.9 million attributable to the business acquired.

If the acquisition had taken place at the beginning of the 2019 fiscal year, management estimates that the acquired business would have provided revenues of $184 million and earnings before interest, acquisition costs, finance expense and provision for income taxes of $19.9 million.

2018 Acquisition

On April 16, 2018, the Company completed its acquisition of certain operating assets and facilities of DuBose Steel, a general line service center operation with value-added processing capabilities located in Roseboro, North Carolina. The following summarizes the allocation of the consideration for this acquisition:

(millions)	
Inventory	$ 15.4
Accounts receivable	10.1
Prepaid and other	0.9
Property, plant and equipment	10.2
Accounts payable and accrued liabilities	(0.1)
Net identifiable assets acquired	$ 36.5
Consideration:	
Cash	$ 36.5

Accounts receivable of $10.1 million represented gross contractual accounts receivable of which none was considered uncollectible at the time of acquisition. All accounts receivable have subsequently been collected.

This acquisition adds another geographic region and value-added processing capabilities to the Company's existing U.S. metals service centers segment. There was no goodwill included in the assets acquired.

The consolidated statements of earnings for the year ended December 31, 2018 includes supplementary revenues of $63.6 million and earnings before interest, finance expense and provision for income taxes of $1.9 million attributable to the business acquired.

If the acquisition had taken place at the beginning of the 2018 fiscal year, management estimates that the acquired business would have provided revenues of $70.4 million and earnings before interest, finance expense and provision for income taxes of $2.3 million.

NOTE 5 CASH AND CASH EQUIVALENTS

ACCOUNTING POLICIES

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

SUPPORTING INFORMATION

(millions)	2019	2018
Cash on deposit	$ 11.4	$ 12.6
Cash equivalents	4.6	111.7
	$ 16.0	$ 124.3

NOTE 6 ACCOUNTS RECEIVABLE

ACCOUNTING POLICIES

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

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

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

ACCOUNTING ESTIMATES AND JUDGEMENTS

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

SUPPORTING INFORMATION

(millions)	2019	2018
Trade receivables	$ 449.7	$ 556.6
Other receivables	8.4	10.9
	$ 458.1	$ 567.5

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

(millions)	2019	2018
Allowance for Doubtful Accounts		
Balance, beginning of the year	$ 4.9	$ 3.6
Increases to reserve	2.1	3.2
Amounts written off	(2.1)	(2.1)
Adjustments	0.2	0.2
Balance, end of the year	$ 5.1	$ 4.9

At December 31, 2019 and 2018, the allowance for doubtful accounts was less than 2% of accounts receivable. An increase in the allowance of 1% of accounts receivable would decrease pre-tax earnings by approximately $4.5 million for the year ended December 31, 2019 (2018: $5.6 million).

As at December 31, 2019 (millions)	Current	Past Due 1-30 Days	Past Due 31-60 Days	Past Due Over 60 Days	Total Trade Receivables
Trade Receivables					
Gross trade receivables	$ 251.4	$ 128.1	$ 55.0	$ 20.3	$ 454.8
Allowance for doubtful accounts	(0.1)	(0.1)	(0.2)	(4.7)	(5.1)
Total net trade receivables	**$ 251.3**	**$ 128.0**	**$ 54.8**	**$ 15.6**	**$ 449.7**

As at December 31, 2018 (millions)	Current	Past Due 1-30 Days	Past Due 31-60 Days	Past Due Over 60 Days	Total Trade Receivables
Trade Receivables					
Gross trade receivables	$ 291.7	$ 179.9	$ 61.4	$ 28.5	$ 561.5
Allowance for doubtful accounts	-	(0.1)	(0.2)	(4.6)	(4.9)
Total net trade receivables	$ 291.7	$ 179.8	$ 61.2	$ 23.9	$ 556.6

NOTE 7 INVENTORIES

ACCOUNTING POLICIES

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

ACCOUNTING ESTIMATES AND JUDGEMENTS

The Company's determination of the net realizable value of inventory requires the use of assumptions such as future selling prices and costs to sell. Inventories are reviewed to ensure that the cost of inventories is not in excess of its estimated net realizable value and for obsolete and slow moving product. Inventory reserves or write-downs are recorded when cost exceeds the estimated selling price less costs to sell and when product is determined to be slow moving or obsolete. Where the selling prices cannot be estimated based on recent transactional information, they are estimated using current replacement cost plus an applicable margin.

There is measurement uncertainty in these estimates. Actual selling prices and costs to sell could differ from these estimates.

SUPPORTING INFORMATION

(millions)	2019	2018
Inventory expensed in cost of materials	$ 3,035.9	$ 3,280.4
Inventory impairment charge, net of reversals		
Metals service centers	2.3	1.0
Energy products	28.0	4.2
Steel distributors	4.8	0.4
	$ 35.1	$ 5.6

NOTE 8 PROPERTY, PLANT AND EQUIPMENT

ACCOUNTING POLICIES

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

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

ACCOUNTING ESTIMATES AND JUDGEMENTS

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

SUPPORTING INFORMATION

Cost *(millions)*	Land and Buildings	Machinery and Equipment	Leasehold Improvements	Total
Balance, December 31, 2017	$ 243.4	$ 361.8	$ 27.4	$ 632.6
Business acquisition (Note 4)	8.5	1.7	-	10.2
Additions	3.7	36.4	1.2	41.3
Asset impairment	-	(3.3)	-	(3.3)
Disposals	(0.3)	(11.7)	(7.7)	(19.7)
Foreign exchange	3.8	8.1	0.3	12.2
Balance, December 31, 2018	$ 259.1	$ 393.0	$ 21.2	$ 673.3
Business acquisition (Note 4)	17.8	4.4	-	22.2
Additions	5.7	27.9	1.2	34.8
Disposals	(0.3)	(20.3)	(0.1)	(20.7)
Foreign exchange	(2.4)	(5.3)	(0.2)	(7.9)
Balance, December 31, 2019	**$ 279.9**	**$ 399.7**	**$ 22.1**	**$ 701.7**

