MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS FOR THE YEAR ENDED DECEMBER 31, 2018

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, 2018, 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 7, 2019.

FORWARD-LOOKING STATEMENTS

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

We are subject to a number of risks and uncertainties which could have a material adverse effect on our future profitability and financial position, including the risks and uncertainties listed below, which are important factors in our business and the metals distribution industry. Such risks and uncertainties include, but are not limited to: the volatility in metal prices; volatility in oil and natural gas prices; cyclicality of the metals industry and the industries that purchase our products; decreased capital and other expenditures in the energy industry; product claims from customers; significant competition that could reduce our market share; the interruption in sources of metals supply; manufacturers selling directly to our customer base; material substitution; credit risk of our customers; lack of credit availability; change in our credit ratings; currency exchange risk; restrictive debt covenants; non-cash asset impairments; the unexpected loss of key individuals; decentralized operating structure; the availability of future acquisitions and their integration; the failure of our key computer-based systems, including our enterprise resource and planning systems; failure to renegotiate any of our collective agreements and work stoppages; litigious business environment; environmental liabilities; environmental concerns or changes in government regulations; legislation on carbon emissions; workplace health and safety laws and regulations; significant changes in laws and governmental regulations; fluctuation of our common share price; dilution; and variability of dividends.

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

NON-GAAP MEASURES

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

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

OVERVIEW

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

Our net earnings for 2018 of $219 million were almost $100 million higher than our net earnings of $124 million in 2017. Basic earnings per share was $3.53 for 2018 compared to $2.00 for 2017. Improved demand in all operating segments, compared to 2017, and an elevated steel price environment effectively managed by our operations led to significantly higher operating earnings.

UPDATE ON TARIFFS AND CANADIAN SAFEGUARDS

Trade actions by government authorities have increased steel prices which has benefited producers and distributors; however, these actions have created significant 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. On September 30, 2018, the U.S., Canada and Mexico reached an agreement to replace the NAFTA trade agreement but the agreement did not eliminate the steel and aluminum tariffs. The new agreement has yet to be ratified by the three countries.

In October 2018, in response to concerns that the U.S. tariffs would cause an increase in foreign steel into the Canadian market, the Department of Finance announced provisional safeguards on seven steel product categories in the form of tariff rate quotas with a 25% surtax imposed on such goods above the specified quota. Formal hearings were conducted in early January 2019 and a final decision on tariffs is scheduled to be announced in April 2019.

More details on these and other trade actions can be found in the sections that follow. We expect further developments on trade actions in 2019.

SUMMARIZED FINANCIAL INFORMATION

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

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	$ 2,127.3	**$ 2,127.3**
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

2016

(in millions, except per share data and volumes)	Quarters Ended Mar. 31	June 30	Sept. 30	Dec. 31	Year Ended Dec. 31
Revenues	$ 662.1	$ 623.7	$ 639.2	$ 653.6	$ 2,578.6
Earnings before interest, finance expense and taxes	16.6	30.0	27.6	44.8	119.0
Net earnings	7.8	16.4	15.9	22.7	62.8
Basic earnings per common share	$ 0.13	$ 0.27	$ 0.26	$ 0.37	$ 1.02
Diluted earnings per common share	$ 0.13	$ 0.27	$ 0.26	$ 0.36	$ 1.01
Total assets	$ 1,541.8	$ 1,569.0	$ 1,556.7	$ 1,508.5	$ 1,508.5
Non-current financial liabilities	$ 295.4	$ 295.6	$ 295.7	$ 295.8	$ 295.8
Dividends paid	$ 0.38	$ 0.38	$ 0.38	$ 0.38	$ 1.52
Market price of common shares					
High	$ 20.19	$ 24.89	$ 24.92	$ 27.78	$ 27.78
Low	$ 13.95	$ 19.34	$ 19.92	$ 19.81	$ 13.95
Shares outstanding end of quarter	61,702,560	61,703,560	61,703,560	61,735,485	61,735,485
Average shares outstanding	61,702,560	61,702,736	61,703,560	61,711,054	61,704,990
Number of common shares traded on the TSX	19,655,847	16,045,311	7,357,465	9,655,118	52,713,741

