Russel Metals

Second Quarter
June 30, 2008

2

1900 Minnesota Court, Suite 210, Mississauga, ON, L5N 3C9
Tel.: (905) 816-5178 Fax: (905) 819-7409 www.russelmetals.com E-mail: info@russelmetals.com

RUSSEL METALS INC.
REPORT TO SHAREHOLDERS
FOR THE SIX MONTHS ENDED JUNE 30, 2008

The steel landscape has been dominated by increasing steel prices and in most sectors of the industry within North America, relatively flat demand. The cost to manufacture steel has increased dramatically and, due to strong worldwide demand, this has created a scenario wherein overseas prices have been higher than North American prices. The weak U.S. dollar has helped to curtail imports and producers have been able to increase prices to recover these higher costs.

On June 11, 2008, we announced that our second quarter earnings would exceed expectations due to steel price increases resulting in enhanced margins in all three of our operating segments. Surprisingly consistent demand in our metals service center segment and increased demand in energy tubular products resulted in a 31% increase in second quarter revenues to $856 million compared to the same quarter in 2007 and a 20% increase quarter over quarter compared to the first quarter of 2008. Our operating profit as a percentage of revenues improved in all three segments compared to the same quarter in 2007 and the first quarter of 2008. Margins in all segments strengthened throughout the quarter, which reflect steel price increases. Operating expenses were higher due to higher variable compensation as a result of higher earnings.

These strong second quarter operating results led to equally strong earnings. Basic earnings per share for the second quarter of 2008 were $1.25 compared to $0.47 in the second quarter of 2007. For the six months ended June 30, 2008, basic earnings per share were $1.71 compared to $0.93 for the same period last year. Net income was $79 million in the second quarter of 2008 versus $29 million in the same quarter of 2007. Net income for the first six months of 2008 was $108 million versus $58 million in 2007.

In the first quarter we indicated that the current upward trend in the price of steel would result in higher consumption of cash due to increased working capital requirements per ton of steel. Our accounts receivable increased by $62 million to support higher revenues for the second quarter of 2008 compared to the first quarter. Our inventory volumes remained consistent; however, inventory values increased by $55 million due to steel price increases in the metals service centers and to a lesser extent in both steel distributors and energy tubular products. Increased accounts payable of $90 million due to higher valued inventory purchases and variable compensation substantially offsets the increase in current assets. We generated free cash flow of $79 million, which more than offset the increased cash requirements for working capital of $15 million. For the balance of the year, working capital expansion caused by high steel prices should continue to consume cash. In the first quarter of 2009, the payment of variable compensation and additional tax payments both related to 2008 will further reduce cash balances. We have sufficient cash and unused bank facilities to fully fund these requirements.

On February 20, 2008, the Company announced a normal course issuer bid. To date, we have not purchased shares under this bid. The Board of Directors has approved a quarterly dividend of $0.45 per common share and a supplemental dividend of $0.05 per common share payable September 15, 2008 to shareholders of record as of August 28, 2008.

Outlook

Steel prices throughout the world remain strong and steel mills continue to announce price increases into the third quarter of 2008. Despite economic uncertainty in certain sectors that consume steel, those areas where we have significant volume, such as oil and gas, mining and agricultural equipment manufacturing, and commercial construction, remain buoyant. Based on activity in July, we are optimistic that we will maintain the positive momentum of the second quarter.

E.M. Siegel, Jr.
President and Chief Executive Officer

August 5, 2008

Management's Report to the Shareholders

The accompanying interim consolidated financial statements, management's discussion and analysis and report to shareholders for the quarter ended June 30, 2008, have been prepared by management and approved by the Audit Committee and the Board of Directors of the Company.

These interim consolidated financial statements were prepared in accordance with Canadian generally accepted accounting principles and, where appropriate, reflect management's best estimates and judgements. Management is responsible for the accuracy, integrity and objectivity of the interim consolidated financial statements and management's discussion and analysis within reasonable limits of materiality and for the consistency of financial data included in the report to shareholders with that contained in the consolidated interim 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 Canadian generally accepted accounting principles. 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'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 interim consolidated financial statements, the management's discussion and analysis and the report to shareholders. The Audit Committee reports its findings to the Board of Directors for consideration in approving the interim consolidated financial statements, the management's discussion and analysis and the report to shareholders for presentation to the shareholders.

August 5, 2008

E. M. Siegel, Jr.
President and Chief Executive Officer

M. E. Britton
Vice President and Chief Financial Officer

RUSSEL METALS INC.
CONSOLIDATED BALANCE SHEETS
(UNAUDITED)

(millions)	**June 30, 2008**	December 31, 2007
ASSETS		
Current		
Cash and cash equivalents	**$ 235.5**	$ 181.8
Accounts receivable	**478.4**	341.8
Inventories (Note 5)	**620.5**	572.6
Prepaid expenses and other assets	**5.5**	8.5
Income taxes	**0.3**	3.9
	1,340.2	1,108.6
Property, Plant and Equipment	**231.8**	227.9
Deferred Financing Charges	**0.2**	0.3
Future Income Tax Assets	**1.0**	1.0
Other Assets (Note 6)	**9.0**	12.1
Goodwill and Intangibles	**54.5**	53.4
	$ 1,636.7	$ 1,403.3
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current		
Accounts payable and accrued liabilities	**$ 442.7**	$ 294.2
Income taxes payable	**19.6**	2.8
Current portion long-term debt	**1.1**	0.9
	463.4	297.9
Derivatives	**39.1**	39.5
Long-Term Debt	**180.4**	174.9
Pensions and Benefits	**1.3**	1.4
Future Income Tax Liabilities	**6.8**	5.8
	691.0	519.5
Shareholders' Equity (Note 13)		
Common shares	**507.3**	504.2
Retained earnings	**462.8**	411.7
Contributed surplus	**8.6**	6.2
Accumulated other comprehensive loss	**(33.0)**	(38.3)
	945.7	883.8
	$ 1,636.7	$ 1,403.3

ON BEHALF OF THE BOARD,

A. Benedetti
Director

L. Lachapelle
Director

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

RUSSEL METALS INC.
CONSOLIDATED STATEMENTS OF EARNINGS
(UNAUDITED)

(millions, except per share data)	Quarters ended June 30, **2008**	2007	Six months ended June 30, **2008**	2007
Revenues	**$ 856.3**	$ 652.8	**$ 1,568.6**	$ 1,336.5
Cost of sales and operating expenses (Note 5)	**734.9**	603.9	**1,395.1**	1,241.6
Earnings before the following	**121.4**	48.9	**173.5**	94.9
Other income (expense) (Note 7)	**0.7**	-	**(2.5)**	-
Interest expense, net (Note 8)	**(2.3)**	(1.6)	**(4.4)**	(3.4)
Earnings before income taxes	**119.8**	47.3	**166.6**	91.5
Provision for income taxes	**(41.0)**	(18.0)	**(58.6)**	(33.5)
Net earnings for the period	**$ 78.8**	$ 29.3	**$ 108.0**	$ 58.0
Basic earnings per common share	**$ 1.25**	$ 0.47	**$ 1.71**	$ 0.93
Diluted earnings per common share	**$ 1.24**	$ 0.47	**$ 1.71**	$ 0.92

RUSSEL METALS INC.
CONSOLIDATED STATEMENTS OF RETAINED EARNINGS
(UNAUDITED)

(millions)	Quarters ended June 30, **2008**	2007	Six months ended June 30, **2008**	2007
Retained earnings, beginning of the period, as previously reported	**$ 412.5**	$ 414.3	**$ 411.7**	$ 411.1
Transitional adjustment - financial instruments	**-**	-	**-**	(0.5)
Retained earnings, beginning of the period, as restated	**412.5**	414.3	**411.7**	410.6
Net earnings for the period	**78.8**	29.3	**108.0**	58.0
Dividends on common shares	**(28.5)**	(28.3)	**(56.9)**	(53.3)
Retained earnings, end of the period	**$ 462.8**	$ 415.3	**$ 462.8**	$ 415.3

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

RUSSEL METALS INC.
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(UNAUDITED)

