

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

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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, 2018, 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 7, 2019

(signed) J. G. Reid
President and
Chief Executive Officer

(signed) M. E. Britton
Executive Vice President and
Chief Financial Officer

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, 2018 and 2017, 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, 2018 and 2017, 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.

(signed) Deloitte LLP
Chartered Professional Accountants
Licensed Public Accountants

Toronto, Ontario
February 7, 2019

CONSOLIDATED STATEMENTS OF EARNINGS

<i>For the years ended December 31</i>		
<i>(in millions of Canadian dollars, except per share data)</i>		
	2018	2017
Revenues	\$ 4,165.0	\$ 3,296.0
Cost of materials (Note 8)	3,280.4	2,632.7
Employee expenses (Note 19)	335.1	274.9
Other operating expenses (Note 19)	215.3	182.0
Asset impairment (Note 9)	3.3	-
Earnings before interest, finance expense and provision for income taxes	330.9	206.4
Interest expense (Note 20)	31.6	23.9
Other finance expense (Note 20)	1.2	3.3
Earnings before provision for income taxes	298.1	179.2
Provision for income taxes (Note 21)	79.1	55.4
Net earnings for the year	\$ 219.0	\$ 123.8
Basic earnings per common share (Note 18)	\$ 3.53	\$ 2.00
Diluted earnings per common share (Note 18)	\$ 3.52	\$ 2.00

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

<i>For the years ended December 31</i>		
<i>(in millions of Canadian dollars)</i>		
	2018	2017
Net earnings for the year	\$ 219.0	\$ 123.8
Other comprehensive income (loss)		
Items that may be reclassified to earnings		
Unrealized foreign exchange gains (losses) on translation of foreign operations	44.8	(31.4)
Items that may not be reclassified to earnings		
Actuarial gains (losses) on pension and similar obligations, net of taxes of \$1.2 million (2017: \$0.4 million)	3.4	(1.3)
Other comprehensive income (loss)	48.2	(32.7)
Total comprehensive income	\$ 267.2	\$ 91.1

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

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

<i>As at December 31</i> <i>(in millions of Canadian dollars)</i>	2018	2017
ASSETS		
Current		
Cash and cash equivalents (Note 6)	\$ 124.3	\$ 125.8
Accounts receivable (Note 7)	567.5	446.2
Inventories (Note 8)	1,052.5	819.9
Prepays and other	14.1	17.2
Income taxes receivable	5.2	4.5
	1,763.6	1,413.6
Property, Plant and Equipment (Note 9)	268.9	246.8
Deferred Income Tax Assets (Note 21)	4.2	4.7
Financial and Other Assets (Note 10)	4.4	3.5
Goodwill and Intangibles (Note 11)	86.2	90.5
	\$ 2,127.3	\$ 1,759.1
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current		
Bank indebtedness (Note 12)	\$ 128.5	\$ 207.7
Accounts payable and accrued liabilities (Note 13)	494.7	365.7
Income taxes payable	21.5	21.6
Current portion long-term debt (Note 14)	-	0.1
	644.7	595.1
Long-Term Debt (Note 14)	443.6	296.5
Pensions and Benefits (Note 15)	5.8	12.0
Deferred Income Tax Liabilities (Note 21)	20.1	17.7
Provisions and Other Non-Current Liabilities (Note 22)	8.2	11.0
	1,122.4	932.3
Shareholders' Equity (Note 16)		
Common shares	542.1	536.6
Retained earnings	318.6	190.5
Contributed surplus	15.7	16.0
Accumulated other comprehensive income	128.5	83.7
Total Shareholders' Equity	1,004.9	826.8
Total Liabilities and Shareholders' Equity	\$ 2,127.3	\$ 1,759.1

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

ON BEHALF OF THE BOARD,

(signed) J. Clark
Director

(signed) A. Benedetti
Director

CONSOLIDATED STATEMENTS OF CASH FLOW

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

	2018	2017
Operating activities		
Net earnings for the year	\$ 219.0	\$ 123.8
Depreciation and amortization	35.7	34.2
Provision for income taxes	79.1	55.4
Interest expense	31.6	23.9
Loss (gain) on sale of property, plant and equipment	2.8	(1.9)
Share-based compensation	0.5	0.7
Difference between pension expense and amount funded	(1.6)	(0.7)
Debt accretion, amortization and other	1.0	0.7
Change in fair value of contingent consideration	1.2	3.3
Interest paid	(27.9)	(23.3)
Cash from operating activities before non-cash working capital	341.4	216.1
Changes in non-cash working capital items		
Accounts receivable	(101.0)	(86.2)
Inventories	(195.5)	(208.0)
Accounts payable and accrued liabilities	117.7	52.1
Other	3.2	(8.6)
Change in non-cash working capital	(175.6)	(250.7)
Income tax paid, net	(77.9)	(33.8)
Cash from (used in) operating activities	87.9	(68.4)
Financing activities		
(Decrease) increase in bank indebtedness	(79.3)	172.8
Issue of common shares	4.7	3.6
Dividends on common shares	(94.3)	(93.9)
Issuance of long-term debt	146.0	-
Repayment of long-term debt	-	(0.1)
Deferred financing costs	(1.1)	-
Cash (used in) from financing activities	(24.0)	82.4
Investing activities		
Purchase of property, plant and equipment	(41.3)	(35.7)
Proceeds on sale of property, plant and equipment	2.4	3.7
Purchase of business	(36.8)	(25.6)
Payment of contingent consideration	(4.5)	-
Cash used in investing activities	(80.2)	(57.6)
Effect of exchange rates on cash and cash equivalents	14.8	(12.4)
Decrease in cash and cash equivalents	(1.5)	(56.0)
Cash and cash equivalents, beginning of the year	125.8	181.8
Cash and cash equivalents, end of the year	\$ 124.3	\$ 125.8