RESULTS OF OPERATIONS

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

(in millions, except percentages)	**2018**	2017	variance as a % of 2017
Segment Revenues			
Metals service centers	**$ 2,100.8**	$ 1,635.2	28%
Energy products	**1,597.5**	1,270.2	26%
Steel distributors	**456.5**	380.1	20%
Other	**10.2**	10.5	
	$ 4,165.0	$ 3,296.0	26%
Segment Operating Profits			
Metals service centers	**$ 169.4**	$ 80.0	112%
Energy products	**133.6**	106.8	25%
Steel distributors	**47.2**	34.2	38%
Corporate expenses	**(20.4)**	(19.2)	(6%)
Asset impairment	**(3.3)**	-	
Other	**4.4**	4.6	
Earnings before interest, finance expense and income taxes	**$ 330.9**	$ 206.4	60%
Segment Gross Margin as a % of Revenues			
Metals service centers	**23.3%**	20.7%	
Energy products	**18.6%**	19.5%	
Steel distributors	**19.1%**	17.5%	
Total operations	**21.2%**	20.1%	
Segment Operating Profit as a % of Revenues			
Metals service centers	**8.1%**	4.9%	
Energy products	**8.4%**	8.4%	
Steel distributors	**10.3%**	9.0%	
Total operations	**7.9%**	6.3%	

Results of our U.S. operations for the year ended December 31, 2018 were converted at $1.2961 per US$1 compared to $1.2981 per US$1 for the year ended December 31, 2017. Our U.S. operations represented approximately 35% of our total revenues. The exchange rate used to translate the balance sheet at December 31, 2018 was $1.3642 per US$1 versus $1.2545 per US$1 at December 31, 2017.

ANNUAL FINANCIAL HIGHLIGHTS

(in millions, except per share amounts)	**2018**	2017	2016
Revenues	**$ 4,165**	$ 3,296	$ 2,579
Earnings before interest, finance expense and income taxes	**331**	206	119
Net earnings	**219**	124	63
Basic earnings per share	**3.53**	2.00	1.02

METALS SERVICE CENTERS

a) Description of operations

We provide processing and distribution services to a broad base of approximately 35,000 end users through a network of 49 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, Acier Loubier, 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 2018 and 2017 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. Volatile metal prices cause fluctuations in our operating results. U.S. coil product prices continued to soften in the fourth quarter of 2018 and U.S. long products and plate pricing remained steady. Due to tariffs on material moving 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.

In April 2017, the U.S. Department of Commerce self-initiated an investigation under section 232 of the Trade Expansion Act of 1962 which resulted in import tariffs of 25% on steel and 10% on aluminum. In response to these tariffs, Canada implemented retaliatory tariffs on steel and aluminum from the U.S. effective July 1, 2018. On September 30, 2018, the Canadian, U.S. and Mexican governments reached an agreement to replace NAFTA but the agreement did not eliminate the steel and aluminum tariffs.

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. On December 21, 2018, the Canadian Border Services Agency ("CBSA") made a final determination of dumping and subsidization of cold rolled steel in coils or cut lengths from China, South Korea and Vietnam. On October 18, 2018, the CBSA issued a preliminary determination of dumping of carbon steel welded pipe from Pakistan, the Philippines, Turkey and Vietnam. During the fourth quarter of 2018 the CBSA initiated an expiry review on the alleged dumping of hollow structural sections from South Korea and Turkey. On January 22, 2019, the CBSA announced final dumping duties on corrosion resistant steel from China, Taiwan, Chinese Taipei, India and South Korea.

On October 22, 2018, the Canadian Department of Finance announced provisional surcharges 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 are subject to provisional surcharges once the import volumes exceed an allowable quota. These surcharges are in place for 200 days from October 25, 2018. The Canadian International Trade Tribunal has initiated an inquiry to determine whether final safeguards are warranted, the results of which are scheduled to be announced on April 3, 2019.

Our operating results are affected by the inherent risk of 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 served. We are most impacted by several sectors of the North American economy including the following: 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 21,000 Canadian customers mean that our results tend to mirror the performance of the regional economies of Canada. In 2017, we acquired Color Steels which expanded our Canadian service center product line into pre-painted flat rolled product.

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

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

c) Metals service centers segment results -- 2018 compared to 2017

Revenues for 2018 increased 28% to $2.1 billion compared to 2017 revenues of $1.6 billion due to higher steel prices, increased demand and the acquisition of DuBose Steel and Color Steels. The average selling price was 20% higher than 2017. Same store tons shipped in 2018 were approximately 2% higher than tons shipped in 2017.