Accumulated depreciation and amortization *(millions)*	Land and Buildings	Machinery and Equipment	Leasehold Improvements	Total
Balance, December 31, 2017	$ 107.9	$ 256.0	$ 21.9	$ 385.8
Depreciation and amortization	8.1	20.6	0.6	29.3
Disposals	(0.3)	(10.7)	(6.8)	(17.8)
Foreign exchange	1.5	5.0	0.6	7.1
Balance, December 31, 2018	$ 117.2	$ 270.9	$ 16.3	$ 404.4
Depreciation and amortization	8.4	23.1	0.7	32.2
Disposals	(0.3)	(19.4)	(0.1)	(19.8)
Foreign exchange	(0.8)	(3.1)	(0.1)	(4.0)
Balance, December 31, 2019	**$ 124.5**	**$ 271.5**	**$ 16.8**	**$ 412.8**

Net Book Value *(millions)*	
December 31, 2018	$ 268.9
December 31, 2019	**$ 288.9**

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

At December 31, 2019, land, included in land and buildings, was $46.8 million (2018: $44.4 million).

(millions)	2019	2018
Depreciation - cost of materials	$ 7.8	$ 7.5
Depreciation - other operating expenses	24.4	21.8
	$ 32.2	$ 29.3

Impairment of Assets

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

During the first quarter of 2018, the Company recorded an asset impairment charge of $3.3 million relating to the costs associated with its ERP modernization project, as the Company decided to move in another direction to meet the needs of the business.

NOTE 9 RIGHT-OF-USE ASSETS AND LEASE OBLIGATIONS

ACCOUNTING POLICIES

The Company recognizes right-of-use assets at the commencement date of the lease. The Company leases warehouse locations, field stores, office space, land, equipment, trucks and other vehicles. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted by any initial direct costs and costs to dismantle and remove the underlying asset less any lease incentives. The right-of use asset is subsequently depreciated using the straight-line method from the commencement date to the earlier of the end of the useful life of the underlying asset or the end of the lease term. In addition, the right-of-use assets are subject to impairment and adjusted for any remeasurement of lease liabilities. Amortization expense is recorded in other operating expenses.

The lease liability is initially measured at the present value of lease payments to be paid and discounted either at the interest rate implicit in the lease or the Company's incremental borrowing rate. The lease payments measured in the initial lease liability include payments for an optional renewal period, if any, if the Company is reasonably certain that it will exercise a renewal extension option. The liability is measured at amortized cost using the effective interest method and will be remeasured when there is a change in either the future lease payments or assessment of whether an extension or other option will be exercised. The lease liability is subsequently adjusted for lease payments and interest on the obligation. Interest expense on the lease obligation is included in interest expense in the consolidated statements of earnings.

In the consolidated statements of cash flow the Company records the principal portion of lease payments in financing activities and the interest portion in operating activities.

Lease payments on short-term leases and leases of low-value assets are recognized in other operating expense on a straight-line basis over the lease term.

ACCOUNTING ESTIMATES AND JUDGEMENTS

In determining the lease term, the Company considers all facts and circumstances that create an economic incentive to exercise an extension option, or not exercise a termination option. Extension options (or period covered by termination options) are only included in the lease term if the lease is reasonably certain to be extended (or terminated). The assessment is reviewed if a significant event or a significant change in circumstances occurs which affects this assessment and that is within the control of the lessee. The Company's determination of lease liability requires the use of assumptions to determine incremental borrowing rates.

The Company adopted *IFRS 16*, *Leases* on January 1, 2019.

SUPPORTING INFORMATION

(millions)	Right-of-use Assets	Lease Obligations
Transition, January 1, 2019	$ 90.8	$ 112.7
Additions	15.9	15.9
Disposals and modifications	1.5	1.5
Depreciation and amortization	(17.0)	-
Lease payments	-	(17.2)
Foreign exchange	(1.1)	(1.4)
Balance December 31, 2019	$ 90.1	$ 111.5
Current portion		$ 17.1
Long-term portion		$ 94.4

The carrying value of right-of-use assets and depreciation by class of underlying assets at January 1, 2019 and December 31, 2019 are as follows:

Right-of-use Assets *(millions)*	December 31 2019	January 1 2019
Land and buildings	$ 72.3	$ 75.2
Machinery and equipment	17.8	15.6
	$ 90.1	$ 90.8

Depreciation Expense *(millions)*	2019
Land and buildings	$ 11.3
Machinery and equipment	5.7
	$ 17.0

For the year ended December 31, 2019, the Company expensed $0.4 million for short-term and low value leases.

NOTE 10 FINANCIAL AND OTHER ASSETS

ACCOUNTING POLICIES

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

SUPPORTING INFORMATION

(millions)	2019	2018
Deferred charges on revolving credit facility	$ 0.5	$ 1.1
Other assets	3.5	3.3
	$ 4.0	$ 4.4

For the year ended December 31, 2019, the amortization of deferred financing charges was $0.6 million (2018: $0.5 million).

NOTE 11 GOODWILL AND INTANGIBLES

ACCOUNTING POLICIES

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

Intangible assets are comprised of customer relationships and trademarks. 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 lives of 12 to 17 years. Non-competition agreements are amortized over the period of the agreement. Useful lives are reviewed at the end of each reporting period and adjusted if appropriate.