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

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

<i>(in millions of Canadian dollars)</i>	Common Shares	Retained Earnings	Contributed Surplus	Accumulated Other Comprehensive Income	Total
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

<i>(in millions of Canadian dollars)</i>	Common Shares	Retained Earnings	Contributed Surplus	Accumulated Other Comprehensive Income	Total
Balance, January 1, 2017	\$ 532.4	\$ 161.9	\$ 15.9	\$ 115.1	\$ 825.3
Payment of dividends	-	(93.9)	-	-	(93.9)
Net income for the year	-	123.8	-	-	123.8
Other comprehensive loss for the year	-	-	-	(32.7)	(32.7)
Recognition of share-based compensation	-	-	0.7	-	0.7
Share options exercised	4.2	-	(0.6)	-	3.6
Transfer of net actuarial losses on defined benefit plans	-	(1.3)	-	1.3	-
Balance, December 31, 2017	\$ 536.6	\$ 190.5	\$ 16.0	\$ 83.7	\$ 826.8

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 statement 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 7, 2019.

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 which provide the Company's performance obligations and transaction price. 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 \$1.3642 per US\$1 at December 31, 2018 (December 31, 2017: 1.2545 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, 2018, the average U.S. dollar Bank of Canada closing exchange rate was \$1.2961 per US\$1 (2017: \$1.2981 per US\$1). The resulting gains or losses from the translation of the foreign subsidiaries and those items forming part of the net investment are included in other comprehensive income.

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

ACCOUNTING ESTIMATES AND JUDGEMENTS

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

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

NOTE 3 CHANGE IN ACCOUNTING POLICIES

IFRS 15 Revenue from Contracts with Customers

The Company adopted *IFRS 15 Revenue from Contracts with Customers* ("*IFRS 15*"), with a date of initial application of January 1, 2018, using the modified retrospective approach. *IFRS 15* establishes principles for reporting the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers. The Company applied the new standard to all new contracts initiated after January 1, 2018. The Company does not have any obligations remaining for contracts entered into prior to January 1, 2018. The adoption of *IFRS 15* did not have a material effect on the financial statements as the Company does not have long-term service contracts, multiple element arrangements or complex revenue transactions.

The Company has certain arrangements with its customers with elements of variable consideration included, which were not material in the year ended 2018. Implementation of the standard resulted in increased disclosure on sources of revenues by product. (Note 23c)

IFRS 9 Financial Instruments

The Company adopted *IFRS 9, Financial Instruments* which replaces *IAS 39, Financial Instruments: Recognition and Measurement* on January 1, 2018. This standard establishes principles for the financial reporting of financial assets and financial liabilities that presents relevant and useful information to users of financial statements for the assessment of the amounts, timing and uncertainty of an entity's future cash flows. The adoption of this standard has changed the Company's estimation for allowance for doubtful accounts but does not have a material impact on the Company's financial position or results of operations.

NOTE 4 FUTURE ACCOUNTING CHANGES

IFRS 16 Leases

In January 2016, the IASB issued *IFRS 16, Leases* ("*IFRS 16*"), which sets 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 will adopt *IFRS 16* using the modified retrospective approach under which the cumulative effect of initial application will be recognized in retained earnings at January 1, 2019. The expected 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 will elect to apply the practical expedient to grandfather the determination of which contract is or contains a lease and will apply *IFRS 16* to those contracts that were previously identified as leases. Upon transition to the new standard, lease liabilities will be 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 will be recognized on the statement of financial position with the cumulative difference recognized in retained earnings.

At transition, lease liabilities of approximately \$110 - \$120 million will be recognized in the statement of financial position. The Company is finalizing its assessment of the transitional right-of-use assets with any difference between the lease liability and the right-of-use asset recognized as a reduction of retained earnings

For contracts entered into subsequent to January 1, 2019 at inception of the contract, the Company will assess whether a contract is, or contains, a lease by evaluating if the contract conveys the right to control the use of an identified asset. For contracts that contain a lease, the Company will recognize a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset will be initially measured at cost, which will comprise 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 will be 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. Under *IFRS 16*, right-of-use assets will be tested for impairment in accordance with *IAS 36* Impairment of assets. This will replace the previous requirement to recognize a provision for onerous lease contracts.

The lease liability will initially be measured at the present value of lease payments to be paid subsequent to the commencement date of the lease, 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 will 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 will be 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 will be subsequently adjusted for interest and lease payments. Interest expenses will be included in the consolidated statement of earnings.

The Company will elect not to recognize right-of-use assets and lease liabilities for leases with a lease term of less than 12 months and low value assets and will continue to recognize the lease payments associated with these leases as an expense on a straight-line basis over the lease term, as permitted by *IFRS 16*.

NOTE 5 BUSINESS ACQUISITIONS

ACCOUNTING POLICIES

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

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

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

ACCOUNTING ESTIMATES AND JUDGEMENTS

The fair value of assets acquired and liabilities assumed in a business combination 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

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 preliminary 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

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 \$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.

2017 Acquisition

On September 1, 2017, the Company completed its acquisition of all of the outstanding common shares of Color Steels Inc. ("Color Steels"). The following is a summary of the net assets acquired:

(millions)

Net working capital	\$	10.9
Property, plant and equipment		4.5
Deferred income tax liability		(1.6)
Intangibles		1.9
Goodwill		9.9
Net identifiable assets acquired	\$	25.6
Consideration:		
Cash	\$	25.6

Intangibles are comprised of customer relationships which are amortized over a period of 15 years. Goodwill, none of which is deductible for tax purposes, represents the growth potential of the new product line, processing and distribution of pre-finished metals and value-added services including cut-to-length and slitting.