Gross margin as a percentage of revenues of 23.3% was higher than the 2017 gross margin of 20.7%. The gross margin as a percentage of revenues in 2018 improved due to increased value-added processing, higher domestic steel prices and strong inventory management.

Our average revenue per invoice for 2018 was approximately $2,422 compared to $1,846 for 2017, reflecting increased value-added processing and steel prices. We handled approximately 3,274 transactions per day in 2018 compared to 3,514 per day in 2017.

Operating expenses as a percentage of revenues were consistent with 2017. Operating expense dollars were 24% higher than 2017 related to variable compensation, increased tons shipped and the DuBose Steel and Color Steels acquisitions offset by economies of scale.

Operating profits for our metals service centers were $169 million in 2018 compared to $80 million for 2017 mainly related to increased value-added processing, higher steel prices and stronger demand.

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 48 Canadian and 21 U.S. facilities mainly to support our valve and fitting operations. The majority of these facilities are oil field stores which form the Apex Distribution network. We purchase our products from the pipe division of North American steel mills, independent manufacturers of pipe, valves and fittings, international steel mills and other distributors. Our energy products segment operates under the names Apex Distribution, Apex Monarch, Apex Remington, Apex Western Fiberglass, Comco Pipe and Supply Company, Fedmet Tubulars, Triumph Tubular & Supply, Pioneer Pipe and Spartan Energy Tubulars.

b) Factors affecting results

The following is a general discussion of the factors affecting our energy products segment operations. More specific information on how these factors impacted 2018 and 2017 is found in the section that follows.

The price of oil and natural gas, and the Western Canadian select discount can impact rig counts and drilling activities, which affects demand for our products. Oil and natural gas prices increased in 2018 until the 2018 fourth quarter when they declined. Rig activity in the U.S. increased throughout 2018 which benefited our U.S. operations in our energy products segment. In Canada, rig activity in 2018 was slightly lower than 2017.

Prices for pipe products are influenced by overall demand, trade sanctions, product availability and metal prices. Trade sanctions are initiated either by steel mills or by government agencies in North America. Both the Canadian and U.S. governments have imposed duties on certain Chinese pipe, which remain in effect and have reduced imports of these products. In 2018, U.S. pipe mills announced a trade petition on imported large diameter pipe from six countries including Canada and in August 2018, anti-dumping duties were imposed. The U.S. section 232 investigation and the resulting tariffs and retaliatory tariffs referred to above under "Update on Tariffs and Canadian Safeguards", have resulted in increased pipe prices. The Canadian provisional surcharges on seven product categories including energy tubular products from countries other than the U.S., Israel, Chile and Mexico may increase pipe prices. 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 -- 2018 compared to 2017

Revenues in our energy products segment increased 26% to $1.6 billion for 2018, compared to $1.3 billion for 2017 due to higher activity in our oil field service stores and large projects in our U.S. line pipe operation.

Gross margin as a percentage of revenues was 18.6% for 2018 compared to 19.5% in 2017 mainly due to mix. Our large line pipe project revenues generated lower margins as a percentage of revenues but increased gross margin dollars. Lower Canadian rig activity led to price pressure and muted margins for our operations serving that market.

Operating expenses as a percentage of revenues improved to 10% compared to 11% in 2017. Operating expenses were 16% higher in 2018 than 2017 due to costs associated with higher volumes and increased variable compensation.

This segment generated an operating profit of $134 million for 2018 compared to $107 million for 2017 mainly due to higher demand.

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 2018 and 2017 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", has led to higher prices and shifted supply channels for steel distributor customers. Certain products purchased by our Canadian steel distributors operation may be subject to the Canadian provisional safeguards that went into effect October 25, 2018 depending on time of arrival.

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 operations source product outside of Canada that is priced in U.S. dollars and may be subject to movements in the Canadian dollar.

c) Steel distributors segment results -- 2018 compared to 2017

Steel distributors revenues increased 20% to $457 million for 2018 compared to $380 million in 2017, due to increased steel prices and volumes. Disruption in traditional trade sources had a positive impact on our steel distributor operations as we were able to source scarce product for our customers.

Gross margin as a percentage of revenues was 19.1% for 2018 compared to 17.5% for 2017 due to improved steel prices.

Operating expenses as a percentage of revenues were consistent for 2018 and 2017. Operating expenses increased 24% mainly related to variable compensation offset by realized economies of scale.