(millions)	Quarters Ended June 30, **2008**	2007	Six months Ended June 30, **2008**	2007
Net earnings for the period	**$ 78.8**	$ 29.3	**$ 108.0**	$ 58.0
Other comprehensive income (loss)				
Unrealized foreign exchange gains (losses) on translating financial statements of self sustaining foreign operations (U.S. subsidiaries)	**(2.6)**	(16.2)	**9.6**	(18.5)
Gains and (losses) on derivatives designated as net investment hedges (Note 14)	**0.5**	5.6	**(1.6)**	6.4
Gains and (losses) on derivatives designated as cash flow hedges (Note 14)	**(2.2)**	1.4	**(2.7)**	2.3
Other comprehensive income (loss)	**(4.3)**	(9.2)	**5.3**	(9.8)
Comprehensive income	**$ 74.5**	$ 20.1	**$ 113.3**	$ 48.2

RUSSEL METALS INC.
CONSOLIDATED STATEMENTS OF ACCUMULATED OTHER COMPREHENSIVE LOSS
(UNAUDITED)

(millions)	Quarters Ended June 30, **2008**	2007	Six months Ended June 30, **2008**	2007
Accumulated net unrealized foreign currency translation gains (losses)				
Balance, beginning of period	**$ (33.5)**	$ (13.5)	**$ (45.7)**	$ (11.2)
Net unrealized gain (loss) on translation of net investment in foreign operations	**(2.6)**	(16.2)	**9.6**	(18.5)
Balance, end of period	**(36.1)**	(29.7)	**(36.1)**	(29.7)
Accumulated net unrealized loss on cash flow and net investment hedges				
Balance, beginning of period	**4.8**	(7.6)	**7.4**	-
Transitional adjustment	**-**	-	**-**	(9.3)
Unrealized gains (losses) on items designated as net investment hedges (Note 14)	**0.5**	5.6	**(1.6)**	6.4
Unrealized gains (losses) on items designated as cash flow hedges (Note 14)	**(2.2)**	1.4	**(2.7)**	2.3
Balance, end of period	**3.1**	(0.6)	**3.1**	(0.6)
Total accumulated other comprehensive loss	**$ (33.0)**	$ (30.3)	**$ (33.0)**	$ (30.3)

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

RUSSEL METALS INC.
CONSOLIDATED CASH FLOW STATEMENTS
(UNAUDITED)

(millions)	Quarters ended June 30, 2008	2007	Six months ended June 30, 2008	2007
Operating activities				
Net earnings	**$ 78.8**	$ 29.3	**$ 108.0**	$ 58.0
Depreciation and amortization	**5.7**	5.0	**11.4**	9.9
Future income taxes	**1.2**	1.5	**1.3**	1.9
Gain on sale of fixed assets	**0.1**	0.1	**0.1**	(0.6)
Stock-based compensation	**0.4**	3.1	**2.9**	3.9
Pension expense (funding)	**-**	0.3	**(0.1)**	(1.3)
Other	**(0.7)**	0.1	**2.7**	0.3
Cash from operating activities before working capital	**85.5**	39.4	**126.3**	72.1
Changes in non-cash working capital items				
Accounts receivable	**(62.4)**	18.4	**(133.7)**	(38.6)
Inventories	**(55.3)**	(12.7)	**(42.6)**	9.6
Accounts payable and accrued liabilities	**90.1**	(14.2)	**145.8**	18.8
Current income taxes	**13.1**	(4.1)	**21.9**	(12.7)
Other	**(0.9)**	(0.8)	**0.2**	0.1
Change in non-cash working capital	**(15.4)**	(13.4)	**(8.4)**	(22.8)
Cash from operating activities	**70.1**	26.0	**117.9**	49.3
Financing activities				
Issue of common shares – options exercised	**1.5**	10.0	**2.5**	10.8
Dividends on common shares	**(28.5)**	(28.3)	**(56.9)**	(53.3)
Repayment of long-term debt	**(0.2)**	-	**(0.4)**	-
Cash used in financing activities	**(27.2)**	(18.3)	**(54.8)**	(42.5)
Investing activities				
Purchase of fixed assets	**(6.1)**	(4.9)	**(10.4)**	(8.6)
Proceeds on sale of fixed assets	**0.1**	-	**0.1**	1.3
Other	**(0.8)**	(0.5)	**(0.3)**	0.2
Cash used in investing activities	**(6.8)**	(5.4)	**(10.6)**	(7.1)
Effect of exchange rates on cash	**(0.2)**	(2.7)	**1.2**	(2.9)
Increase (decrease) in cash and cash equivalents	**35.9**	(0.4)	**53.7**	(3.2)
Cash and cash equivalents, beginning of the period	**199.6**	207.1	**181.8**	209.9
Cash and cash equivalents, end of the period	**$ 235.5**	$ 206.7	**$ 235.5**	$ 206.7

Supplemental Cash flow information:				
Income taxes paid	**$ 25.5**	$ 21.6	**$ 35.7**	$ 44.9
Interest paid	**$ 0.1**	$ -	**$ 7.5**	$ 7.6

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2008
(UNAUDITED)

1. These interim consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles; however, they do not include all of the disclosure requirements for annual consolidated financial statements. These interim consolidated financial statements follow the same accounting policies disclosed in Note 1 to the 2007 annual consolidated financial statements except as disclosed in Note 2. These interim consolidated financial statements should be read in conjunction with the 2007 annual consolidated financial statements including notes thereto. These interim consolidated financial statements contain all adjustments necessary for a fair presentation of the results for the periods reported.

2. Changes in Accounting Policies

On January 1, 2008, the Company adopted the new accounting standard: CICA Handbook section 3031, Inventories. This standard is effective for fiscal years beginning on or after January 1, 2008. The standard requires certain costs, previously recorded as period costs, be allocated to inventory and included in cost of sales when inventory is sold. Prior to the adoption of this standard, these costs were treated as operating expenses. The adoption of this standard did not have a material effect on the Company's results of operations. As permitted by the standard, prior periods have not been restated.

In addition, on January 1, 2008, the Company adopted section 3862, Financial Instruments – Disclosures and section 3863, Financial Instruments – Presentation, which provide enhanced disclosure and presentation requirements and replace section 3861, Financial Instruments – Disclosure and Presentation (Note 12). The Company also adopted section 1535, Capital Disclosures, which provides guidance on disclosure of the entity's objectives, policies and processes for managing capital (Note 13).

3. Economic Cycle

All three of the metals operating segments are significantly affected by economic cycles in the markets where they operate. Revenues and operating profits in the energy tubular products are also affected by oil and gas drilling in Western Canada, which is predominantly carried out during the period from October to March. For these reasons, the results of operations for the periods shown are not necessarily indicative of the results for the full year. During the second quarter of 2008, our U.S. line pipe and our oil sands related revenues have offset this seasonality.

4. Acquisition

On September 28, 2007, the Company completed its acquisition of 100% of the outstanding shares of JMS Metal Services, Inc. and related companies. The Company has accounted for the acquisition using the purchase method. During the quarter ended June 30, 2008, no changes were made to the purchase price allocation.

The cash consideration and purchase price allocation is subject to change due to tax election and other adjustments under the acquisition agreement that will be finalized by September 30, 2008.

5. Inventories

Inventories are recorded at the lower of cost and net realizable value. Cost is determined on an average cost basis. Inventories of $8.6 million are carried at fair value less cost to sell. Inventories of $633.3 million were expensed through cost of sales during the quarter (year-to-date: $1,209.7 million) including $0.7 million for inventory write-downs and $0.4 million of write-down reversals due to rising prices.

6. Other Assets

As at June 30, 2008, the Company held an investment in non-bank Canadian asset-backed commercial paper (ABCP). This investment which has an original face value of $11.0 million is included in other assets at its estimated fair value of $6.7 million. This investment matured on August 23, 2007 but was not repaid due to a disruption of the Canadian ABCP market. The Montreal Group representing banks, asset-backed commercial paper providers and major investors (the "Committee") reached an agreement to restructure the ABCP market. This proposed restructuring will replace the existing short-term investments with longer term notes, pool certain series of non-bank asset-backed commercial paper and mitigate the collateral call obligations.

On March 17, 2008, the Ontario Superior Court of Justice granted an application by the Committee, under the Companies' Creditors Arrangement Act (CCAA), establishing a procedure for Noteholder approval of the restructuring plan. On April 25, 2008, the Noteholders voted in favour of the restructuring and on June 5, 2008, the Ontario Superior Court of Justice approved the plan.