The consolidated statements of earnings of the Company for the year ended December 31, 2017 includes incremental revenues of \$16.6 million attributed to the business acquired.

If the acquisition had taken place at the beginning of the fiscal year 2017, management estimated that the acquired business would have provided revenues of \$46.3 million and earnings before interest, finance expense and provision for income taxes of \$3.7 million.

NOTE 6 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

<i>(millions)</i>	2018	2017
Cash on deposit	\$ 12.6	\$ 18.1
Cash equivalents	111.7	107.7
	\$ 124.3	\$ 125.8

NOTE 7 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

<i>(millions)</i>	2018	2017
Trade receivables	\$ 556.6	\$ 437.1
Other receivables	10.9	9.1
	\$ 567.5	\$ 446.2

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

<i>(millions)</i>	2018	2017
Allowance for Doubtful Accounts		
Balance, beginning of the year	\$ 3.6	\$ 4.7
Increases to reserve	3.2	0.2
Amounts written off	(2.1)	(1.4)
Adjustments	0.2	0.1
Balance, end of the year	\$ 4.9	\$ 3.6

At December 31, 2018 and 2017, the allowance for doubtful accounts was less than 1.0% of accounts receivable. An increase in the allowance of 1% of accounts receivable would decrease pre-tax earnings by approximately \$5.6 million for the year ended December 31, 2018 (2017: \$4.4 million).

<i>As at December 31, 2018 (millions)</i>	Current	Past Due 1-30 Days	Past Due 31-60 Days	Past Due Over 60 Days	Total Trade Receivables
Trade Receivables					
Gross trade receivables	\$ 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

<i>As at December 31, 2017 (millions)</i>	Current	Past Due 1-30 Days	Past Due 31-60 Days	Past Due Over 60 Days	Total Trade Receivables
Trade Receivables					
Gross trade receivables	\$ 230.4	\$ 157.2	\$ 41.0	\$ 12.1	\$ 440.7
Allowance for doubtful accounts	-	(0.1)	(0.3)	(3.2)	(3.6)
Total net trade receivables	\$ 230.4	\$ 157.1	\$ 40.7	\$ 8.9	\$ 437.1

NOTE 8 INVENTORIES

ACCOUNTING POLICIES

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

ACCOUNTING ESTIMATES AND JUDGEMENTS

Inventories are reviewed to ensure that the cost of inventories is not in excess of its estimated net realizable value and for obsolete and slow moving product. Inventory reserves or write-downs are recorded when cost exceeds the estimated selling price less cost to sell and when product is determined to be slow moving or obsolete.

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

SUPPORTING INFORMATION

<i>(millions)</i>	2018	2017
Inventory expensed in cost of materials	\$ 3,280.4	\$ 2,632.7
Inventory impairment charge, net of reversals	4.3	3.6

NOTE 9 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, 2016	\$ 239.0	\$ 345.5	\$ 26.8	\$ 611.3
Business acquisition (Note 5)	-	4.5	-	4.5
Additions	8.3	26.5	0.9	35.7
Disposals	(1.8)	(9.1)	-	(10.9)
Foreign exchange	(2.1)	(5.6)	(0.3)	(8.0)
Balance, December 31, 2017	\$ 243.4	\$ 361.8	\$ 27.4	\$ 632.6
Business acquisition (Note 5)	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

Accumulated depreciation and amortization (millions)	Land and Buildings	Machinery and Equipment	Leasehold Improvements	Total
Balance, December 31, 2016	\$ 103.3	\$ 246.8	\$ 21.5	\$ 371.6
Depreciation and amortization	7.4	19.6	0.6	27.6
Disposals	(1.1)	(8.0)	-	(9.1)
Foreign exchange	(1.7)	(2.4)	(0.2)	(4.3)
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

Net Book Value (millions)

December 31, 2017	\$ 246.8
December 31, 2018	\$ 268.9

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

At December 31, 2018, land, included in land and buildings, was \$44.4 million (2017: \$43.4 million).

<i>(millions)</i>	2018	2017
Depreciation - cost of materials	\$ 7.5	\$ 7.7
Depreciation - other operating expenses	21.8	19.9
	\$ 29.3	\$ 27.6

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 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

<i>(millions)</i>	2018	2017
Deferred charges on revolving credit facility	\$ 3.3	\$ 0.5
Other	1.1	3.0
	\$ 4.4	\$ 3.5

For the year ended December 31, 2018, amortization of deferred financing charges was \$0.5 million (2017: \$0.7 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, trademarks and non-competition agreements. They are recorded at cost, which for business acquisitions represents the fair value at the date of acquisition less accumulated amortization and accumulated impairment losses. Customer relationships are amortized on a straight line basis over their estimated useful life of 15 to 17 years. Non-competition agreements are amortized over the period of the agreement. Useful lives are reviewed at the end of each reporting period and adjusted if appropriate.