Steel distributors operating income was $47 million compared to $34 million in 2017 due to increased volumes and steel prices.

CORPORATE EXPENSES -- 2018 COMPARED TO 2017

Corporate expenses were $20 million in 2018 compared to $19 million in 2017 due to higher variable compensation related to stronger earnings partially offset by lower stock-based compensation.

LOSS ON ASSET IMPAIRMENT

During the quarter ended March 31, 2018, we recorded an asset impairment charge of $3.3 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 -- 2018 COMPARED TO 2017

Operating profits improved to $331 million in 2018 compared to $206 million in 2017 due to increase value-added processing, higher steel prices and stronger demand.

INTEREST EXPENSE AND INCOME

Net interest expense was $32 million for 2018 compared to $24 million for 2017 as higher revenues resulted in higher debt levels to support increased working capital.

OTHER FINANCE EXPENSE

We recorded finance expense of $1.2 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 $79 million for 2018 compared to a provision of $55 million for 2017. Our effective income tax rate for 2018 was 26.5% compared to 30.9% for 2017. U.S. tax reform resulted in a reduction in 2018 income tax rates for our U.S. operations and the effect on our earnings was magnified by the improved profitability of our U.S. operations.

NET EARNINGS

Net earnings for 2018 were $219 million compared to $124 million in 2017. Basic earnings per share for 2018 was $3.53 per share compared to $2.00 per share in 2017 as all segments experienced improved results.

SHARES OUTSTANDING AND DIVIDENDS

The weighted average number of common shares outstanding for 2018 was 62,028,991 compared to 61,788,013 for 2017 as a result of the exercise of options. Common shares outstanding at December 31, 2018 and February 7, 2019 were 62,106,895.

We paid common share dividends of $94 million or $1.52 per share in 2018 and 2017.

During the 2018 first quarter, we issued $150 million 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, which is our current dividend rate.

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.

EBITDA

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

(millions)	**2018**	2017
Net earnings	**$ 219.0**	$ 123.8
Provision for income taxes	**79.1**	55.4
Interest and finance expense, net	**32.8**	27.2
Earnings before interest, finance expense and income taxes (EBIT)	**330.9**	206.4
Depreciation and amortization	**35.7**	34.2
Earnings before interest, income taxes, depreciation and amortization (EBITDA)	**$ 366.6**	$ 240.6

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.

CAPITAL EXPENDITURES

Capital expenditures were $41 million in 2018 compared to $36 million in 2017. The increase in expenditures was due to the continued investment in value-added processing equipment. Depreciation expense was $29 million in 2018 and $28 million in 2017. We expect capital expenditures to be higher than depreciation in 2019 as we will continue to invest in value-added processing equipment.

LIQUIDITY

At December 31, 2018, we had net debt, defined as cash less bank indebtedness, of $4 million compared to net debt of $82 million at December 31, 2017. We generated cash of $341 million from operations during 2018 due to strong earnings and $176 million of cash was utilized for working capital to support higher revenues. We invested cash of $41 million for capital expenditures and $37 million for the DuBose Steel acquisition and rewarded shareholders with $94 million in dividends. Proceeds on the Senior Notes issued in 2018 of $146 million were used to reduce bank indebtedness.

Due to our cyclical business, we experience significant swings in working capital which impact cash flow. Inventory and accounts receivable represent a large percentage of our total assets employed and fluctuate throughout each cycle. Accounts receivable and inventory comprise our largest liquidity risks and the increased business activity in 2018 utilized $296 million in cash to support increases in these balances.

Total assets were $2.1 billion at December 31, 2018 compared to $1.8 billion at December 31, 2017. At December 31, 2018, current assets excluding cash represented 80% of our total assets excluding cash versus 79% at December 31, 2017.

Inventory purchases utilized cash of $196 million in 2018. Inventories were higher in all segments due to higher steel prices and tons to support increased demand. Inventories represented 49% of our total assets at December 31, 2018 compared to 47% at December 31, 2017.