Based on the restructuring proposal, the Company has assumed that it will receive $11 million of new notes issued by a master asset vehicle that will include a pooling of leveraged super senior trades as well as traditional assets. The Company will hold investments in Master Asset Vehicle 2, which will utilize a margin funding facility provided by certain financial institutions as part of the restructuring. The Company expects to receive 87% of notes that will pay interest and be assigned an investment grade rating (A-1 and A-2 notes). The remaining notes (B and C notes) are expected to accrue interest that will only be paid subsequent to the payment of interest and principal on the investment grade notes. Under the terms of the restructuring the Company will receive $3.4 million A-1 notes, $6.2 million A-2 notes, $1.1 million B notes and $0.3 million C notes.

Quoted market values of this investment are not available and therefore the Company has used a probability-weighted valuation technique considering the time value of money and the expected return of principal. The Company has determined the fair value of its investment using information provided on the proposed restructuring and other factors. Based on the Company's fair value assessment, a fair value adjustment of $2.9 million was recorded in the quarter ended March 31, 2008 and a fair value adjustment of $0.3 million was recorded for the quarter ended June 30, 2008. The total fair value adjustment recognized on the Company's investment since August 2007, is $4.3 million. The Company utilized the following assumptions:

Accrued interest from August 2007	$nil
Bankers acceptance rate	3.20%
Discount rate for cash flows	7.35% - 7.85%

The fair market value of this investment may be affected by changes in market conditions and the likelihood, nature and timing of the planned restructuring. In addition, there is no certainty regarding the eventual recovery of this investment and, consequently, the timing and amount of any future cash flows may vary materially from current estimates. A change of 100 basis points in the discount factor applied to the cash flows would impact the fair value adjustment by approximately $0.5 million.

7. Other Income (Expense)

(millions)	**Quarters ended June 30,** **2008**	2007	**Six months ended June 30,** **2008**	2007
Unrealized loss on investment (Note 6)	**$ (0.3)**	$ -	**$ (3.2)**	$ -
Ineffectiveness on cash flow hedges	**1.0**	-	**0.7**	-
	$ 0.7	$ -	**$ (2.5)**	$ -

8. Interest Expense, net

(millions)	Quarters ended June 30, **2008**	2007	Six months ended June 30, **2008**	2007
Interest on long-term debt	**$ 3.8**	$ 3.8	**$ 7.6**	$ 7.7
Other interest, net	**(1.5)**	(2.2)	**(3.2)**	(4.3)
	$ 2.3	$ 1.6	**$ 4.4**	$ 3.4

9. Stock-based Compensation

During the quarter ended June 30, 2008, the Company did not issue stock options. During the quarter ended March 31, 2008, the Company issued 834,841 stock options at an exercise price of $26.70 and a fair value of $4.73. During the quarter ended June 30, 2007, the Company issued 845,500 stock options at an exercise price of $33.81 and a fair value of $5.99. The following is a continuity of the Company's stock options outstanding:

	Number of Options **2008**	2007	Weighted Average Exercise Price **2008**	2007
Balance, January 1	**2,146,683**	2,014,033	**$ 25.07**	$ 18.09
Granted	**834,841**	-	**26.70**	-
Exercised	**(95,700)**	(81,700)	**10.54**	9.83
Forfeited	**(7,600)**	(2,600)	**24.73**	18.11
Balance, March 31	**2,878,224**	1,929,733	**$ 26.03**	$ 18.44
Granted	**-**	845,500	**-**	33.81
Exercised	**(94,798)**	(610,200)	**16.24**	16.34
Forfeited	**(12,300)**	(1,000)	**24.51**	21.79
Balance, June 30	**2,771,126**	2,164,033	**$ 26.37**	$ 25.03
Exercisable	**1,933,626**	458,833	**$ 23.14**	$ 23.99

10. Segmented Information

(millions)	Quarters ended June 30, **2008**	2007	Six months ended June 30, **2008**	2007
Segment Revenues				
Metals service centers	**$ 497.3**	$ 370.0	**$ 898.5**	$ 732.6
Energy tubular products	**235.4**	167.0	**448.9**	346.0
Steel distributors	**119.6**	111.7	**215.6**	252.0
	852.3	648.7	**1,563.0**	1,330.6
Other	**4.0**	4.1	**5.6**	5.9
	$ 856.3	$ 652.8	**$ 1,568.6**	$ 1,336.5
Segment Operating Profits				
Metals service centers	**$ 72.3**	$ 31.4	**$ 104.4**	$ 56.2
Energy tubular products	**28.5**	11.0	**44.1**	25.8
Steel distributors	**25.6**	11.9	**36.3**	23.4
	126.4	54.3	**184.8**	105.4
Corporate expenses	**(6.8)**	(7.3)	**(12.7)**	(12.0)
Other	**1.8**	1.9	**1.4**	1.5
	$ 121.4	$ 48.9	**$ 173.5**	$ 94.9

(millions)	**June 30, 2008**	December 31, 2007
Identifiable assets		
Metals service centers	**$ 847.1**	$ 693.0
Energy tubular products	**383.1**	358.0
Steel distributors	**136.7**	128.7
Identifiable assets by segment	**1,366.9**	1,179.7
Assets not included in segments		
Cash and cash equivalents	**235.5**	181.8
Income tax assets	**1.3**	4.9
Deferred financing charges	**0.2**	0.3
Other assets	**8.8**	11.8
Corporate and other operating assets	**24.0**	24.8
Total assets	**$ 1,636.7**	$ 1,403.3

11. Pension and Benefits

For the quarter ended June 30, 2008 the total benefit cost from the defined benefit pension plans relating to employee future benefits was $0.4 million (2007: $0.5 million) and for the six months ended June 30, 2008 the cost was $0.7 million (2007: $1.0 million).

12. Financial Instruments

a) As at June 30, 2008, the Company was contractually obligated to make payments under its long-term debt agreement, cross currency swap agreements and operating lease obligations that come due during the following periods.

(millions)	Long-Term Debt Maturities	Long-Term Debt Interest	Lease Obligations	Total
2008 from June 30, 2008	$ 0.5	$ 7.3	$ 5.6	$ 13.4
2009	1.0	14.6	10.4	26.0
2010	1.0	14.5	9.5	25.0
2011	1.1	14.5	7.5	23.1
2012	1.2	14.4	6.1	21.7
2013 and beyond	180.6	20.5	9.8	210.9
Total	$ 185.4	$ 85.8	$ 48.9	$ 320.1

The long-term debt interest in the table includes the impact of the swaps. Long-term debt interest has been estimated based on current exchange rates for the portion not hedged. In addition, the Company has contractual obligations on its cross currency swap agreements whereby it receives interest at 6 3/8% on a notional US$100 million and pays interest at 7.12% on a notional $131.8 million. The swaps mature on March 1, 2014 at which time the Company will receive US$100 million and will pay $131.8 million. At June 30, 2008, this results in an obligation of $29.9 million. The fair value of the swaps includes an additional obligation of $9.2 million, which represents the fair value of payments for the remaining life of the swaps if the Company was to extinguish the swaps at June 30, 2008. The swaps contain an option for the Company and the swap counterparties to early terminate the swaps in the first quarter of 2009.

b) Credit risk

The Company, in the normal course of business, is exposed to credit risk relating to accounts receivable from its customers. This risk is mitigated by the fact that its customer base is geographically diverse and in different industries. The Company's allowance for doubtful accounts is not significant. The Company is also exposed to credit risk from the potential default by any of its counterparties on its foreign exchange forward contracts and the fixed for fixed cross currency swaps. The Company mitigates this risk by entering into forward contracts and swaps with members of its credit facility syndicate.

c) Interest rate risk

The Company is not exposed to significant interest rate risk. The Company's long-term debt is at fixed rates. The Company's cash and cash equivalents used to finance working capital, which is short-term in nature, are at floating interest rates.

d) Foreign exchange risk

The Company uses foreign exchange contracts with maturities of less than a year to manage foreign exchange risk on certain future committed cash outflows. At June 30, 2008, the Company had outstanding forward foreign exchange contracts in the amounts of US$6.8 million and €11.3 million (2007: US$22.1 million and €3.1 million). In order to mitigate its foreign exchange exposure, the Company has designated its swaps as a hedge of US$115 million of its long-term debt. In addition, the Company has designated a portion of the Senior Notes not hedged by the swaps as a hedge of its net investment in foreign subsidiaries.