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

ACCOUNTING ESTIMATES AND JUDGEMENTS

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

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

SUPPORTING INFORMATION

(millions)	2019	2018
Goodwill	$ 50.6	$ 37.4
Intangibles	86.4	48.8
	$ 137.0	$ 86.2

a) Goodwill

The continuity of goodwill is as follows:

Goodwill *(millions)*	2019	2018
Balance, beginning of the year	$ 37.4	$ 36.3
Business acquisition (Note 4)	14.2	-
Foreign exchange	(1.0)	1.1
Balance, end of the year	$ 50.6	$ 37.4

b) Impairment of goodwill

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

Allocation of Goodwill *(millions)*	2019	2018
Metals service centers		
U.S.		
Southeast	$ 13.5	$ 14.2
Canadian		
Alberta	11.0	11.0
Ontario	10.2	10.2
Atlantic	2.0	2.0
Energy products		
U.S.	13.9	-
	$ 50.6	$ 37.4

The Company uses a discounted cash flow technique to determine the value in use for the above noted CGUs or groups of CGUs. Key assumptions used by management include forecasted cash flows based on financial plans approved by management covering a five year period and expected growth in future earnings subsequent to 2020, of 2% in line with expected inflation and discount rates. The assumptions are based on historical data, industry cyclicality and expected market developments.

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

For 2019, the pre-tax weighted average cost of capital used was 15.1% (2018: 13.9%). To monitor potential impairment exposure, the Company performs a sensitivity analysis. For 2019 and 2018 a 1% increase in the respective discount rate would not trigger a goodwill impairment.

The Company performed goodwill impairment tests to determine recoverable amounts during the fourth quarter of 2019 and 2018. The recoverable amounts were determined based on a value in use calculation. In 2019 and 2018, the estimated recoverable amount of all units exceeded their carrying values. As a result, no impairment was recorded.

c) Intangibles

The continuity of intangibles within the metals service centers and energy products segments is as follows:

Cost *(millions)*	Metals Service Centers	Energy Products	Total 2019	Total 2018
Balance, beginning of the year	$ 20.1	$ 70.7	$ 90.8	$ 90.2
Business acquisitions (Note 4)	-	45.5	45.5	0.3
Foreign exchange	(0.1)	(0.9)	(1.0)	0.3
Balance, end of the year	$ 20.0	$ 115.3	$ 135.3	$ 90.8

Accumulated amortization (millions)	Metals Service Centers	Energy Products	Total 2019	Total 2018
Balance, beginning of the year	$ (12.0)	$ (30.0)	$ (42.0)	$ (36.0)
Amortization	(1.3)	(5.6)	(6.9)	(6.0)
Balance, end of the year	$ (13.3)	$ (35.6)	$ (48.9)	$ (42.0)

Carrying amount	
December 31, 2018	$ 48.8
December 31, 2019	**$ 86.4**

The carrying amount of intangible assets as at December 31, 2019 relates to customer relationships arising from the acquisition of Alberta Industrial Metals, Apex Distribution, Apex Western Fiberglass, Color Steels, City Pipe, JMS Metals Services, Norton Metals Products and other entities. The remaining amortization period for customer relationships is 5 to 13 years.

NOTE 12 REVOLVING CREDIT FACILITY

The Company increased and extended its credit agreement in February 2018 to provide $450 million for borrowings and letters of credit with an expiry of September 21, 2021. The syndicated facility consists of availability of $400 million under Tranche I to be utilized for borrowings and letters of credit and $50 million under Tranche II to be utilized only for letters of credit. Letters of credit are issued under Tranche II first and additional needs are issued under Tranche I.

On August 31, 2018, the Company increased its credit available for borrowings and letters of credit by $100 million under the same terms as the credit agreement. The additional credit availability expired on August 30, 2019 at which time the availability reverted back to $450 million. The borrowings and letters of credit are available on a revolving basis, up to an amount equal to the sum of specified percentages of the Company's eligible accounts receivable and inventories, to a maximum of $450 million. The obligations of the Company under this agreement are secured by a pledge of trade accounts receivable and inventories.

The Company was in compliance with the financial covenants at December 31, 2019. At December 31, 2019, the Company had borrowings of $57.0 million (2018: $148.0 million) and letters of credit of $32.5 million (2018: $76.1 million) under this facility.

NOTE 13 ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

ACCOUNTING POLICIES

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

SUPPORTING INFORMATION

(millions)	2019	2018
Trade accounts payable and accrued expenses	$ 319.9	$ 488.6
Accrued interest	6.5	6.1
	$ 326.4	$ 494.7

NOTE 14 LONG-TERM DEBT

ACCOUNTING POLICIES

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

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

SUPPORTING INFORMATION

(millions)	2019	2018
6% $300 million Senior Notes due April 19, 2022	$ 298.0	$ 297.2
6% $150 million Senior Notes due March 16, 2026	146.8	146.4
	$ 444.8	$ 443.6

a) On March 16, 2018, the Company issued, through a private placement, $150 million 6% Unsecured Senior Notes due March 16, 2026 for net proceeds of $146.0 million. Interest is due semi-annually on March 16 and September 16 of each year.

The Company may redeem up to 40% of these notes prior to March 16, 2021 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 March 16, 2021 the Company may redeem these notes in whole or in part at an amount equal to 100% of the principal amount plus the applicable premium which is the greater of 1% of the called principal of these notes or the excess of (i) the discounted value of the remaining scheduled payments over (ii) the called principal of these notes. The Company may redeem the notes in whole or in part at any time after March 16, 2021 at 104.5% of the principal amount declining rateably to 100% of the principal amount on or after March 16, 2024.

These notes contain certain restrictions on the payment of common share dividends in excess of $0.38 per share per quarter. These notes also contain certain covenants that limit the Company's ability to incur additional debt. The Company was in compliance with these financial covenants at December 31, 2019.

b) On April 19, 2012, the Company issued, through a private placement, $300 million 6% Unsecured Senior Notes due April 19, 2022 for net proceeds of $293 million. Interest is due on April 19 and October 19 of each year.

The Company may redeem these notes, in whole or in part, at any time at 101% of the principal amount declining rateably to 100% of the principal amount on or after April 19, 2020.

These notes contain certain restrictions on the payment of common share dividends in excess of $0.35 per share per quarter. These 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, 2019.

NOTE 15 PENSIONS AND BENEFITS

ACCOUNTING POLICIES

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

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

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

ACCOUNTING ESTIMATES AND JUDGEMENTS

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

SUPPORTING INFORMATION

a) The Company maintains a defined contribution pension plan ("DCPP") for most of its Canadian salaried employees as its defined benefits plans were closed for new employees over 20 years ago. The Company merged six of its defined benefit plans into the DCPP and maintains one other defined benefit plan. The Company also maintains executive plans, post-retirement benefit plans and two additional defined contribution plans in Canada and two 401(k) defined contribution plans in the United States.