Inventory by Segment (millions)	**Dec. 31 2018**	Sept. 30 2018	June 30 2018	Mar. 31 2018	Dec. 31 2017
Metals service centers	**$ 427**	$ 394	$ 392	$ 338	$ 302
Energy products	**475**	468	499	435	414
Steel distributors	**150**	168	118	97	104
Total	**$ 1,052**	$ 1,030	$ 1,009	$ 870	$ 820

Inventory Turns (quarters ended)	**Dec. 31 2018**	Sept. 30 2018	June 30 2018	Mar. 31 2018	Dec. 31 2017
Metals service centers	**3.9**	4.3	4.3	4.2	4.5
Energy products	**3.0**	3.3	2.0	2.8	2.3
Steel distributors	**3.6**	2.2	2.3	3.0	3.2
Total	**3.4**	3.5	2.9	3.4	3.2

At December 31, 2018, our metals service centers had increased inventory tons to support stronger demand and higher inventory cost per ton compared to December 31, 2017.

During 2018 inventory levels increased in our energy products operations due to increased activity in the sector and higher inventory costs but inventory turns improved.

Inventory levels at our steel distributors were higher due to increased demand and higher cost per ton.

Accounts receivable utilized cash of $101 million in 2018 reflecting higher revenues. Accounts receivable represented 28% of our total assets excluding cash at December 31, 2018 compared to 27% in 2017.

During 2018, we made income tax payments of $78 million compared to $34 million for 2017 due to higher 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)	**2018**	2017
Cash from operating activities before non-cash working capital	**$ 341.4**	$ 216.1
Purchase of property, plant and equipment	**(41.3)**	(35.7)
	$ 300.1	$ 180.4

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.

DEBT

On March 16, 2018, we issued $150 million 6% Senior Notes for net proceeds of $146 million.

As at December 31 (millions)	**2018**	2017
Long-term debt		
6% $300 million Unsecured Senior Notes due April 19, 2022	**$ 297**	$ 297
6% $150 million Unsecured Senior Notes due March 16, 2026	**147**	-
	$ 444	$ 297

CASH AND BANK CREDIT FACILITY

(millions)		**2018**		2017
Bank loans	**$**	**(148)**	$	(223)
Cash net of outstanding cheques		**144**		141
Net debt		**(4)**		(82)
Letters of credit		**(76)**		(34)
	$	**(80)**	$	(116)
Facility				
Borrowings and letters of credit	**$**	**500**	$	350
Letters of credit		**50**		50
Facility availability	**$**	**550**	$	400
Available line based on borrowing base	**$**	**550**	$	400

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 will expire and the availability will revert back to $450 million unless extended. 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 $550 million.

As of December 31, 2018, we were entitled to borrow and issue letters of credit totaling $550 million under this facility. At December 31, 2018, we had $148 million in borrowings and $76 million of letters of credit outstanding. At December 31, 2017 we had $223 million in borrowings and letters of credit of $34 million.

At December 31, 2018, we were in compliance with all of our financial covenants.

With our cash, cash equivalents and our bank facility we have access to approximately $459 million of cash based on our December 31, 2018 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, 2018, we were contractually obligated to make payments as per the following table:

	Payments due in				
Contractual Obligations *(millions)*	2019	2020 and 2021	2022 and 2023	2024 and thereafter	Total
Bank loans	$ 148	$ -	$ -	$ -	$ 148
Accounts payable	495	-	-	-	495
Long-term debt	-	-	300	150	450
Long-term debt interest	27	54	28	23	132
Operating leases	31	47	27	33	138
Total	$ 701	$ 101	$ 355	$ 206	$ 1,363

In addition to the bank loans noted in the above table we are obligated to pay $76 million in letters of credit when they mature in 2019.

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 2018 consolidated financial statements. During 2018, we contributed $5 million to these plans. We expect to contribute approximately $5 million to these plans during 2019. 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 $5 million.

We have disclosed our obligations related to environmental litigation, regulatory actions and remediation in our Annual Information Form under the heading "Environmental Regulation". These obligations, 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 facility table and operating lease obligations disclosed in the contractual obligations table.

On January 1, 2019, we will adopt the new lease accounting standard *IFRS 16* and a majority of our leases that were previously off-balance sheet will be 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 which we determine to be uncollectible are reserved in the period in which the determination is made. If the financial condition of our customers was to deteriorate, resulting in an impairment of their ability to make payments, additional allowances may be required. Our reserve for bad debts at December 31, 2018 was approximately $1 million higher than our reserve at December 31, 2017.

Inventories

We review our inventories to ensure that the cost of inventories is not in excess of its estimated net realizable value and for obsolete and slow moving product. Inventory reserves or write-downs are recorded when cost exceeds the estimated selling price less cost to sell and when product is determined to be slow moving or obsolete. The inventory reserve level at December 31, 2018 was consistent with the level at December 31, 2017.