13. Shareholders' Equity

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

	Number of Shares	Amount (millions)
Balance December 31, 2007	63,066,092	$ 504.2
Stock options exercised	190,498	3.1
Balance June 30, 2008	63,256,590	$ 507.3

	Quarters ended June 30,		**Six months ended June 30,**	
	2008	2007	**2008**	2007
Average shares outstanding				
Basic	**63,201,572**	62,806,841	**63,145,200**	62,603,445
Diluted	**63,530,533**	63,237,490	**63,344,113**	63,089,180

The continuity of contributed surplus is as follows:

(millions)	**2008**	2007
Balance, January 1	**$ 6.2**	$ 3.5
Stock-based compensation expense	**2.9**	3.9
Exercise of options	**(0.5)**	(2.0)
Balance, June 30	**$ 8.6**	$ 5.4

The Company manages capital in order to safeguard its ability to continue as a going concern, provide returns to shareholders through a strong 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 syndicated bank facility.

On February 20, 2008, the Company announced a Normal Course Issuer Bid to purchase up to 6,000,000 of its common shares. As of June 30, 2008, the Company had not purchased any common shares under this bid. The Company is in compliance with the terms of its U.S. Note Indenture and as of June 30, 2008, there was $415 million available for restricted payments including the payment of dividends and share repurchases. Approximately 80% of the Company's assets are current assets. Capital fluctuates with the working needs of the operations.

14. Other Comprehensive Income (Loss)

Gains and losses on derivatives designated as net investment hedges are net of income tax of $nil and $0.2 million (2007: $(1.1) million and $(1.2) million) for the three and six months ended June 30, 2008, respectively.

Gains and losses on derivatives designated as cash flow hedges are net of income tax of $0.8 million and $1.0 million (2007: $(0.7) million and $(1.1) million) for the three and six months ended June 30, 2008, respectively.

RUSSEL METALS INC.
MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS FOR THE SIX MONTHS ENDED JUNE 30, 2008

This Management's Discussion and Analysis of Financial Condition and Results of Operations should be read together with the Interim Consolidated Financial Statements of Russel Metals Inc. for the six months ended June 30, 2008 and 2007, including the notes thereto, and the Management's Discussion and Analysis and the audited Consolidated Financial Statements for the year ended December 31, 2007, including the notes thereto, contained in our fiscal 2007 Annual Report. In the opinion of management, such interim consolidated financial statements contain all adjustments necessary for a fair presentation of the results for such periods. The results of operations for the periods shown are not necessarily indicative of what our results will be for the full year. Statements contained in this document that relate to our beliefs or expectations as to certain future events are not statements of historical fact and are forward-looking statements. We caution readers that there are important factors, risks and uncertainties, including but not limited to economic, competitive and governmental factors affecting our operations, markets, products, services and prices that could cause our actual results, performance or achievements to be materially different from those forecasted or anticipated by us in such forward-looking statements. All dollar references in this report are in Canadian dollars unless otherwise stated.

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

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

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

Overview

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

Our basic earnings per share of $1.25 for the quarter ended June 30, 2008 is significantly higher than the $0.47 per share we reported for the quarter ended June 30, 2007. Price increases announced by the steel mills in the first and second quarters of 2008 resulted in overall margins improving during the second quarter of 2008 in all three segments. The cost of steel reached an all time high during the second quarter of 2008. In addition, we had increased demand in the service center segment and our energy tubular products segment compared to the second quarter of 2007 and the first quarter of 2008.

Change in Accounting Policy

Effective January 1, 2008, we adopted the new Canadian accounting standard on Inventories. This standard gives specific guidance on costing of inventories and presentation of expense allocation between cost of goods sold and operating expenses.

Effective January 1, 2008, we have used absorption accounting for our processing activities. This has resulted in an increase in cost of sales and a decrease in gross margin dollars and an offsetting decrease in operating expenses.

The quarter and six months ended June 30, 2008, have been prepared using this standard and thus the gross margin numbers disclosed for those periods are not comparable to the quarter and six months ended June 30, 2007. We have chosen not to restate our prior period as it was not practical.

Based on our estimate the gross margin percentages for our metals service centers are approximately 3% lower due to the absorption of expenses under the new accounting standard applied in 2008 compared to 2007. The gross margin percent for our energy tubular products group increased 0.6%, due to selling costs previously included in cost of sales which are now in operating expenses. The gross margin percent for our steel distributors segment is not materially different.

Results of Operations

The following table provides operating profits before interest, taxes and other income or expense. The corporate expenses included are not allocated to specific operating segments. Gross margins (revenue minus cost of sales) as a percentage of revenues for the operating segments are also shown below. The gross margin disclosed for the second quarter and six months ended June 30, 2007 has not been restated for the new accounting standard. The table shows the segments as they are reported to management and they are consistent with the segment reporting in the consolidated financial statements.

	Quarters Ended June 30,			Six Months Ended June 30,		
(millions, except percentages)	**2008**	2007	% Change	**2008**	2007	% Change
Segment Revenues						
Metals service centers	**$ 497.3**	$ 370.0	34%	**$ 898.5**	$ 732.6	23%
Energy tubular products	**235.4**	167.0	41%	**448.9**	346.0	30%
Steel distributors	**119.6**	111.7	7%	**215.6**	252.0	(14%)
Other	**4.0**	4.1		**5.6**	5.9	
	$ 856.3	$ 652.8	31%	**$ 1,568.6**	$ 1,336.5	17%
Segment Operating Profits						
Metals service centers	**$ 72.3**	$ 31.4	130%	**$ 104.4**	$ 56.2	86%
Energy tubular products	**28.5**	11.0	159%	**44.1**	25.8	71%
Steel distributors	**25.6**	11.9	115%	**36.3**	23.4	55%
Corporate expenses	**(6.8)**	(7.3)	7%	**(12.7)**	(12.0)	(6%)
Other	**1.8**	1.9		**1.4**	1.5	
Operating profits	**$ 121.4**	$ 48.9	148%	**$ 173.5**	$ 94.9	83%
Segment Gross Margin as a % of Revenues						
Metals service centers	**27.4%**	24.9%		**25.0%**	24.4%	
Energy tubular products	**20.5%**	13.2%		**17.1%**	13.9%	
Steel distributors	**28.7%**	15.0%		**24.0%**	13.7%	
Total operations	**26.0%**	20.5%		**22.9%**	19.9%	
Segment Operating Profits as a % of Revenues						
Metals service centers	**14.5%**	8.5%		**11.6%**	7.7%	
Energy tubular products	**12.1%**	6.6%		**9.8%**	7.5%	
Steel distributors	**21.4%**	10.7%		**16.8%**	9.3%	
Total operations	**14.2%**	7.5%		**11.1%**	7.1%	

Note: see Change in Accounting Policy.

Metals Service Centers

a) Description of operations

We provide processing and distribution services to a broad base of more than 27,000 end users through a network of 53 Canadian locations and 12 U.S. locations. Our metals service centers carry a broad line of products in a wide range of sizes, shapes and specifications, including carbon hot rolled and cold finished steel, pipe and tubular products, stainless steel and aluminum. We purchase these products primarily from steel producers in North America and process and package them in accordance with end user specifications. We service all major geographic regions of Canada and the Southeastern and Midwestern regions in the United States. Within Canada, our service centers operate under the names Russel Metals, Métaux Russel, A.J. Forsyth, Acier Leroux, Acier Loubier, Acier Richler, B&T Steel, Leroux Steel, Mégantic Métal, Russel Metals Specialty Products, Métaux Russel Produits Spécialisés, McCabe Steel and York-Ennis. Our U.S. service center operations are conducted under the names Russel Metals Williams Bahcall, JMS Russel Metals and Baldwin International. Our Russel Metals Williams Bahcall operations focus primarily on the distribution of general line carbon products through three facilities located in Wisconsin. JMS Russel Metals, which was acquired September 28, 2007, has operations in Tennessee, Arkansas, Alabama, Kentucky and Georgia. These operations process and distribute carbon hot rolled and cold finished steel, pipe and tubular products, stainless steel and aluminum. Baldwin International distributes specialty alloy products from its facility in Ohio.

b) Factors affecting results

The following is a general discussion of the significant factors affecting our metals service centers results. More specific information on how these factors impacted 2008 and 2007 is found in the sections that follow.

Steel pricing fluctuates significantly throughout the steel cycle. Steel prices are influenced by overall demand, trade sanctions, scrap steel pricing and product availability. Supply side management, practiced by steel producers in North America, and international supply and demand, which impacts steel imports, affect product availability. Trade sanctions are initiated either by steel mills or government agencies in North America and, less directly, worldwide. Starting in January 2008, steel prices increased consistently month over month to June 2008. We anticipate high steel prices throughout the third quarter of 2008.

