First Quarter
March 31, 2 0 0 9

Russel Metals

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REPORT TO SHAREHOLDERS

The North American steel industry experienced significant volume and price declines in the first quarter of 2009. We have aggressively addressed the economic reality of these declines. Cost savings have been realized in all three segments and the metals service centers and steel distributor segments have recorded significant inventory write-downs to reflect falling prices. We believe both these segments are positioned for a return to profitability when volumes increase.

Metals service centers revenues for the first quarter in 2009 were down 19% compared to the first quarter in 2008. The segment operating loss before inventory write-downs was $7 million. In 2009 steel pricing, which had declined at the end of 2008, continued to fall in the first quarter decreasing by approximately 20% from year end levels and 64% from the peak. In the highly cyclical steel industry, distributors realize inventory holding gains in times of economic expansion and experience inventory holding losses during economic contractions. The severity of the decline has caused us to record inventory write-downs in metals service centers of $29 million in the first quarter of 2009.

Demand in the quarter was 37% lower than the same period in 2008 and 21% lower than the previous quarter. The Metals Service Centre Institute reported a comparable decrease in tons sold for the U.S. and Canadian service center industry in the same year over year period. The decline in demand was partially offset by higher selling prices.

Revenues at energy tubular products increased by 8% for the first quarter of 2009 compared to the same quarter in 2008. Gross margins before inventory write-downs were strong at 16%. This segment generated an operating profit of $21 million in the first quarter of 2009 before inventory write-downs. The high North American pipe inventory resulted in lower selling prices as the industry reacted to lower activity due to declining commodity prices and reduced selling prices. We recorded inventory write-downs of $16 million during the quarter in this segment and we anticipate further write-downs during the balance of 2009.

Revenues in the steel distributors segment declined in the first quarter of 2009 by 12% compared to the first quarter of 2008. Steel distributors generated an operating profit of $2 million in the first quarter of 2009 before inventory write-downs. Demand has declined severely and pricing levels have continued to fall. In this highly competitive segment, we recorded $49 million of inventory write-downs to net realizable value due to the drop in market prices.

On February 23, 2009, we announced significant cost reductions measures including a 10% pay reduction for salaried staff and the Board of Directors. We have also reduced our employee count by 23% from the peak in 2008. In addition, several of our operations have implemented work week reductions for salaried and hourly employees. Our short-term incentive compensation plans are highly variable based on earnings and reduce to zero at current performance levels. Expenses in the first quarter were lower than the comparable 2008 first quarter by $13 million on a same store basis. These actions undertaken in the first quarter of 2009 will result in greater reductions in operating expenses in the second quarter.

As a result of the inventory write-downs, we recorded a loss of $0.92 per share compared to earnings of $0.46 per share in the first quarter of 2008. The $94 million in inventory write-downs represents $1.02 per share.

During times of economic contraction, we generate cash as working capital needs decrease. The Company generated $44 million in cash from operating activities in the first quarter. Subsequent to the quarter, we entered into an agreement with a syndicate of banks to increase our credit facility from $200 million to $253 million and to amend our fixed charge coverage ratio to exclude from earnings up to $200 million in inventory write-downs plus $74 million for any write-down of goodwill and intangibles currently on the balance sheet.

The Board of Directors has approved a quarterly dividend of $0.25 per common share payable June 15, 2009 for shareholders of record as of June 1, 2009.

Outlook

Demand levels need to improve in each of our three business segments to achieve more normalized profit levels. In addition, supplier price reductions must stop in order to eliminate the effects of inventory holding losses and restore customer confidence that they can buy without the risk of losses on their inventory.

Metals service centers and steel distributors require end users of steel to increase their purchases. We believe our customers are aligning their finished goods inventory to match the lower demand levels of their customers.

Our energy tubular products segment is most dependent on the price of natural gas, which impacts drilling activity. In addition, margins in this sector will continue to be under pressure for the balance of 2009 until inventory in the distribution channel is reduced.

At the present time demand is unchanged from the first quarter of 2009. We do anticipate the levels in all three segments to improve through the balance of 2009 but to what extent and when is impossible to forecast at this time.

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

May 12, 2009

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 March 31, 2009, 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.