Other areas involving significant estimates and judgements include:

Goodwill Impairment

The determination of whether goodwill and intangibles are impaired requires the estimation of future cash flows and an appropriate discount rate to determine value in use. An impairment occurs when the book value of the assets associated with a particular cash generating unit is greater than the value in use. The assessment of future cash flows and the discount rate requires significant judgment. Goodwill is tested for impairment on an annual basis which resulted in no impairment for the years ended December 31, 2018 and 2017.

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 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 $135 million in plan assets at December 31, 2018, which is approximately $3 million lower than December 31, 2017. The discount rate used on the employee benefit plan obligation for December 31, 2018 was 3.75%, which is 50 basis points higher than the discount rate at December 31, 2017.

CONTROLS AND PROCEDURES

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

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

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

The Chief Executive Officer and the Executive Vice President and Chief Financial Officer have caused management and other employees to design and document our disclosure controls and procedures and our internal controls over financial reporting. An evaluation of the design and operating effectiveness of the disclosure controls and internal controls over financial reporting was conducted as at December 31, 2018. 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 and energy product distribution business is a mature, cyclical industry. We believe we enhance profitability by striving to operate with the lowest possible net assets at all times. 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. We continue to review opportunities for additional acquisitions.

We believe that the steel pricing cycle will continue to be highly volatile, and that our decentralized management structure and philosophy allow the fastest reaction to changes that affect the industry and will be the most successful. We will continue to invest in our business systems to enable faster reaction times to ever 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, modest capacity utilization rates for North American steel producers and historically high import levels. The tariffs implemented under the section 232 investigation have supported higher steel prices and North American production. 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 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.

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

FOURTH QUARTER RESULTS

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

(millions, except percentages)	Quarters Ended December 31 2018	2017	variance as a % of 2017
Segment Revenues			
Metals service centers	**$ 524.3**	$ 418.4	25%
Energy products	**431.7**	299.9	44%
Steel distributors	**156.8**	104.4	50%
Other	**2.6**	2.4	
	$ 1,115.4	$ 825.1	35%
Segment Operating Profits			
Metals service centers	**$ 28.3**	$ 15.7	80%
Energy products	**32.5**	27.6	18%
Steel distributors	**10.8**	7.5	44%
Corporate expenses	**(1.6)**	(4.8)	
Other	**1.4**	0.9	
Earnings before interest, finance expense and income taxes	**$ 71.4**	$ 46.9	52%
Segment Gross Margin as a % of Revenues			
Metals service centers	**20.9%**	19.3%	
Energy products	**17.8%**	21.3%	
Steel distributors	**13.3%**	14.9%	
Total operations	**18.8%**	19.7%	
Segment Operating Profit as a % of Revenues			
Metals service centers	**5.4%**	3.8%	
Energy products	**7.5%**	9.2%	
Steel distributors	**6.9%**	7.1%	
Total operations	**6.4%**	5.7%	

Revenues in the fourth quarter of 2018 were 35% higher than the same quarter in 2017. Operating income was $71 million compared to $47 million in 2017.

Metals service centers revenues were 25% higher than the same quarter in 2017 as a result of increased activity, higher selling prices and the DuBose Steel acquisition. Same store tons shipped in the fourth quarter of 2018 for metals service centers were 5% lower than the fourth quarter of 2017 and same store selling prices were 28% higher than the fourth quarter of 2017. Gross margin as a percentage of revenues increased to 20.9% for the fourth quarter of 2018 from 19.3% for the fourth quarter of 2017 but were lower than the 2018 annual margins of 23.3% due to the rise of the average cost of inventory during the year.

Revenues at our energy products segment were 44% higher than 2017 due to the large line pipe project sales. The operating profits in our energy products segment of $33 million for the fourth quarter of 2018 were 18% higher compared to the same quarter last year due to the project sales.

Our steel distributors reported 2018 operating income was 44% higher than the same quarter last year due to a 50% increase in revenues.

Corporate expenses were lower than 2017 due to lower stock-based compensation as a result of the lower share price.

Earnings per share for the fourth quarter of 2018 was $0.74 compared $0.45 for the fourth quarter of 2017.

OUTLOOK

We expect pricing pressure in the current quarter and stable demand levels in metals service centers and steel distributors. The energy products segment should experience a modest reduction in demand due to reduced capital spending and completion of the large line pipe projects.