Demand is significantly affected by economic cycles with revenues and operating profits fluctuating with the level of general business activity in the markets serviced. We are most impacted by the manufacturing (excluding automotive), resource and construction segments of the Canadian economy. Excluding tons shipped by JMS Russel Metals, tons shipped for the second quarter of 2008 are above the first quarter of 2008 and above the second quarter of 2007 by approximately 5% and 7%, respectively.

Canadian service centers, which represent the majority of our metals service centers operations, are particularly affected by regional general economic conditions. We have operations in all regions of Canada and believe that we have a national market share above 25%. This large market share and our diverse customer base of approximately 18,000 Canadian customers, suggest that our results should mirror the performance of the regional economies of Canada excluding the automotive sector in which we are not a significant participant.

Our U.S. operations have approximately 9,000 customers and with the addition of the JMS Russel Metals operations we have an increased presence in the U.S.

The appreciation of the Canadian dollar compared to the U.S. dollar for the periods reported have reduced revenues and operating profits of our U.S. operations for 2008 when converted to Canadian dollars for reporting purposes.

Our Canadian operations are affected by the U.S. dollar exchange rate since some products are sourced outside of Canada and are priced in U.S. dollars. Movements in the Canadian dollar can result in some products that we have purchased being subsequently available in the marketplace at a lower cost.

c) Metals Service Centers Segment Results -- Three Months Ended June 30, 2008 Compared to Three Months Ended June 30, 2007

Revenues for the three months ended June 30, 2008 increased by $127.3 million, or 34% mainly due to the increased price of steel. Excluding JMS Russel Metals, revenues for the three months ended June 30, 2008 were 20% higher than the three months ended June 30, 2007. The average selling price of metal for the three months ended June 30, 2008 was approximately 12% higher than the selling price for the three months ended June 30, 2007. The average selling price of metal for the second quarter of 2008 is 20% higher than the first quarter of 2008. At the beginning of 2008, the mills increased the price of steel, which resulted in increased pricing to our customers. The mill price of steel continued to increase month over month and certain products have reached all time highs during the second quarter of 2008.

Overall tons shipped, excluding JMS Russel Metals, for the three months ended June 30, 2008 were approximately 7% higher than those shipped in the three months ended June 30, 2007. Tons shipped increased most significantly at our Ontario flat rolled operations and in the Prairie region. In British Columbia tons declined due to reduced demand in the forestry sector. Tons shipped in the second quarter of 2008 are approximately 5% higher than the first quarter of 2008.

Gross margin as a percentage of revenues was 27.4% for the three months ended June 30, 2008. We estimate that the impact of the new accounting standard for inventory decreased gross margins approximately 3%.

Gross margins were higher in the three months ended June 30, 2008 due to the increase in the selling price of steel and increased demand compared to the three months ended June 30, 2007. The spread between selling price and inventory cost increased in the second quarter of 2008. Cost of goods sold continues to increase with the receipt of higher priced inventory.

Operating expenses in our metals service centers segment increased by $3.1 million, for the second quarter of 2008 compared to the same period in 2007. After considering the increase in expenses related to JMS Russel Metals and the decline due to expenses absorbed in cost of goods sold in 2008, expenses for the second quarter of 2008 are approximately $7 million higher than those of the second quarter of 2007. The increase mainly relates to higher variable compensation and delivery costs.

Metals service centers operating profits for the three months ended June 30, 2008 of $72.3 million were $40.9 million higher than the same period in 2007, mainly related to higher gross margins, increased demand and the acquisition of JMS Russel Metals.

d) Metals service centers segment results -- Six Months Ended June 30, 2008 Compared to Six Months Ended June 30, 2007

Revenues for the six months ended June 30, 2008 at $898.5 million were 23% higher than revenues for the six months ended June 30, 2007. Excluding JMS Russel Metals, tons shipped increased approximately 4% for the six months ended June 30, 2008 compared to the six months ended June 30, 2007. We estimate that the average selling price per ton, for our product mix in the service center segment was approximately 3% higher for the six months ended June 30, 2008 compared to the six months ended June 30, 2007.

Gross margin as a percentage of revenues increased from 24.4% for the six months ended June 30, 2007 to 25.0% for the six months ended June 30, 2008. We estimate that the impact of the new accounting standard for inventory decreased gross margins by approximately 3%.

Operating expenses for the six months ended June 30, 2008 were $2.7 million lower than for the same period in 2007. After considering the increase in expenses related to JMS Russel Metals and the decline due to expenses absorbed in cost of goods sold in 2008, expenses for the six months ended June 30, 2008 are approximately $7 million higher. The increase mainly relates to higher variable compensation and delivery costs.

Metals service centers operating profits in the six months ended June 30, 2008 increased $48.2 million to $104.4 million compared to the six months ended June 30, 2007, primarily related to higher volumes, higher gross margins and the acquisition of JMS Russel Metals.

Energy Tubular Products

a) Description of operations

These operations distribute oil country tubular goods (OCTG), line pipe, tubes, valves and fittings, primarily to the energy industry in Western Canada and the western United States, from 5 Canadian and 3 U.S. locations. We purchase these products either from the pipe processing arms of North American steel mills, independent manufacturers of pipe and pipe accessories or international steel mills. Our energy tubular products segment operates under the names Comco Pipe and Supply Company, Fedmet Tubulars, Triumph Tubular & Supply, Pioneer Pipe and Spartan Steel.

b) Factors affecting results

The following is a general discussion of the factors affecting our energy tubular products segment operations. More specific information on how these factors impacted 2008 and 2007 is found in the sections that follow.

Oil and gas prices, which are among the factors that can impact oil rig count and subsequent drilling activities particularly in Western Canada, have the ability to significantly affect demand for our products. In 2007, rig activity declined to levels lower than those experienced at any time in the last 10 years and this continued into the first quarter of 2008. The price of natural gas rose in the second quarter of 2008 and we observed increased drilling activity late in the quarter.

The Province of Alberta announced its intention to require industry participants to pay higher royalty payments to the Alberta provincial government starting in 2009. This, along with pricing and foreign exchange rates, impacted the level of oil and gas rig activity, oil sands activity and investment in this sector during the second half of 2007. This continues to cause uncertainty during 2008, although recent suggested changes to the royalty regime and higher gas prices have increased drilling activity.

Pricing of metal is influenced by overall demand, trade sanctions and product availability. Trade sanctions are initiated either by steel mills or government agencies in North America. Trade sanctions had not been a factor for pipe products for a number of years prior to the first quarter of 2008. Both Canadian and U.S. governments initiated actions against Chinese pipe either at the end of 2007 or early in 2008. This has helped to improve pricing and reduce inventories in the sector.

Our Canadian operations are positively affected by the U.S. dollar exchange rate since some products are sourced outside Canada and are priced in U.S. dollars. The appreciation of the Canadian dollar compared to the U.S. dollar for the periods reported have reduced revenues and operating profits of our U.S. operations for 2008 when converted to Canadian dollars for reporting purposes.

Oil and gas drilling in Western Canada usually peaks during the period from October to March. Revenues for the first and second quarter of 2008 were a record high for our energy tubular products segment. Activity in the oil sands of northern Alberta and line pipe volumes in the U.S. have offset any declines in oil and gas drilling in Western Canada. As these activities are not as seasonal as oil and gas drilling, the volumes in these operations have muted the seasonality in this segment.

c) Energy Tubular Products Segment Results -- Three Months Ended June 30, 2008 Compared to Three Months Ended June 30, 2007

Revenues increased 41% to $235.4 million in the three months ended June 30, 2008 compared to the three months ended June 30, 2007. The increase in revenues in 2008 mainly relates to higher volumes sold to the oil and gas drilling industry in our U.S. operations and our Canadian operations that service the oil sands of northern Alberta. In addition, our two operations in Western Canada servicing the oil and gas drilling activity had higher volumes in the second quarter of 2008 compared to the second quarter of 2007 related to more rig activity in the gas sector. The increased price of steel was another factor in the higher revenues. Revenues would have been 5% higher if our U.S. operations had been translated to Canadian dollars at the exchange rate in effect for the second quarter of 2007.

Gross margin of $48.3 million for the three months ended June 30, 2008, was $26.2 million higher than the three months ended June 30, 2007. The higher margin relates to increased volumes and higher selling prices in 2008.

Operating expenses were higher by $8.7 million for the three months ended June 30, 2008 compared to the three months ended June 30, 2007 mainly related to expenses moved between cost of goods sold and operating expenses as a result of the new accounting standard, higher variable compensation and higher delivery costs. Gross margins and operating expenses increased 0.6% related to selling expenses previously included under cost of goods sold.