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

The merged plan had a valuation date of January 1, 2017 and the remaining defined benefit plan had a valuation date of January 1, 2018.

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

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

(millions)	2019	2018
Defined benefit pension plans		
Current service cost	$ 3.0	$ 3.6
Net interest cost	-	0.2
Plan administration cost	0.2	0.2
	3.2	4.0
Post-retirement benefits	0.1	0.1
Defined contribution plans	6.3	5.4
Pension and benefit expense	$ 9.6	$ 9.5

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

(millions)	2019	2018
Remeasurements on the net defined benefit liability		
Actuarial (losses) gains due to actuarial experience	$ (0.2)	$ 2.4
Actuarial (losses) gains due to financial assumption changes	(15.6)	10.2
Actuarial loss due to demographic assumption changes	-	(1.4)
Return on plan assets greater (less) than the discount rate	15.7	(6.6)
Remeasurement effect recognized in other comprehensive income	$ (0.1)	$ 4.6
Cumulative actuarial losses relating to pensions and benefits		
Balance of actuarial losses at January 1	$ (10.1)	$ (14.7)
Net actuarial gains (losses) recognized in the year	(0.1)	4.6
Balance of actuarial losses at December 31	$ (10.2)	$ (10.1)

There were no adjustments related to asset ceiling limits in other comprehensive income for the years ended December 31, 2019 and 2018.

The actuarial determinations were based on the following assumptions:

	2019	2018
Assumed discount rate - year end	3.00%	3.75%
Rate of increase in future compensation	3.00%	3.00%
Rate of increase in future government benefits	3.00%	3.00%

The discount rate is based on a review of current market interest rates of AA corporate bonds with a similar duration as the expected future cash outflows for the pension payments. A 0.25% increase or decrease in the discount rate would decrease or increase the defined benefit obligation by approximately $5.7 million as of December 31, 2019 (2018: $4.9 million).

The mortality assumptions used to assess the defined benefit obligation are based on the 2017 Mortality Improvement Scale (MI-2017). Informal practices that give rise to constructive obligations are included in the measurement of the defined benefit obligation.

The Company has obligations included under other benefit plans for dental and medical costs for a group of retired employees. The health care cost trend rates used were 5% for dental and 5% for medical. A 1% change in trend rates would not result in a significant increase or decrease in either the present value of the defined benefit obligation or the net periodic cost.

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

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

	Pension Plans		Other Benefit Plans	
(millions)	2019	2018	2019	2018
Reconciliation of present value of the defined benefit obligation				
Balance, beginning of the year	$ 137.9	$ 146.4	$ 2.9	$ 3.9
Current service costs	3.0	3.6	-	-
Participant contributions	0.2	0.1	-	-
Interest cost	5.1	4.7	0.1	0.1
Benefits paid	(6.9)	(6.5)	(0.2)	(0.3)
Actuarial losses (gains)	15.6	(10.4)	0.1	(0.8)
Balance, end of the year	$ 154.9	$ 137.9	$ 2.9	$ 2.9

	Pension Plans		Other Benefit Plans	
(millions)	2019	2018	2019	2018
Reconciliation of present value of the plan assets				
Balance, beginning of the year	$ 135.0	$ 138.3	$ -	$ -
Interest income	5.1	4.5	-	-
Employer contributions	3.9	5.4	0.2	0.3
Employee contributions	0.2	0.1	-	-
Benefits paid	(6.9)	(6.5)	(0.2)	(0.3)
Plan administration costs	(0.2)	(0.2)	-	-
Return on plan assets (less) greater than discount rate	15.7	(6.6)	-	-
Balance, end of the year	$ 152.8	$ 135.0	$ -	$ -
Defined benefit obligation, net	$ 2.1	$ 2.9	$ 2.9	$ 2.9

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

(millions)	2019	2018
Cash and cash equivalents	$ 1.8	$ 2.4
Equities		
Canadian equity	68.8	60.7
Global equity fund	45.5	37.1
	114.3	97.8
Fixed income investments categorized by type of issuer		
Government guaranteed	13.7	10.9
Provincials	12.6	11.8
Corporate	10.4	12.1
	36.7	34.8
	$ 152.8	$ 135.0

The following table provides the defined benefit obligation for plans with surplus, partially funded pension plans and unfunded plans.

	Pension Plans		Other Benefit Plans	
(millions)	2019	2018	2019	2018
Defined benefit obligation				
Plans with surplus	$ (5.4)	$ (3.1)	$ -	$ -
Partially funded plans	7.5	6.0	-	-
Unfunded plans	-	-	2.9	2.9
Defined benefit obligation	$ 2.1	$ 2.9	$ 2.9	$ 2.9

c) As at December 31, 2019 approximately 76% (2018: 73%) of the fair value of all pension plan assets was invested in equities, 23% (2018: 25%) in fixed income securities, and 1% (2018: 2%) in cash and cash equivalents. The plan assets are not invested in derivatives or real estate assets. Management endeavours to have an asset mix of approximately 40% - 80% in equities, 20% - 40% in fixed income securities and 0% - 10% in cash and cash equivalents.

d) The weighted average duration of defined benefit obligations is 15.9 years (2018: 15.1 years) for defined benefit pension plans, 10.1 years (2018: 9.7 years) for executive pension arrangements and 7.1 years (2018: 7.1 years) for other post retirement benefit plans. The Company expects to make contributions of $4.5 million to its defined benefit pension plans and $0.3 million to its post retirement benefits medical plans in the next financial year.