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

ACCOUNTING ESTIMATES AND JUDGEMENTS

Intangible assets and goodwill arise from business combinations. Upon acquisition, the Company identifies and attributes 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

<i>(millions)</i>	2018	2017
Goodwill	\$ 37.4	\$ 36.3
Intangibles	48.8	54.2
	\$ 86.2	\$ 90.5

a) *Goodwill*

The continuity of goodwill is as follows:

Goodwill <i>(millions)</i>	2018	2017
Balance, beginning of the year	\$ 36.3	\$ 27.2
Business acquisition (Note 5)	-	9.9
Foreign exchange	1.1	(0.8)
Balance, end of the year	\$ 37.4	\$ 36.3

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 <i>(millions)</i>	2018	2017
Metals service centers		
U.S.		
Southeast	\$ 14.2	\$ 13.1
Canadian		
Alberta	11.0	11.0
Ontario	10.2	10.2
Atlantic	2.0	2.0
	\$ 37.4	\$ 36.3

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. Expected growth in future earnings subsequent to 2019, 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 2018, the pre-tax weighted average cost of capital used was 13.9% (2017: 12.7%). To monitor potential impairment exposure, the Company performs a sensitivity analysis. For 2018 and 2017 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 2018 and 2017. The recoverable amounts are determined based on a value in use calculation. In 2018 and 2017, 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 2018	Total 2017
Balance, beginning of the year	\$ 19.5	\$ 70.7	\$ 90.2	\$ 88.6
Business acquisitions	0.3	-	0.3	1.9
Foreign exchange	0.3	-	0.3	(0.3)
Balance, end of the year	\$ 20.1	\$ 70.7	\$ 90.8	\$ 90.2

Accumulated amortization (millions)	Metals Service Centers	Energy Products	Total 2018	Total 2017
Balance, beginning of the year	\$ (10.7)	\$ (25.3)	\$ (36.0)	\$ (30.1)
Amortization	(1.3)	(4.7)	(6.0)	(5.9)
Balance, end of the year	\$ (12.0)	\$ (30.0)	\$ (42.0)	\$ (36.0)

Carrying amount

December 31, 2017	\$ 54.2
December 31, 2018	\$ 48.8

The carrying amount of intangible assets as at December 31, 2018 relates to customer relationships arising from the acquisition of Alberta Industrial Metals, Apex Distribution, Apex Western Fiberglass, Color Steels, JMS Metals Services, Norton Metals Products and other entities. The remaining amortization period for customer relationships is 6 to 14 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 will expire on August 30, 2019 at which time the availability will revert 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 \$550 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, 2018. At December 31, 2018, the Company had borrowings of \$148.0 million (2017: \$223.0 million) and letters of credit of \$76.1 million (2017: \$33.7 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

<i>(millions)</i>	2018	2017
Trade accounts payable and accrued expenses	\$ 488.6	\$ 362.2
Accrued interest	6.1	3.5
	\$ 494.7	\$ 365.7

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

<i>(millions)</i>	2018	2017
6% \$300 million Senior Notes due April 19, 2022	\$ 297.2	\$ 296.5
6% \$150 million Senior Notes due March 16, 2026	146.4	-
Finance lease obligations (Note 25)	-	0.1
Less: current portion	-	(0.1)
	\$ 443.6	\$ 296.5

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 the called principal of these notes and the excess of (i) the discounted value of the remaining scheduled payments over (ii) the called principal of these notes. The Company may also 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.

The \$150 million Senior Notes contain certain covenants that limit the Company's ability to incur additional indebtedness. These notes also contain certain restrictions on the payment of common share dividends in excess of \$0.38 per share per quarter. The Company was in compliance with these financial covenants at December 31, 2018.

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 102% 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, 2018.

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

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

ACCOUNTING ESTIMATES AND JUDGEMENTS

The Company's determination of employee benefit expenses and obligations requires the use of assumptions such as the discount rate to measure obligations, expected mortality, the expected rate of increase of future compensation and the expected healthcare cost trend rate. Since the determination of the costs and obligations associated with employee 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 the defined benefits were closed for new employees over 20 years ago. On December 31, 2013, the Company merged five of its defined benefit plans into the DCPP. On January 1, 2017, the Company merged its Thunder Bay Terminals Plan, a defined benefit plan into the DCPP. The Company maintains one other defined benefit plan. The Company also maintains executive plans, post-retirement benefit plans and three additional defined contribution plans in Canada and a 401(k) defined contribution plan in the United States.

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

The merged plan (including the Thunder Bay Terminals Plan) had a valuation date of January 1, 2017 and the remaining plan had 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:

<i>(millions)</i>	2018	2017
Defined benefit pension plans		
Current service cost	\$ 3.6	\$ 3.8
Net interest cost	0.2	0.2
Plan administration cost	0.2	0.2
	4.0	4.2
Post-retirement benefits	0.1	0.1
Defined contribution plans	5.4	5.0
Pension and benefit expense	\$ 9.5	\$ 9.3

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

<i>(millions)</i>	2018	2017
Remeasurements on the net defined benefit liability		
Actuarial gains due to actuarial experience	\$ 2.4	\$ 1.3
Actuarial gains (losses) due to financial assumption changes	10.2	(9.7)
Actuarial loss due to demographic assumption changes	(1.4)	-
Return on plan assets (less) greater than the discount rate	(6.6)	6.7
Remeasurement effect recognized in other comprehensive income	\$ 4.6	\$ (1.7)
Cumulative actuarial losses relating to pensions and benefits		
Balance of actuarial losses at January 1	\$ (14.7)	\$ (13.0)
Net actuarial gains (losses) recognized in the year	4.6	(1.7)
Balance of actuarial losses at December 31	\$ (10.1)	\$ (14.7)

There were no adjustments related to asset ceiling limits in other comprehensive income for the years ended December 31, 2018 and 2017.

The actuarial determinations were based on the following assumptions:

	2018	2017
Assumed discount rate - year end	3.75%	3.25%
Rate of increase in future compensation	3.00%	3.00%
Rate of increase in future government benefits	3.00%	2.75%

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 \$4.9 million as of December 31, 2018 (2017: \$5.4 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 5.5% 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 statement 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.