Operating profits increased by $17.5 million to $28.5 million for the second quarter of 2008, compared to the same period in 2007. The increase in operating profits was due to higher volumes and steel prices.

d) Energy Tubular Products Segment Results -- Six Months Ended June 30, 2008 Compared to Six Months Ended June 30, 2007

Revenues increased 30% to $448.9 million in the six months ended June 30, 2008, compared to the six months ended June 30, 2007. The year-to-date increased revenues are a result of the same factors that increased the second quarter revenues.

Gross margin increased $28.7 million to $76.8 million for the six months ended June 30, 2008 compared to the same period in 2007. The higher margin mainly relates to the increased volumes and selling price.

Operating expenses were higher by $10.4 million for the six months ended June 30, 2008, compared to the six months ended June 30, 2007, due to higher delivery costs related to our U.S. operations, higher employee costs in our operations with higher volumes and increased variable compensation.

Operating profits increased by $18.3 million or 71% in the six months ended June 30, 2008, compared to the six months ended June 30, 2007. The increase is due to higher volumes and selling prices.

Steel Distributors

a) Description of operations

Our steel distributors act as master distributors selling steel in large volumes to other steel service centers and equipment manufacturers mainly on an "as is" basis. Our U.S. operation processes some coil for its customer base at its cut-to-length facility in Houston, Texas. Our steel distributors source their steel both domestically and off shore. The international sourcing provides our other business segments with valuable insight regarding international pricing trends and their potential impact on steel markets in North America.

The main steel products sourced by this segment are structural beam, plate, coils, pipe and tubing. The operations in this sector are Wirth Steel and Sunbelt Group. Arrow Steel, a division of Sunbelt Group, processes coils.

b) Factors affecting results

The following is a general discussion of the factors affecting our steel distributors. More specific information on how these factors impacted 2008 and 2007 is found in the sections that follow.

Steel pricing is influenced by overall demand, trade sanctions and product availability both domestically and worldwide. Trade sanctions are initiated either by steel mills or government agencies in North America. Mill capacity by product line in North America and international supply and demand impact steel imports and significantly affect product availability. The weakening of the U.S. dollar against other world currencies has increased the price of import material.

The appreciation of the Canadian dollar compared to the U.S. dollar for the periods reported have reduced revenues and operating profits of our U.S. operation for 2008 when converted to Canadian dollars for reporting purposes.

The financial instruments accounting standard considers an element of transactions between a buyer and a seller in a currency that is not the functional currency of either party to be a foreign currency derivative. Our Canadian operations purchase inventory in currencies that result in embedded derivatives. Volatility in world exchange rates causes the foreign currency gain or loss to vary materially from reporting period to reporting period. The amounts recorded in operating expenses will reverse in future periods and be recorded to inventory costs when the material is received.

Demand for steel that is sourced off shore fluctuates significantly, mainly driven by price and product availability in North America. Our steel distributors have a significant number of customers who buy from them on a periodic basis, which can result in large fluctuations in revenues reported from period to period. Demand has declined as current pricing for off shore product is higher due to demand outside North America and increased transportation costs, which means import product is not competitively priced compared to domestic product.

c) Steel Distributors Segment Results -- Three Months Ended June 30, 2008 Compared to June 30, 2007

Steel distributors revenues increased 7% to $119.6 million for the three months ended June 30, 2008 compared to the three months ended June 30, 2007 mainly related to the increased selling price of steel. Volumes were lower due to strong international pricing and demand which resulted in material flowing to areas outside North America.

Gross margin as a percentage of revenues of 28.7% for the three months ended June 30, 2008 improved from 15.0% for the three months ended June 30, 2007. Increased selling prices for product held in inventory by the steel distributor operations resulted in higher margins.

Operating expenses were $3.8 million higher for the second quarter of 2008 compared to the second quarter of 2007, related to higher variable compensation based on profitability and foreign exchange losses in 2008 compared to gains reported in 2007. The foreign exchange gains and losses relate to embedded derivatives on purchases outside North America by the Canadian steel distributors operation. The net change in foreign exchange gains and losses increased operating expenses by $1.5 million compared to 2007.

Operating profits for the three months ended June 30, 2008 were $25.6 million, which is $13.7 million higher than the three months ended June 30, 2007, due to the impact of higher steel pricing.

d) Steel Distributors Segment Results -- Six Months Ended June 30, 2008 Compared to June 30, 2007

Steel distributors revenues for the six months ended June 30, 2008, are 14% lower than the six months ended June 30, 2007 due to lower volumes and the impact of the change in the Canadian dollar versus the U.S. dollar. Volumes for the six months in 2008 have been unfavourably impacted by strong international pricing and demand which resulted in material flowing to areas outside North America. Approximately 6% of the decline in revenues relates to lower exchange rates on our U.S. distributor operations converted to Canadian dollars for reporting purposes.

Gross margin dollars increased $17.2 million related to higher steel pricing partially offset by lower volumes.

Operating expenses in the six months ended June 30, 2008 compared to the same period in 2007 were $4.3 million higher due to foreign exchange losses and higher variable compensation.

Operating profits for the six months ended June 30, 2008 at $36.3 million were $12.9 million higher than the six months ended June 30, 2007. The increase in the price of steel has resulted in higher gross margins on lower volumes in 2008 compared to 2007.

Corporate Expenses -- Three Months and Six Months Ended June 30, 2008 Compared to Three Months and Six Months Ended June 30, 2007

Corporate expenses for the six months ended June 30, 2008 were $0.7 million higher than for the six months ended June 30, 2007. The increase in expense in 2008 relates to increased variable compensation based on higher earnings in 2008. The expense for the second quarter of 2008 related to stock options was $2.7 million less than the second quarter of 2007 as stock options were issued and expensed in the first quarter of 2008. For the six months ended June 30, 2008, stock option expense was $1.0 million less than for the same period in 2007 due to the higher fair value of options issued in 2007 over 2008.

Other -- Three Months and Six Months Ended June 30, 2008
Compared to Three Months and Six Months Ended June 30, 2007

Other revenues and income represents the results of our bulk commodities handling terminal in Thunder Bay, Ontario. Revenues and operating profits for the three and six months ended June 30, 2008 approximate those recorded in the same periods of 2007.

Consolidated Results -- Three Months and Six Months Ended June 30, 2008
Compared to Three Months and Six Months Ended June 30, 2007

Operating profits from operations were $121.4 million, which is $72.5 million higher in the three months ended June 30, 2008, compared to the three months ended June 30, 2007. Operating profits increased $78.6 million to $173.5 million for the six months ended June 30, 2008 compared to the same period in 2007. Increased gross margins due to higher steel prices in all segments, the addition of JMS Russel Metals in September 2007 and higher volumes in the energy tubular products segment are the main reasons for the significant increase in profits in the second quarter and six months ended June 30, 2008 compared to 2007.

Interest Expense
The following table shows the components of our interest expense.

	Quarters Ended June 30,		**Six Months Ended June 30,**	
(millions)	**2008**	2007	**2008**	2007
Interest on long-term debt	**$ 3.8**	$ 3.8	**$ 7.6**	$ 7.7
Other interest (net)	**(1.5)**	(2.2)	**(3.2)**	(4.3)
Total interest	**$ 2.3**	$ 1.6	**$ 4.4**	$ 3.4

Consolidated interest expense for the six months ended June 30, 2008 increased by $1.0 million to $4.4 million compared to the six months ended June 30, 2007 due to lower returns on our cash on hand.

Unrealized Loss on Investment
Prior to August 23, 2007, a portion of our cash and cash equivalents was held in non-bank Canadian asset-backed commercial paper. On August 23, 2007, we were notified that the principal of $11.0 million was not able to be repaid due to a disruption in the Canadian market for asset-backed commercial paper. The Montreal Group, representing banks, asset-backed commercial paper providers and major investors, requested that we, along with other participants, agree to a standstill agreement while they prepared a plan to restructure. On April 25, 2008, the investors voted in favour of a restructuring, which will result in us receiving new longer term notes. As required by GAAP, we have made a fair value determination of this investment which is classified as held-for-trading. As no active market exists for this investment, we used a discounted cash flow technique to obtain an estimated fair value. This technique considers the time value of money and the credit risk associated with the investment. We used the following assumptions in our valuation: the trust is a going concern, the A1 and A2 senior notes will be AA rated, the principal on the B and C notes will not be 100% redeemed, the notes will be interest bearing, interest received will be net of restructuring costs and standby fees on the margin facility and the interest on the notes other than A1 will not be paid until 2016. Based on our assumptions, a write-down of $1.1 million was recorded in the second half of 2007 and a further write-down of $3.2 million was recorded in the six months ended June 30, 2008. As more information becomes available the fair value will change.