NOTE 16 SHAREHOLDERS' EQUITY

a) At December 31, 2019 and 2018, 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, 2017	61,890,197	$ 536.6
Share options exercised	216,698	5.5
Balance, December 31, 2018	62,106,895	$ 542.1
Share options exercised	66,535	1.6
Balance, December 31, 2019	**62,173,430**	**$ 543.7**

The continuity of contributed surplus is as follows:

(millions)	
Balance, December 31, 2017	$ 16.0
Share-based compensation expense	0.5
Exercise of options	(0.8)
Balance, December 31, 2018	15.7
Share-based compensation expense	0.3
Exercise of options	(0.3)
Balance, December 31, 2019	**$ 15.7**

Dividends paid and declared were as follows:

	2019	2018
Dividends paid *(millions)*	$ 94.5	$ 94.3
Dividends per share	$ 1.52	$ 1.52
Quarterly dividend per share declared on February 11, 2020 (February 7, 2019)	$ 0.38	$ 0.38

NOTE 17 SHARE-BASED COMPENSATION

ACCOUNTING POLICIES

The Company accounts for Share Options and Share Appreciation Rights ("SARs") at fair value. The Company utilizes the Black-Sholes option pricing model to estimate the fair value of SARs and share options on the grant date.

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

Changes in the fair value of outstanding SARs are calculated at each reporting period as well as at settlement dates. The fair value of the award is recorded over the award vesting period.

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

ACCOUNTING ESTIMATES AND JUDGEMENTS

The inputs for the Black-Scholes option pricing model require significant judgements including share price volatility, expected dividends, expected life of the options and the risk free interest rate.

SUPPORTING INFORMATION

Share Options

The Company has a shareholder approved share option plan, the purpose of which is to provide the employees of the Company and its subsidiaries with the opportunity to participate in the growth and development of the Company. The number of common shares that may be issued under the share option plan is 4,498,909 and vest over a period of four years in the amount of one quarter each year and expire ten years from their grant date. Other terms and conditions of the plan include a 10 year life and immediate vesting under certain change of control provisions. The consideration paid by employees for the purchase of common shares is added to share capital. From 2014, employees other than certain senior officers no longer receive share options.

The following is a continuity of options outstanding:

	Number of Options		Weighted Average Exercise Price	
	2019	2018	2019	2018
Balance, beginning of year	1,691,086	1,941,719	$ 25.75	$ 25.13
Granted	53,708	64,815	23.69	31.46
Exercised	(66,535)	(216,698)	19.09	21.43
Expired or forfeited	(11,725)	(98,750)	18.17	26.73
Balance, end of the year	1,666,534	1,691,086	$ 26.00	$ 25.75
Exercisable	1,399,579	1,256,599	$ 26.28	$ 26.34

The weighted average share price for the options exercised during the year was $19.09 (2018: $21.43)

The outstanding options have exercise price ranges as follows:

(number of options)	2019	2018
$ 29.00 - $ 31.46	213,987	213,987
$ 25.37 - $ 28.99	849,785	851,285
$ 16.58 - $ 25.36	602,762	625,814
Options outstanding	1,666,534	1,691,086

The options expire in the years 2020 to 2029 and have a weighted average remaining contractual life of 3.4 years (2018: 4.1 years)

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

	2019	2018
Dividend yield	5%	5%
Expected volatility	30%	29%
Expected life	5 yrs	5 yrs
Risk free rate of return	1.94%	2.28%
Weighted average fair value of options granted	$ 3.91	$ 5.04

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

Share Appreciation Rights

In February 2017, the Board of Directors approved a Share Appreciation Rights Plan. Under this plan the Company may award SARs to officers and full-time employees as determined by the Board of Directors. The SARs are cash settled and vest over a period of four years in the amount of one quarter each year and expire ten years from their grant date.

The continuity of SARs is as follows:

	Number of SARs		Weighted Average Exercise Price	
	2019	2018	2019	2018
Balance, beginning of year	131,147	63,291	$ 30.12	$ 28.99
Granted	101,724	67,856	23.69	31.17
Balance, end of the year	232,871	131,147	$ 27.31	$ 30.12

Deferred Share Units

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

The continuity of DSUs is as follows:

(number of units)	2019	2018
Balance, beginning of the year	254,790	250,021
Granted	62,199	48,839
Paid out	(28,959)	(44,070)
Balance, end of the year	288,030	254,790

The liability and fair value of DSUs was $6.4 million at December 31, 2019 (2018: $5.4 million). Dividends declared on common shares accrue to units in the DSU plan in the form of additional DSUs.

Restricted Share Units

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

(number of units)	2019	2018
Balance, beginning of the year	183,588	74,145
Granted	259,287	179,202
Paid out	(53,446)	(69,759)
Balance, end of the year	389,429	183,588

The RSU liability at December 31, 2019 was $5.8 million (2018: $2.6 million). The fair value of RSUs was $8.6 million at December 31, 2019 (2018: $3.9 million). Dividends declared on common shares accrue to units in the RSU plan in the form of additional RSUs.

Employee Share Purchase Plan

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

Components of share-based compensation expense are as follows:

(millions)	2019	2018
Share options	$ 0.3	$ 0.5
DSUs, SARs and RSUs	5.3	1.9
Employee Share Purchase Plan	0.7	0.6
	$ 6.3	$ 3.0

NOTE 18 EARNINGS PER SHARE

ACCOUNTING POLICIES

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

SUPPORTING INFORMATION

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

(millions)	2019	2018
Net income used in calculation of basic and diluted earnings per share	$ 76.6	$ 219.0

(number of shares)	2019	2018
Weighted average shares outstanding	62,132,030	62,028,991
Dilution impact of share options	42,931	106,690
Diluted weighted average shares outstanding	62,174,961	62,135,681

NOTE 19 EXPENSES

(millions)	2019	2018
Employee Expenses		
Wages and salaries	$ 250.5	$ 290.5
Other employee related costs	45.4	44.6
	$ 295.9	$ 335.1
Other Operating Expenses		
Plant and other expenses	$ 113.7	$ 126.8
Delivery expenses	54.7	56.6
Repairs and maintenance	14.5	13.7
Selling expenses	11.5	12.7
Professional fees	5.5	4.7
Gain on sale of property, plant and equipment	(0.5)	(0.5)
Foreign exchange losses (gains)	(1.6)	1.3
	$ 197.8	$ 215.3

NOTE 20 INTEREST AND FINANCE EXPENSE

(millions)	2019	2018
Interest on 6% $300 million Senior Notes	$ 18.8	$ 18.7
Interest on 6% $150 million Senior Notes	9.4	7.5
Interest on lease obligations	7.7	-
Other interest expense	5.0	5.4
Interest expense	40.9	31.6
Other finance expense	$ -	$ 1.2

Long-term debt interest expense is charged to earnings using the effective interest method. 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. Debt accretion and issue cost amortization for the year ended December 31, 2019 was $1.2 million (2018: $1.0 million).