(millions)	Pension Plans		Other Benefit Plans	
	2018	2017	2018	2017
Reconciliation of present value of the defined benefit obligation				
Balance, beginning of the year	\$ 146.4	\$ 135.6	\$ 3.9	\$ 4.1
Current service costs	3.6	3.8	-	-
Participant contributions	0.1	0.1	-	-
Interest cost	4.7	5.0	0.1	0.1
Benefits paid	(6.5)	(6.5)	(0.3)	(0.2)
Actuarial gains	(10.4)	8.4	(0.8)	(0.1)
Balance, end of the year	\$ 137.9	\$ 146.4	\$ 2.9	\$ 3.9

(millions)	Pension Plans		Other Benefit Plans	
	2018	2017	2018	2017
Reconciliation of present value of the plan assets				
Balance, beginning of the year	\$ 138.3	\$ 128.7	\$ -	\$ -
Interest income	4.5	4.8	-	-
Employer contributions	5.4	4.7	0.3	0.2
Employee contributions	0.1	0.1	-	-
Benefits paid	(6.5)	(6.5)	(0.3)	(0.2)
Plan administration costs	(0.2)	(0.2)	-	-
Return on plan assets (less) greater than discount rate	(6.6)	6.7	-	-
Balance, end of the year	\$ 135.0	\$ 138.3	\$ -	\$ -
Defined benefit obligation, net	\$ 2.9	\$ 8.1	\$ 2.9	\$ 3.9

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

(millions)	2018	2017
Cash and cash equivalents	\$ 2.4	\$ 3.7
Equities		
Canadian equity	60.7	66.0
Global equity fund	37.1	34.1
	97.8	100.1
Fixed income investments categorized by type of issuer		
Government guaranteed	10.9	9.7
Provincials	11.8	12.6
Corporate	12.1	12.2
	34.8	34.5
	\$ 135.0	\$ 138.3

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

<i>(millions)</i>	Pension Plans		Other Benefit Plans	
	2018	2017	2018	2017
Defined benefit obligation				
Plans with surplus	\$ (3.1)	\$ (1.5)	\$ -	\$ -
Partially funded plans	6.0	9.6	-	-
Unfunded plans	-	-	2.9	3.9
Defined benefit obligation	\$ 2.9	\$ 8.1	\$ 2.9	\$ 3.9

c) As at December 31, 2018 and 2017 approximately 73% of the fair value of all pension plan assets was invested in equities, 25% in fixed income securities, and 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 20% - 80% in equities, 20% - 70% in fixed income securities and 0% - 30% in cash and cash equivalents.

d) The weighted average duration of defined benefit obligations is 15.1 years (2017: 15.3 years) for defined benefit pension plans, 9.7 years (2017: 9.6 years) for executive pension arrangements and 7.1 years (2017: 7.6 years) for other post retirement benefit plans. The Company expects to make contributions of \$4.6 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, 2018 and 2017, the authorized share capital of the Company consisted of:
- (i) an unlimited number of common shares without nominal or par value;
 - (ii) an unlimited number of Class I preferred shares without nominal or par value, issuable in series; and
 - (iii) an unlimited number of Class II preferred shares without nominal or par value, issuable in series.

The Directors have the authority to issue the Class I and Class II preferred shares in series and fix the designation, rights, privileges and conditions to be attached to each series, except that the Class I shares shall be entitled to preference over the Class II shares with respect to the payment of dividends and the distribution of assets in the event of liquidation, dissolution or winding-up of the Company.

- b) The number of common shares issued and outstanding was as follows:

	Number of Shares	Amount <i>(millions)</i>
Balance, December 31, 2016	61,735,485	\$ 532.4
Share options exercised	154,712	4.2
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

The continuity of contributed surplus was as follows:

<i>(millions)</i>	
Balance, December 31, 2016	15.9
Share-based compensation expense	0.7
Exercise of options	(0.6)
Balance, December 31, 2017	16.0
Share-based compensation expense	0.5
Exercise of options	(0.8)
Balance, December 31, 2018	\$ 15.7

Dividends paid and declared were as follows:

	2018	2017
Dividends paid (<i>millions</i>)	\$ 94.3	\$ 93.9
Dividends per share	\$ 1.52	\$ 1.52
Quarterly dividend per share declared on February 7, 2019 (February 14, 2018)	\$ 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-Scholes 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 date. 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 was to provide the employees of the Company and its subsidiaries with the opportunity to participate in the growth and development of the Company. The number of common shares that may be issued under the share option plan is 4,498,909 and any options will be exercisable on a cumulative basis to an extent of 25% per year of total options granted in years two to five after the date of grant. Other terms and conditions of the plan include a 10 year life and immediate vesting under certain change of control provisions. The consideration paid by employees for the purchase of common shares is added to share capital. 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	
	2018	2017	2018	2017
Balance, beginning of year	1,941,719	2,383,203	\$ 25.13	\$ 26.25
Granted	64,815	141,773	31.46	28.99
Exercised	(216,698)	(154,712)	21.43	23.27
Expired or forfeited	(98,750)	(428,545)	26.73	33.32
Balance, end of the year	1,691,086	1,941,719	\$ 25.75	\$ 25.13
Exercisable	1,256,599	1,329,718	\$ 26.34	\$ 26.04

The weighted average share price for the options exercised during the year was \$21.43 (2017: \$28.61)

The outstanding options had exercise price ranges as follows:

<i>(number of options)</i>	2018	2017
\$ 29.00 - \$ 31.46	213,987	149,172
\$ 25.37 - \$ 28.99	851,285	1,037,262
\$ 16.58 - \$ 25.36	625,814	755,285
Options outstanding	1,691,086	1,941,719

The options expire in the years 2019 to 2028 and have a weighted average remaining contractual life of 4.1 years (2017: 5.4 years)

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

	2018	2017
Dividend yield	5%	5%
Expected volatility	29%	26%
Expected life	5 yrs	5 yrs
Risk free rate of return	2.28%	2.25%
Weighted average fair value of options granted	\$ 5.04	\$ 4.14

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 in ten years from their grant date.