Ineffectiveness on Cash Flow Hedges
As required under the standard for financial instruments and hedges, we evaluated the effectiveness of our swaps which hedge our U.S. Senior Notes. Based on movement in the market value of the swaps, we recorded a gain of $1.0 million for the quarter ended June 30, 2008 and a gain of $0.7 million to June 30, 2008.

Income Taxes
Our provision for income taxes for the second quarter of 2008 was $41.0 million, which was $23.0 million higher than the second quarter of 2007, related to higher earnings. For the six months ended June 30, 2008, our income tax rate was 35.2%. We estimate our normalized effective income tax rate to be approximately 34% for 2008. The rate for the six months ended June 30, 2008 was higher due to non-deductible expenses related to stock options issued and the fair value write downs associated with asset-backed commercial paper. The rate was lower than 2007 due to previously announced rate reductions in Canada.

Net Earnings
Net earnings for the second quarter of 2008 were $78.8 million compared to $29.3 million for the second quarter of 2007. Basic earnings per common share for the second quarter of 2008 were $1.25 compared to $0.47 for the second quarter of 2007. Basic earnings per common share were $1.71 for the six months ended June 30, 2008 compared to the six months ended June 30, 2007 of $0.93. Our higher net earnings in 2008 mainly relates to the positive influence on gross margins of high steel prices, volume increases in the energy sector and earnings from the acquisition of JMS Russel Metals.

Shares Outstanding and Dividends
The weighted average number of common shares outstanding for the second quarter of 2008 was 63,201,572 compared to 62,806,841 for the second quarter of 2007. The weighted average number of common shares outstanding for the six months ended June 30, 2008 was 63,145,200 compared to 62,603,445 for the six months ended June 30, 2007. The increase relates to employee stock options exercised. As at June 30, 2008 and August 5, 2008, we had 63,256,590 common shares outstanding.

We have returned a portion of our earnings to our shareholders by paying common share dividends of $28.5 million in the second quarter of 2008 compared to $28.3 million in the second quarter of 2007. We paid a cash dividend of $0.45 per share for the second quarter of 2008 and for the second quarter of 2007.

Our U.S. Senior Notes indenture provides that any dividend payment in excess of $0.08 per common share per quarter is considered a restricted payment. We currently have a basket of approximately $415 million available for restricted payments. The basket is replenished by 50% of net earnings on a quarterly basis. Share buybacks deplete the basket and proceeds for shares issued increase the basket.

On February 20, 2008, the TSX approved our normal course issuer bid which allows us to purchase up to six million common shares prior to February 21, 2009. To date we have not purchased any shares.

EBITDA

The following table shows the reconciliation of GAAP earnings from continuing operations to EBITDA:

(millions)	Quarters Ended June 30, **2008**	2007	Twelve Months Ended June 30, **2008**	2007
Earnings from continuing operations	**$ 78.8**	$ 29.3	**$ 159.6**	$ 133.1
Provision for income taxes	**41.0**	18.0	**85.2**	73.8
Interest expense, net	**2.3**	1.6	**8.1**	5.8
Earnings before interest and income taxes (EBIT)	**122.1**	48.9	**252.9**	212.7
Depreciation and amortization	**5.7**	5.0	**21.9**	20.3
Earnings before interest, income taxes, depreciation and amortization (EBITDA)	**$ 127.8**	$ 53.9	**$ 274.8**	$ 233.0

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

Capital Expenditures

Capital expenditures were $10.4 million for the six months ended June 30, 2008 compared to $8.6 million in the same period in 2007.

Capital expenditures mainly relate to the replacement of capital items, the purchase of additional processing equipment across a broad base of our operations and upgrades to our existing facilities and computer systems. Our expectation is for capital expenditures to approximate depreciation expense during 2008.

Depreciation expense was $11.0 million for the six months ended June 30, 2008 and $9.3 million for the six months ended June 30, 2007. The increase relates to depreciation on additional assets acquired with JMS Metal Services.

Liquidity

At June 30, 2008, we had cash and cash equivalents of $235.5 million.

We stress working capital management to ensure that working capital is minimized and leverage reduced over the economic cycle. Our metals distribution business experiences significant swings in cash flow in order to fund working capital. Inventory and accounts receivable represent a large percentage of our total assets employed and vary throughout each cycle. At June 30, 2008, current assets represented 82% of our total assets versus 79% at December 31, 2007. Total assets were $1.6 billion at June 30, 2008 and $1.4 billion at December 31, 2007. Increases in accounts receivable and inventory have utilized $117.7 million of cash in the second quarter of 2008 mainly due to steel price increases. The increase in accounts payable of $90.1 million related to trade payables and variable compensation accruals. The increase in accounts receivable and inventory, net of the increase in accounts payable utilized $15.4 million of cash for working capital needs during the second quarter.

Cash generated from operating activities before working capital changes was $126.3 million for the six months ended June 30, 2008 and was $72.1 million for the six months ended June 30, 2007. During the second quarter of 2008 cash generated from operations after working capital requirements was $70.1 million.

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

Inventory turns in the second quarter of 2008 are consistent with the first quarter of 2008. Increases in inventory balances consumed cash of $55.3 million. The increase is mainly related to the increase in cost of steel not quantities. All segments are monitoring inventories to maintain levels required to service current volumes. Our goal is to ensure that we keep our inventory levels as low as possible in order to minimize inventory valuation risk while still satisfying the needs of our customers.

Inventory turns are calculated using our cost of sales for the quarter annualized, divided by our inventory position at the end of the quarter.

	Quarter Ended				
Inventory Turns	**June 30 2008**	**Mar. 31 2008**	**Dec. 31 2007**	**Sept. 30 2007**	June 30 2007
Metals service centers	**4.5**	**4.5**	**4.4**	**4.2**	4.0
Energy tubular products	**3.6**	**3.9**	**2.6**	**3.0**	2.4
Steel distributors	**4.3**	**4.2**	**3.1**	**3.8**	3.3
Total operations	**4.2**	**4.2**	**3.5**	**3.7**	3.3

Inventory levels in service centers at June 30, 2008, are consistent with those at March 31, 2008; however, the value has increased due to cost increases. We expect our metals service centers operations to turn over their inventory at higher rates than the industry average. Based on information published by the Metals Service Center Institute in its monthly Metals Activity Report, average inventory turns for U.S. based steel companies for the three months ended June 30, 2008 was 4.1 turns and the average for Canadian based companies was 3.5 turns.

Our energy tubular products segment has inventory levels similar to March 31, 2008; however, inventory values have increased due to steel price increases.

In our steel distributors segment inventory levels have declined as North American imports have been reduced due to higher prices in areas other than North America. The decline in inventory was primarily a result of decreased volume.

The other major components of working capital are accounts receivable and accounts payable. Accounts receivable as at June 30, 2008, increased $133.7 million since December 31, 2007, as a result of higher revenues being driven by higher steel prices and increased volume. Accounts payable increased $145.8 million in the first half of 2008, which mainly relates to higher trade payables as steel prices increased and variable compensation to be paid in 2009.

During the six months ended June 30, 2008, we made income tax payments of $35.7 million.

During the six months ended June 30, 2008, we utilized cash of $10.4 million on capital expenditures and $56.9 million on common share dividends. During the six months ended June 30, 2007, we utilized cash of $8.6 million on capital expenditures and $53.3 million on common share dividends.

Free Cash Flow

(millions)	Quarters Ended June 30, 2008	Quarters Ended June 30, 2007	Six Months Ended June 30, 2008	Six Months Ended June 30, 2007
Cash from operating activities before working capital	**$ 85.5**	$ 39.4	**$ 126.3**	$ 72.1
Purchase of fixed assets	**(6.1)**	(4.9)	**(10.4)**	(8.6)
	$ 79.4	$ 34.5	**$ 115.9**	$ 63.5

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

Cash, Debt and Credit Facilities

At June 30, 2008, we had cash and cash equivalents, net of outstanding cheques, of $235.5 million. In March 2006, we issued 11 million common shares for net proceeds of $271.4 million resulting in cash, which has been invested in short-term investments until a suitable acquisition or other use of cash occurs. On September 28, 2007, $114 million of cash was used to acquire JMS Russel Metals.