NOTE 21 INCOME TAXES

ACCOUNTING POLICIES

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

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

Deferred tax is recognized, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated 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

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

Deferred tax assets

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

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

ACCOUNTING ESTIMATES AND JUDGEMENTS

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

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

SUPPORTING INFORMATION

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

(millions)	2019	2018
Current tax expense	$ 30.8	$ 77.4
Deferred tax expense	(1.0)	1.7
Statutory rate adjustment	(1.0)	-
	$ 28.8	$ 79.1

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

	2019	2018
Applicable combined Canadian statutory rate	26.8%	27.0%
Rate difference of U.S. companies	0.3%	(1.3%)
Share-based compensation and non-deductible items	0.9%	0.3%
Statutory tax rate change – Alberta rate reduction	(0.9%)	-
Other	0.2%	0.5%
Average effective tax rate	27.3%	26.5%

The combined Canadian statutory rate is the aggregate of the federal income tax rate of 15.0% for both 2019 and 2018 and the average provincial rates of 11.8% (2018: 12.0%). The 2019 and 2018 average effective tax rate differed from the average Canadian corporate tax rate principally due to differing tax rules applicable to certain of the Company's subsidiaries outside Canada.

On July 1, 2019, the province of Alberta reduced its general corporate tax rate from 12% to 11% with a further 1% rate reduction every year on January 1 until the general corporate tax rate is reduced to 8% on January 1, 2022. This led to a reduction in the Company's Canadian income tax provision in 2019.

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

Deferred Income Tax Assets *(millions)*	Losses	Property Plant and Equipment	Pension And Benefits	Goodwill And Intangibles	Other Timing	Total
Balance December 31, 2017	$ -	$ 0.8	$ 0.3	$ 3.0	$ 0.6	$ 4.7
Benefit (expense) to consolidated statement of earnings	-	(0.1)	(0.1)	(0.2)	(0.1)	(0.5)
Balance December 31, 2018	$ -	$ 0.7	$ 0.2	$ 2.8	$ 0.5	$ 4.2
Benefit (expense) to consolidated statement of earnings	4.9	(2.1)	(0.1)	(1.4)	0.7	2.0
Reclass assets/liabilities and other	0.9	(7.1)	-	(0.3)	2.9	(3.6)
Effect of adoption- *IFRS16* (Note 3)	-	2.2	-	-	-	2.2
Balance December 31, 2019	**$ 5.8**	**$ (6.3)**	**$ 0.1**	**$ 1.1**	**$ 4.1**	**$ 4.8**

Deferred Income Tax Liabilities *(millions)*	Losses	Property Plant and Equipment	Pension And Benefits	Goodwill And Intangibles	Other Timing	Total
Balance December 31, 2017	$ (1.1)	$ 15.0	$ (2.6)	$ 10.9	$ (4.5)	$ 17.7
(Benefit) expense to consolidated statement of earnings	0.4	2.3	0.3	(0.3)	(1.5)	1.2
Reclass assets/liabilities and other	(0.2)	0.5	-	(0.1)	(0.2)	-
Benefits to other comprehensive income	-	-	1.2	-	-	1.2
Balance December 31, 2018	$ (0.9)	$ 17.8	$ (1.1)	$ 10.5	$ (6.2)	$ 20.1
(Benefit) expense to consolidated statement of earnings	-	2.4	0.2	(2.0)	(0.5)	0.1
Reclass assets/liabilities and other	0.9	(7.3)	-	(0.2)	3.1	(3.5)
Benefits to other comprehensive income	-	-	0.1	-	-	0.1
Effect of adoption- *IFRS16* (Note 3)	-	(3.6)	-	-	-	(3.6)
Balance December 31, 2019	**$ -**	**$ 9.3**	**$ (0.8)**	**$ 8.3**	**$ (3.6)**	**$ 13.2**

Net deferred liability at December 31, 2018	$ 15.9
Net deferred liability at December 31, 2019	**$ 8.4**

d) At December 31, 2019, the Company had U.S. state tax losses carried forward which, at U.S. state tax rates, have an estimated value of $1.3 million (2018: $0.9 million) and U.S Federal tax loss benefit of $4.5 million. The majority of the state tax losses carried forward will expire between 2030 and 2037, if not utilized. The U.S. Federal taxable loss benefit can be carried forward indefinitely. 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, 2019 and 2018, the Company had $5.9 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 in respect of these losses of $0.8 million has not been recognized.

e) At December 31, 2019, the aggregate amount of temporary differences associated with undistributed earnings of non-Canadian subsidiaries was $396 million. No liability has been recognized in respect of these differences because the Company is in a position to control the timing of the reversal of the temporary differences, and it is probable that such differences will not reverse in the foreseeable future.

NOTE 22 PROVISIONS AND OTHER NON-CURRENT LIABILITIES

ACCOUNTING POLICIES

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

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

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

ACCOUNTING ESTIMATES AND JUDGEMENTS

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

SUPPORTING INFORMATION

(millions)	2019	2018
Provision for decommissioning liabilities	$ 1.8	$ 2.0
Deferred compensation and employee incentives (Note 17)	12.2	8.0
	14.0	10.0
Less: current portion	(2.4)	(1.8)
	$ 11.6	$ 8.2

a) The following table presents the change in the provision for decommissioning liabilities:

(millions)	2019	2018
Balance, beginning of the year	$ 2.0	$ 2.4
Utilization	(0.2)	(0.4)
Balance, end of the year	$ 1.8	$ 2.0

b) Deferred compensation includes the RSU and DSU liabilities. The RSU and DSU liabilities that will be paid within the current year amounting to $2.4 million have been classified as current accrued liabilities.