	Number of SARs		Weighted Average Exercise Price	
	2018	2017	2018	2017
Balance, beginning of year	63,291	-	\$ 28.99	\$ -
Granted	67,856	63,291	31.17	28.99
Balance, end of the year	131,147	63,291	\$ 30.12	\$ 28.99

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.

<i>(number of units)</i>	2018	2017
Balance, beginning of the year	250,021	207,650
Granted	48,839	42,371
Paid out	(44,070)	-
Balance, end of the year	254,790	250,021

The liability and fair value of DSUs was \$5.4 million at December 31, 2018 (2017: \$7.3 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:

<i>(number of units)</i>	2018	2017
Balance, beginning of the year	74,145	216,402
Granted	179,202	77,601
Paid out	(69,759)	(219,858)
Balance, end of the year	183,588	74,145

The RSU liability at December 31, 2018 was \$2.6 million (2017: \$1.3 million). The fair value of RSUs was \$3.9 million at December 31, 2018 (2017: \$2.2 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:

<i>(millions)</i>	2018	2017
Share options	\$ 0.5	\$ 0.6
DSUs, SARs and RSUs	1.9	4.6
Employee Share Purchase Plan	0.6	0.7
	\$ 3.0	\$ 5.9

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:

<i>(millions)</i>	2018	2017
Net income used in calculation of basic and diluted earnings per share	\$ 219.0	\$ 123.8

<i>(number of shares)</i>	2018	2017
Weighted average shares outstanding	62,028,991	61,788,013
Dilution impact of share options	106,690	145,076
Diluted weighted average shares outstanding	62,135,681	61,933,089

NOTE 19 EXPENSES

<i>(millions)</i>	2018	2017
Employee Expenses		
Wages and salaries	\$ 290.5	\$ 235.8
Other employee related costs	44.6	39.1
	\$ 335.1	\$ 274.9
Other Operating Expenses		
Plant and other expenses	\$ 126.8	\$ 108.5
Delivery expenses	56.6	49.3
Repairs and maintenance	13.7	11.4
Selling expenses	12.7	11.7
Professional fees	4.7	3.5
Gain on sale of property, plant and equipment	(0.5)	(1.9)
Foreign exchange losses (gains)	1.3	(0.5)
	\$ 215.3	\$ 182.0

NOTE 20 INTEREST AND FINANCE EXPENSE

<i>(millions)</i>	2018	2017
Interest on 6% \$300 million Senior Notes	\$ 18.7	\$ 18.7
Interest on 6% \$150 million Senior Notes	7.5	-
Other interest expense	5.4	5.2
Interest expense	31.6	23.9
Other finance expense	\$ 1.2	\$ 3.3

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, 2018 was \$1.0 million (2017: \$0.7 million).

NOTE 21 INCOME TAXES

ACCOUNTING POLICIES

Income tax expense comprises current and deferred tax. Income tax is recognized in the consolidated statement of earnings except to the extent 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 statement of financial position. Deferred tax is calculated using tax rates and laws that have been enacted or substantively enacted at the end of the reporting period, and which are expected to apply when the related deferred income tax asset is realized or the deferred income tax liability is settled.

Deferred tax liabilities

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

Deferred tax assets

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

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

ACCOUNTING ESTIMATES AND JUDGEMENTS

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

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

SUPPORTING INFORMATION

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

<i>(millions)</i>	2018	2017
Current tax expense	\$ 77.4	\$ 52.2
Deferred tax expense	1.7	3.3
Statutory rate adjustment	-	(0.1)
	\$ 79.1	\$ 55.4

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

	2018	2017
Applicable combined Canadian statutory rate	27.0%	26.9%
Rate difference of U.S. companies	(1.3%)	3.2%
Share-based compensation and non-deductible items	0.3%	0.3%
Change in contingent consideration	-	0.5%
Statutory tax rate change - U.S. tax reform	-	(0.1%)
Other	0.5%	0.1%
Average effective tax rate	26.5%	30.9%

The combined Canadian statutory rate is the aggregate of the federal income tax rate of 15.0% (2017: 15.0%) and the average provincial rates of 12.0% (2017: 11.9%). The 2018 average effective tax rate was lower than the average Canadian corporate tax rate principally due to differing tax rules applicable to certain of the Company's subsidiaries outside Canada. The 2017 average effective tax rate was higher due to differing tax rules outside Canada and contingent consideration which was not tax deductible.

The U.S. tax reform, which reduced the U.S. Federal statutory tax rate from 35% to 21% led to a material reduction in the Company's U.S. income tax provision in 2018.