The following table details our long-term debt and related cross currency swaps.

(millions)	Amortized Cost or Fair Value June 30, 2008	Amortized Cost or Fair Value December 31, 2007
Long-term debt		
6.375% US$175 million Senior Notes due March 1, 2014	**$ 174.7**	$ 169.0
Capital leases		
Arkansas development bonds, maturing 2014 to 2017	**6.5**	6.8
Computer equipment, maturing 2010	**0.3**	-
	181.5	175.8
Current portion	**1.1**	0.9
	$ 180.4	$ 174.9
Obligations under cross currency swaps		
Foreign exchange difference on US$100 million	**$ 29.9**	$ 33.0
Additional fair value of cash flows to terminate swaps	**9.2**	6.5
	$ 39.1	$ 39.5

Changes in the fair value of the debt and the swaps are recorded in other comprehensive income net of income taxes.

Cash and Bank Credit Facilities

As at June 30, 2008 (millions)	Russel Metals Facility	U.S. Subsidiary Facility	Total
Bank loans	$ -	$ -	$ -
Cash net of outstanding cheques	207.4	28.1	235.5
Cash	207.4	28.1	235.5
Facilities availability	200.0	50.9	250.9
Letters of credit	75.0	46.5	121.5
Undrawn facilities	125.0	4.4	129.4
Total cash and undrawn facilities	$ 332.4	$ 32.5	$ 364.9

We have a facility, with a syndicate of Canadian and U.S. banks, for a revolving loan of $200 million, including letters of credit. In December 2007, the term of our facility was extended to January 15, 2011. We may extend this facility annually with the consent of the syndicate. We are entitled to borrow, on a revolving basis, up to an amount equal to the sum of specified percentages of our eligible accounts receivable and inventories, to a maximum of $200 million. We are currently entitled to borrow $200 million, including letters of credit under this facility. At June 30, 2008, we had no borrowings and had letters of credit of $75.0 million. At June 30, 2007, we had no borrowings and had letters of credit of $50.6 million under this facility.

In addition, a U.S. subsidiary has its own bank credit facility. The maximum borrowing under this facility at June 30, 2008 was US$50 million. In July 2008, the facility was increased to US$57.5 million to provide additional capacity for the issuance of letters of credit. At June 30, 2008, this subsidiary had no borrowings and had letters of credit of US$45.7 million. At June 30, 2007, this subsidiary had no borrowings and had letters of credit of US$26.2 million.

Based on cash, cash equivalents and our bank facilities, we have access to approximately $364.9 million of cash based on our June 30, 2008 balances. In the past, we have made several acquisitions and we believe we can continue to grow by acquisition. We believe we have the ability to fund future acquisitions through the utilization or expansion of our existing bank facilities. We believe we have the ability to significantly increase the bank facility, if required.

Contractual Obligations

As at June 30, 2008, we were contractually obligated to make payments under our long-term debt agreement, cross currency swap agreements and operating lease obligations that come due in the future. See Note to the interim financial statements for obligations under each during the next five years.

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

Derivatives

Our fixed interest cross currency swaps obligate us to purchase US$100 million at $1.3180 for each US$1.00. Based on the June 30, 2008 exchange rate, we would incur an obligation of $29.9 million in addition to our long-term debt obligation of $178.3 million. The fair value of our swaps includes an additional obligation of $9.2 million, which represents the fair value of payments for the remaining life of the debt if we were to extinguish the swaps at June 30, 2008.

Off-Balance Sheet Arrangements

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

We have multiple defined benefit pension plans in Canada, as disclosed in Note 17 to our 2007 annual consolidated financial statements. In the second quarter of 2008, we contributed approximately $0.5 million to these plans. We expect additional contributions of approximately $1.6 million during the remainder of the year.

Future Accounting and Reporting Changes

In February 2008, the Accounting Standards Board announced that International Financial Reporting Standards will become Canadian Accounting Standards for publicly accountable enterprises on January 1, 2011. We are currently evaluating the effect of these standards and developing an implementation plan.

Accounting Estimates in 2008

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

Our most significant assets are accounts receivable and inventory.

Accounts Receivable

We maintain an allowance for doubtful accounts for estimated losses resulting from the inability of our customers to make required payments. Assessments are based on aging of receivables, legal issues (bankruptcy status), past collection experience, current financials or credit agency reports and the experience of our credit personnel. Accounts receivable that we determine to be uncollectible are reserved in the period in which the determination is made. If the financial condition of our customers were to deteriorate, resulting in an impairment of their ability to make payments, additional allowances may be required. Our reserve for bad debts at June 30, 2008 is consistent with the level at December 31, 2007.

Inventories

We review our inventory to ensure that the cost of inventory is not in excess of its estimated market value and for obsolete and slow moving product. Inventory reserves or write-downs are recorded when cost exceeds the market value and when product is determined to be slow moving or obsolete. Significant reductions in market value could result in additional write-downs. The inventory reserve level at June 30, 2008 is consistent with the level at December 31, 2007.

Other areas involving significant estimates and judgements include:

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

Employee Benefit Plans
We perform a valuation, at least every three years, for each plan to determine the actuarial present value of the accrued pension and other retirement benefits. The valuation uses management's assumptions for the discount rate, expected long-term rate of return on plan assets, rate of compensation increase, health-care cost trend and expected average remaining years of service of employees.

While we believe that these assumptions are reasonable, differences in actual results or changes in assumptions could materially affect employee benefit obligations and future net benefit plans costs. We account for differences between actual and assumed results by recognizing differences in benefit obligations and plan performance over the working lives of the employees who benefit from the plans.

Investment in Asset-Backed Commercial Paper
We have excess cash which is currently being invested on a short-term basis. Prior to August 2007, our investment policy allowed for investments in non-bank and bank asset-backed commercial paper. The policy limits the amounts invested by asset type and issuer.

Our investment in asset-backed commercial paper is included in Other Assets at fair value. As there is currently no market for this product, we performed a probability-weighted valuation technique to obtain a fair value for this asset. While we believe our assumptions are reasonable based on available information, the actual recovery on this investment could be materially different and our valuation will change in future periods as more information becomes available.

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

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

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

The President and Chief Executive Officer, and the Vice President and Chief Financial Officer have caused management and other employees to design and document our internal controls over financial reporting. No material weaknesses in the design effectiveness were identified during the documentation of these internal controls.

No changes were made in our disclosure controls or our internal control over financial reporting during the second quarter of 2008 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Vision and Strategy

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

We strive to deal with the cyclical nature of the business by operating with the lowest possible net assets throughout the course of a cycle. In order to achieve this, management emphasizes profitability rather than revenue growth. This intensive asset management reduces borrowings and therefore interest expense in declining periods in the economic cycle. This in turn creates higher, more stable returns on net assets over the course of the cycle. Our conservative management approach creates relatively stronger trough earnings but could cause potential peak earnings to be somewhat muted. Management strongly believes that it is more prudent to be profitable throughout a cycle, without the spikes in earnings caused by less emphasis on asset management, and have average earnings over the full range of the cycle in the top deciles of the industry.

Growth from selective acquisitions is also a core strategy. We focus on investment opportunities in businesses that have strong market niches or provide mass to our existing operations. We believe that our acquisition of JMS Metal Services in September 2007 provides a platform for growth in the Southeastern and Midwestern regions of the United States.

In both the energy tubular products and steel distributors segments, all of the business units have significant operations in the market niche that they service. Consistent with our acquisition philosophy, any new acquisitions in these areas would likely be either major stand-alone operations or those that complement our existing operations.

In the future, we believe that the length of the steel-based economic cycle will continue to shorten and a management structure and philosophy that allows the fastest reaction to changes that affect the industry will be the most successful. We will continue to invest in business systems to enable faster reaction times to changing business conditions. In addition, management believes the high level of service and flexibility provided by service centers will enable this distribution channel to capture an increasing percentage of total steel revenues to end users, allowing for increased growth within the sector.

Risk

The timing and extent of future price changes from the steel producers and their impact on us can not be predicted with any certainty due to the inherent cyclical nature of the steel industry.

Outlook

Steel prices throughout the world remain strong and steel mills continue to announce price increases into the third quarter of 2008. Despite economic uncertainty in certain sectors that consume steel, those areas where we have significant volume, such as oil and gas, mining and agricultural equipment manufacturing, and commercial construction, remain buoyant. Based on activity in July, we are optimistic that we will maintain the positive momentum of the second quarter.

August 5, 2008