NOTE 23 SEGMENTED INFORMATION

ACCOUNTING POLICIES

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

SUPPORTING INFORMATION

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

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

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

i) Metals service centers

The Company's network of metals service centers provides processing and distribution services on a broad line of metal products in a wide range of sizes, shapes and specifications, including carbon hot rolled and cold finished steel, pipe and tubular products, stainless steel and aluminium. The Company services all major geographic regions of Canada and certain regions in the Southeastern and Midwestern regions in the United States.

ii) Energy products

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

iii) Steel distributors

The Company's steel distributors act as master distributors selling steel to customers in large volumes, mainly on an "as is" basis. Steel distributors source their steel domestically and 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 $58.0 million (2018: $62.2 million). These sales, which are at market rates, are eliminated in the following tables.

a) Results by business segment:

(millions)	2019	2018
Segment Revenues		
Metals service centers	$ 1,958.0	$ 2,100.8
Energy products	1,310.7	1,597.5
Steel distributors	395.9	456.5
	3,664.6	4,154.8
Other	11.3	10.2
	$ 3,675.9	$ 4,165.0
Segment Operating Profits		
Metals service centers	$ 73.7	$ 169.4
Energy products	68.8	133.6
Steel distributors	15.8	47.2
	158.3	350.2
Corporate expenses	(17.0)	(20.4)
Asset impairment	-	(3.3)
Other income	5.0	4.4
Earnings before finance expense and provision for income taxes	146.3	330.9
Finance expense, net	(40.9)	(32.8)
Provision for income taxes	(28.8)	(79.1)
Net earnings	$ 76.6	$ 219.0
Capital Expenditures		
Metals service centers	$ 27.9	$ 32.7
Energy products	5.4	7.1
Steel distributors	0.8	0.8
Other	0.7	0.7
	$ 34.8	$ 41.3
Depreciation and Amortization Expense		
Metals service centers	$ 34.5	$ 24.8
Energy products	19.8	9.2
Steel distributors	1.6	1.1
Corporate and other	0.8	0.6
	$ 56.7	$ 35.7

(millions)	2019	2018
Current Identifiable Assets		
Metals service centers	$ 482.9	$ 675.4
Energy products	747.6	744.5
Steel distributors	131.3	216.0
	1,361.8	1,635.9
Non-Current Identifiable Assets		
Metals service centers	318.3	280.8
Energy products	187.3	66.5
Steel distributors	7.5	6.9
Total identifiable assets included in segments	1,874.9	1,990.1
Assets not included in segments		
Cash and cash equivalents	16.0	124.3
Income taxes receivable and deferred income tax assets	23.7	9.4
Financial and other assets	4.0	4.4
Pension and benefits	5.4	3.1
Corporate and other operating assets	0.9	(0.9)
Total assets	$ 1,924.9	$ 2,130.4
Liabilities		
Metals service centers	$ 220.1	$ 270.8
Energy products	181.0	171.0
Steel distributors	18.3	30.0
Liabilities by segment	419.4	471.8
Liabilities not included in segments		
Bank indebtedness	62.1	128.5
Income taxes payable and deferred income tax liabilities	13.5	41.6
Long-term debt	444.8	443.6
Pension and benefits	10.4	5.8
Corporate and other liabilities	30.1	31.1
Total liabilities	$ 980.3	$ 1,122.4

b) Results by geographic segment:

(millions)	2019	2018
Segment Revenues		
Canada	$ 2,561.2	$ 2,721.0
United States	1,103.4	1,433.8
	$ 3,664.6	$ 4,154.8
Segment Operating Profits		
Canada	$ 166.8	$ 237.9
United States	(8.5)	112.3
	$ 158.3	$ 350.2
Identifiable Assets		
Canada	$ 1,248.7	$ 1,375.9
United States	626.2	614.2
	$ 1,874.9	$ 1,990.1

c) Revenues by product:

(millions)	2019	2018
Carbon		
Structurals (WF & I Beams, Angles, Channels, Hollow Tubes)	$ 875.7	$ 901.4
Plate (Discrete & Plate in Coil)	664.8	791.7
Flanges, Valves, Fittings and other Energy Products	695.4	672.5
Tubing/Pipe (Standard, Oil Country Tubular Goods, Line Pipe)	638.5	929.4
Bars (Hot Rolled and Cold Finished)	184.4	197.1
Flat Rolled (Sheet & Coil)	289.2	321.2
Grating/ Expanded/Rails	36.2	35.3
Total Carbon	3,384.2	3,848.6
Total Non-Ferrous (Sheet, Extrusion, Tubes, etc.)	135.0	131.6
Other	156.7	184.8
	$ 3,675.9	$ 4,165.0

NOTE 24 RELATED PARTY TRANSACTIONS

During the years ended December 31, 2019 and 2018 the Company did not have any transactions with subsidiaries outside the normal course of business. All subsidiaries are wholly owned and all transactions with subsidiaries are recorded at fair value and have been eliminated upon consolidation.

At December 31, 2019, 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 costs of key management personnel and directors were as follows:

(millions)	2019	2018
Salaries and other benefits	$ 5.5	$ 9.9
Share based compensation cost	3.0	5.8
Post-employment benefits	0.3	0.4
	$ 8.8	$ 16.1

NOTE 25 FINANCIAL INSTRUMENTS AND RELATED RISK MANAGEMENT

ACCOUNTING POLICIES

a) Fair value measurement

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

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

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

Level 1 Values based on unadjusted quoted prices in active markets that are accessible at the measurement date for identical assets or liabilities.