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

<i>Deferred Income Tax Assets</i> (millions)	Losses	Property Plant and Equipment	Pension And Benefits	Goodwill And Intangibles	Other Timing	Total
Balance December 31, 2016	\$ 1.2	\$ (6.5)	\$ 0.3	\$ 5.5	\$ 5.4	\$ 5.9
Benefit (expense) to consolidated statement of earnings	-	(0.1)	-	(0.2)	(0.4)	(0.7)
Reclass assets/liabilities and other	(1.2)	7.4	-	(2.3)	(4.4)	(0.5)
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

<i>Deferred Income Tax Liabilities</i> (millions)	Losses	Property Plant and Equipment	Pension And Benefits	Goodwill And Intangibles	Other Timing	Total
Balance December 31, 2016	\$ -	\$ 7.8	\$ (2.2)	\$ 12.0	\$ (3.1)	\$ 14.5
(Benefit) expense to consolidated statement of earnings	0.1	(1.1)	-	0.6	2.9	2.5
Reclass assets/liabilities and other	(1.2)	7.2	-	(2.2)	(4.3)	(0.5)
Benefits to other comprehensive income	-	-	(0.4)	-	-	(0.4)
Business acquisition (Note 5)	-	1.1	-	0.5	-	1.6
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

Net deferred liability at December 31, 2017	\$ 13.0
Net deferred liability at December 31, 2018	\$ 15.9

d) At December 31, 2018, the Company had U.S. state tax losses carried forward which, at U.S. state tax rates, have an estimated value of \$0.9 million (2017: \$1.1 million). The majority of the tax losses carried forward will expire between 2030 and 2037, if not utilized. Deferred tax assets are recognized for tax loss carry-forwards to the extent that the realization of the related tax benefit through future taxable profits is probable. The ability to realize the tax benefits of these losses is dependent upon a number of factors, including the probability of generating taxable income from operations in the future in the jurisdictions in which the tax losses arose.

At December 31, 2018 and 2017, 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, 2018, the aggregate amount of temporary differences associated with undistributed earnings of non-Canadian subsidiaries was \$436 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 records the liability for contingent consideration on its acquisitions at fair value. The determination of fair value involves analysis including the use of discounted cash flows of expected future earnings, expected future net assets and discount rates. There is measurement uncertainty inherent in this analysis and actual results could differ from estimates.

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

SUPPORTING INFORMATION

<i>(millions)</i>	2018	2017
Provision for decommissioning liabilities	\$ 2.0	\$ 2.4
Deferred compensation and employee incentives	8.0	8.6
Contingent consideration	-	3.3
	10.0	14.3
Less: current portion	(1.8)	(3.3)
	\$ 8.2	\$ 11.0

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

<i>(millions)</i>	2018	2017
Balance, beginning of the year	\$ 2.4	\$ 2.7
Utilization	(0.4)	(0.3)
Balance, end of the year	\$ 2.0	\$ 2.4

b) Deferred compensation includes the RSU and DSU liabilities. The RSU and DSU liabilities that will be paid within the current year amounting to \$1.8 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 \$62.2 million (2017: \$49.3 million). These sales, which are at market rates, are eliminated in the following table.

a) *Results by business segment:*

<i>(millions)</i>	2018	2017
Segment Revenues		
Metals service centers	\$ 2,100.8	\$ 1,635.2
Energy products	1,597.5	1,270.2
Steel distributors	456.5	380.1
	4,154.8	3,285.5
Other	10.2	10.5
	\$ 4,165.0	\$ 3,296.0
Segment Operating Profits		
Metals service centers	\$ 169.4	\$ 80.0
Energy products	133.6	106.8
Steel distributors	47.2	34.2
	350.2	221.0
Corporate expenses	(20.4)	(19.2)
Asset impairment	(3.3)	-
Other income	4.4	4.6
Earnings before finance expense and provision for income taxes	330.9	206.4
Finance expense, net	(32.8)	(27.2)
Provision for income taxes	(79.1)	(55.4)
Net earnings	\$ 219.0	\$ 123.8
Capital Expenditures		
Metals service centers	\$ 32.7	\$ 29.8
Energy products	7.1	4.8
Steel distributors	0.8	0.8
Other	0.7	0.3
	\$ 41.3	\$ 35.7
Depreciation Expense		
Metals service centers	\$ 23.6	\$ 22.5
Energy products	4.5	4.1
Steel distributors	1.1	1.0
Other	0.1	-
	\$ 29.3	\$ 27.6

<i>(millions)</i>	2018	2017
Current Identifiable Assets		
Metals service centers	\$ 675.4	\$ 503.3
Energy products	744.5	632.4
Steel distributors	216.0	152.5
	1,635.9	1,288.2
Non-Current Identifiable Assets		
Metals service centers	280.8	259.4
Energy products	66.5	70.1
Steel distributors	6.9	6.7
Total identifiable assets included in segments	1,990.1	1,624.4
Assets not included in segments		
Cash and cash equivalents	124.3	125.8
Income taxes receivable and deferred income tax assets	9.4	9.2
Financial and other assets	4.4	3.5
Corporate and other operating assets	(0.9)	(3.8)
Total assets	\$ 2,127.3	\$ 1,759.1
Liabilities		
Metals service centers	\$ 270.8	\$ 181.3
Energy products	171.0	142.5
Steel distributors	30.0	23.6
Liabilities by segment	471.8	347.4
Liabilities not included in segments		
Bank indebtedness	128.5	207.7
Income taxes payable and deferred income tax liabilities	41.6	39.3
Long-term debt	443.6	296.6
Pension and benefits	5.8	12.0
Corporate and other liabilities	31.1	29.3
Total liabilities	\$ 1,122.4	\$ 932.3
 <i>b) Results by geographic segment:</i>		
<i>(millions)</i>	2018	2017
Segment Revenues		
Canada	\$ 2,721.0	\$ 2,299.3
United States	1,433.8	986.2
	\$ 4,154.8	\$ 3,285.5
Segment Operating Profits		
Canada	\$ 237.9	\$ 160.5
United States	112.3	60.5
	\$ 350.2	\$ 221.0
Identifiable Assets		
Canada	\$ 1,375.9	\$ 1,201.3
United States	614.2	423.1
	\$ 1,990.1	\$ 1,624.4

c) *Revenues by product:*

<i>(millions)</i>	2018	2017
Carbon		
Tubing/Pipe (Standard, Oil Country Tubular Goods, Line Pipe)	\$ 929.4	\$ 746.8
Plate (Discrete & Plate in Coil)	791.7	587.5
Structurals (WF & I Beams, Angles, Channels, Hollow Tubes)	901.4	714.2
Flanges, Valves, Fittings and other Energy Products	672.5	557.5
Bars (Hot Rolled and Cold Finished)	197.1	160.1
Flat Rolled (Sheet & Coil)	321.2	260.1
Grating/ Expanded/Rails	35.3	32.8
Total Carbon	3,848.6	3,059.0
Total Non-Ferrous (Sheet, Extrusion, Tubes, etc.)	131.6	114.5
Other	184.8	122.5
	\$ 4,165.0	\$ 3,296.0

NOTE 24 RELATED PARTY TRANSACTIONS

During the years ended December 31, 2018 and 2017 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, 2018, 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:

<i>(millions)</i>	2018	2017
Salaries and other benefits	\$ 9.9	\$ 7.1
Share based compensation cost	5.8	4.5
Post-employment benefits	0.4	0.5
	\$ 16.1	\$ 12.1

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 statement of financial position.

- ◆ Recognition and measurement

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

c) Financial liabilities and equity instruments

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

Other financial liabilities

- ◆ Classification

Other financial liabilities include 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 statement of earnings.

e) *Impairment of financial assets*

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

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

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

f) *Leases*

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

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

Effective January 1, 2019, the Company will adopt *IFRS 16* (Note 4).

SUPPORTING INFORMATION

a) *Financial assets and liabilities*

Financial assets and liabilities are as follows:

<i>December 31, 2018 (millions)</i>	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 payables and accrued liabilities	-	(494.7)	(494.7)
Long-term debt	-	(443.6)	(443.6)
Total	\$ 695.1	\$ (1,066.8)	\$ (371.7)

<i>December 31, 2017 (millions)</i>	Loans and Receivables	Other Financial Liabilities	Total
Cash and cash equivalents	\$ 125.8	\$ -	\$ 125.8
Accounts receivable	446.2	-	446.2
Financial assets	0.5	-	0.5
Bank indebtedness	-	(207.7)	(207.7)
Accounts payables and accrued liabilities	-	(365.7)	(365.7)
Current portion long-term debt	-	(0.1)	(0.1)
Long-term debt	-	(296.5)	(296.5)
Total	\$ 572.5	\$ (870.0)	\$ (297.5)

For the year ended December 31, 2018, the fair value loss from derivative financial instruments on the consolidated statement of earnings was \$0.9 million (2017: loss of \$0.4 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 values of long-term debt are set forth below.

Carrying Amounts

Amounts recorded in the consolidated statement of financial position are referred to as "carrying amounts". The carrying amounts of primary debt are reflected in "Long-term debt" and "Current portion long-term debt".

Fair Value

The Company records its debt at amortized cost using the effective interest method. The fair value of long-term debt as at December 31, 2018 and 2017 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:

	Carrying Amount	Fair Value Level 2
<i>December 31, 2018 (millions)</i>		
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	
<i>December 31, 2017 (millions)</i>		
6% \$300 million Unsecured Senior Notes due April 19, 2022	\$ 296.5	\$ 308.6
Finance lease obligations	0.1	0.1
Total	\$ 296.6	\$ 308.7
Current portion	\$ 0.1	
Long-term portion	\$ 296.5	

c) Credit risk

Credit risk is the risk of financial loss to the Company if the counterparty to a financial instrument fails to meet its contractual obligation. Credit risk arises from cash and cash equivalents and derivative financial instruments, as well as credit exposure to customers including accounts 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, 2018, 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, 2018 and 2017, other than the allowance for doubtful accounts (Note 7). As at December 31, 2018, trade accounts receivable greater than 90 days represented less than 4% of trade accounts receivable (2017: 3%).

d) Interest rate risk

Interest rate risk is the risk that the fair value of the future cash flows of a financial instrument will fluctuate because of changes in market rates of interest. The Company is not exposed to significant interest rate risk. The Company's long-term debt is at fixed rates. The Company's bank borrowings, net of cash and cash equivalents used to finance working capital, which is short-term in nature, is at floating interest rates.

e) Foreign exchange risk

Foreign exchange risk is the risk that the fair value of the future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Company uses foreign exchange contracts with maturities of less than a year to manage foreign exchange risk on certain future committed cash outflows. As at December 31, 2018, the Company had outstanding forward foreign exchange contracts in the amount of US\$19.5 million, maturing in 2019 (2017: US\$22.8 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, 2018, the Company was contractually obligated to make payments under its financial liabilities that come due during the following periods:

<i>(millions)</i>	Accounts Payable	Long-Term Debt Maturities	Long-Term Debt Interest	Operating Lease Obligations	Total
2019	\$ 494.7	\$ -	\$ 27.0	\$ 31.3	\$ 553.0
2020	-	-	27.0	26.2	53.2
2021	-	-	27.0	20.9	47.9
2022	-	300.0	18.9	15.5	334.4
2023	-	-	9.0	11.9	20.9
2024 and beyond	-	150.0	22.9	32.6	205.5
Total	\$ 494.7	\$ 450.0	\$ 131.8	\$ 138.4	\$ 1,214.9

Operating lease expense for the year ended December 31, 2018 was \$30.1 million (2017: \$26.5 million).

At December 31, 2018, 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.