Level 2 Values based on quoted prices in markets that are not active or model inputs that are observable either directly or indirectly for substantially the full term of the asset or liability.

Level 3 Values based on prices or valuation techniques that require inputs which are both unobservable and significant to the overall fair value measurement.

b) Financial assets

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

Financial assets at fair value through profit or loss

- Classification

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

- Recognition and measurement

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

Loans and receivables

- Classification

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

c) Financial liabilities and equity instruments

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

Other financial liabilities

- Classification

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

- Recognition and measurement

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

d) Derivative financial instruments

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

Embedded derivatives

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

e) *Impairment of financial assets*

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

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

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

SUPPORTING INFORMATION

a) *Financial assets and liabilities*

Financial assets and liabilities were as follows:

December 31, 2019 (millions)	Loans and Receivables	Other Financial Liabilities	Total
Cash and cash equivalents	$ 16.0	$ -	$ 16.0
Accounts receivable	458.1	-	458.1
Financial assets	3.5	-	3.5
Bank indebtedness	-	(62.1)	(62.1)
Accounts payable and accrued liabilities	-	(326.4)	(326.4)
Lease obligations	-	(111.5)	(111.5)
Long-term debt	-	(444.8)	(444.8)
Total	**$ 477.6**	**$ (944.8)**	**$ (467.2)**

December 31, 2018 (millions)	Loans and Receivables	Other Financial Liabilities	Total
Cash and cash equivalents	$ 124.3	$ -	$ 124.3
Accounts receivable	567.5	-	567.5
Financial assets	3.3	-	3.3
Bank indebtedness	-	(128.5)	(128.5)
Accounts payable and accrued liabilities	-	(494.7)	(494.7)
Long-term debt	-	(443.6)	(443.6)
Total	$ 695.1	$ (1,066.8)	$ (371.7)

For the year ended December 31, 2019, the fair value loss from derivative financial instruments on the consolidated statements of earnings was $3.7 million (2018: loss of $0.9 million) including embedded derivative and forward contracts.

b) *Fair value*

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

The fair value of long-term debt is set forth below.

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, 2019 and 2018 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 long-term debt:

December 31, 2019 (millions)	Carrying Amount	Fair Value Level 2
6% $300 million Senior Notes due April 19, 2022	$ 298.0	$ 303.9
6% $150 million Senior Notes due March 16, 2026	146.8	157.2
Total	**$ 444.8**	**$ 461.1**
Current portion	**$ -**	
Long-term portion	**$ 444.8**	

December 31, 2018 (millions)	Carrying Amount	Fair Value Level 2
6% $300 million Senior Notes due April 19, 2022	$ 297.2	$ 299.6
6% $150 million Senior Notes due March 16, 2026	146.4	145.9
Total	$ 443.6	$ 445.5
Current portion	$ -	
Long-term portion	$ 443.6	

c) Credit risk

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

The Company attempts to minimize credit exposure as follows:

- Cash investments are placed with high-quality financial institutions with limited exposure to any one institution. At December 31, 2019, nearly all cash and cash equivalents were held in institutions that were R1 High by DBRS;
- Counterparties to derivative contracts are members of the syndicated banking facility (Note 12);
- 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, 2019 and 2018, other than the allowance for doubtful accounts (Note 6). As at December 31, 2019, trade accounts receivable greater than 90 days represented less than 5% of trade accounts receivable (2018: 4%).

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, 2019, the Company had outstanding forward foreign exchange contracts in the amount of US$9.4 million, maturing in 2020 (2018: US$19.5 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. Cash is managed by the centralized treasury function and is invested in money market instruments or bank deposits, with durations ranging up to sixty days. A centralized treasury function ensures that the Company maintains funding flexibility by assessing future cash flow expectations and by maintaining its committed borrowing facilities.

As at December 31, 2019, the Company was contractually obligated to make payments under its financial liabilities that come due during the following periods:

(millions)	Accounts Payable	Long-Term Debt Maturities	Long-Term Debt Interest	Lease Obligations	Total
2020	$ 326.4	$ -	$ 27.0	$ 25.9	$ 379.3
2021	-	-	27.0	22.8	49.8
2022	-	300.0	17.3	19.0	336.3
2023	-	-	9.0	16.8	25.8
2024	-	-	9.0	14.2	23.2
2025 and beyond	-	150.0	13.9	59.0	222.9
Total	$ 326.4	$ 450.0	$ 103.2	$ 157.7	$ 1,037.3

At December 31, 2019, the Company was contractually obligated to repay its bank borrowings and letters of credit under its bank facilities (Note 12).

g) Capital management

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

NOTE 26 CONTINGENCIES, COMMITMENTS AND GUARANTEES

a) Lawsuits and legal claims

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

An outcome that deviates from the Company's estimate may result in an additional expense or income in a future accounting period.

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

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

b) Decommissioning liability

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

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

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SHERRI L. MCKELVEY
Assistant Secretary

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ANNUAL MEETING

The Annual Meeting of Shareholders will be held at the Corporate Head office on Tuesday, May 5, 2020 at 10:00 am

TRANSFER AGENT AND REGISTRAR

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The Toronto Stock Exchange - **RUS**

The Velociraptor was produced by John Cabral and his CAD operators on a fiber laser at our Aberfoyle, Ontario operation. The branch can cut customer files, adapt open source files and scan to recreate parts from existing items.

CORPORATE & SOCIAL RESPONSIBILITY

Our decentralized and entrepreneurial culture in our local operations lends itself to community-based initiatives. We invite you to our Corporate and Social Responsibility section of our web site, where we highlight examples of community involvement by our terrific teams at some of our local operations and certain corporate initiatives in this area.

GLOSSARY

Book Value Per Share - Shareholders' equity divided common shares outstanding at December 31

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 - Dividend per share divided by common share price at December 31

Earnings Multiple - Common share price at December 31 divided by basic earnings per common share

EBIT - Earnings before deduction of interest and income taxes

EBITDA - Earnings before deduction of interest, income taxes, depreciation and amortization

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 - EBIT over net assets employed

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