May 12, 2009

E. M. Siegel, Jr.	M. E. Britton
President and Chief Executive Officer	Vice President and Chief Financial Officer

CONSOLIDATED BALANCE SHEETS *(UNAUDITED)*

(millions)	**March 31, 2009**	December 31, 2008
ASSETS		
Current		
Cash and cash equivalents	**$ 47.1**	$ 44.9
Accounts receivable	**326.6**	429.3
Inventories (Note 5)	**827.4**	925.1
Prepaid expenses and other assets	**6.9**	8.1
Income taxes	**47.4**	7.1
	1,255.4	1,414.5
Property, Plant and Equipment	**248.8**	249.9
Future Income Tax Assets	**1.0**	1.0
Pensions and Benefits	**6.6**	6.5
Other Assets (Note 6)	**7.1**	7.0
Goodwill and Intangibles	**73.5**	71.8
	$ 1,592.4	$ 1,750.7
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current		
Bank indebtedness	**$ 41.6**	$ 64.9
Accounts payable and accrued liabilities	**367.6**	420.7
Income taxes payable	**3.5**	30.3
Current portion long-term debt	**1.5**	1.4
	414.2	517.3
Derivatives	**11.7**	22.1
Long-Term Debt	**223.7**	217.5
Pensions and Benefits	**5.8**	5.8
Future Income Tax Liabilities	**10.1**	7.9
	665.5	770.6
Shareholders' Equity (Note 13)		
Common shares	**478.8**	478.8
Retained earnings	**397.1**	467.0
Contributed surplus	**9.8**	9.4
Accumulated other comprehensive income	**41.2**	24.9
	926.9	980.1
	$ 1,592.4	$ 1,750.7

ON BEHALF OF THE BOARD,

A. Benedetti
Director

L. Lachapelle
Director

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

CONSOLIDATED STATEMENTS OF (LOSS) EARNINGS *(UNAUDITED)*

(millions, except per share data)		**Quarters ended March 31,** **2009**		2008
Revenues	**$**	**642.3**	$	712.3
Cost of sales and operating expenses (Note 5)		**723.2**		660.2
(Loss) earnings before the following		**(80.9)**		52.1
Other expense (Note 7)		**-**		(3.2)
Interest expense, net (Note 8)		**(4.8)**		(2.1)
(Loss) earnings before income taxes		**(85.7)**		46.8
Recovery of (provision for) income taxes		**30.7**		(17.6)
Net (loss) earnings for the period	**$**	**(55.0)**	$	29.2
Basic (loss) earnings per common share	**$**	**(0.92)**	$	0.46

CONSOLIDATED STATEMENTS OF RETAINED EARNINGS *(UNAUDITED)*

(millions)		**Quarters ended March 31,** **2009**		2008
Retained earnings, beginning of the period	**$**	**467.0**	$	411.7
Net (loss) earnings for the period		**(55.0)**		29.2
Dividends on common shares		**(14.9)**		(28.4)
Retained earnings, end of the period	**$**	**397.1**	$	412.5

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

CONSOLIDATED STATEMENTS OF COMPREHENSIVE (LOSS) INCOME *(UNAUDITED)*

(millions)	Quarters ended March 31, **2009**	2008
Net (loss) earnings for the period	**$ (55.0)**	$ 29.2
Other comprehensive income (loss)		
Unrealized foreign exchange gains on translation of self-sustaining foreign operations (U.S. subsidiaries)	**13.6**	12.2
Unrealized losses on items designated as net investment hedges (net of tax of $0.2 (2008: $0.2))	**(1.9)**	(2.1)
Unrealized losses on items designated as cash flow hedges (net of tax of $0.3 (2008: $0.2))	**(0.8)**	(0.5)
Other comprehensive income	**10.9**	9.6
Comprehensive (loss) income	**$ (44.1)**	$ 38.8

CONSOLIDATED STATEMENTS OF ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS) *(UNAUDITED)*

(millions)	Quarters ended March 31, **2009**	2008
Accumulated net unrealized foreign currency translation gains and losses		
Balance, beginning of period	**$ 36.9**	$ (45.7)
Net unrealized gain on translation of self-sustaining foreign operations	**13.6**	12.2
Balance, end of period	**50.5**	(33.5)
Accumulated net unrealized (loss) gain on cash flow and net investment hedges		
Balance, beginning of period	**(12.0)**	7.4
Transitional adjustment (net of tax of $2.0) (Note 2)	**5.4**	-
Unrealized losses on items designated as net investment hedges (net of tax of $0.2 (2008: $0.2))	**(1.9)**	(2.1)
Unrealized losses on items designated as cash flow hedges (net of tax of $0.3 (2008: $0.2))	**(0.8)**	(0.5)
Balance, end of period	**(9.3)**	4.8
Accumulated other comprehensive income (loss)	**$ 41.2**	$ (28.7)

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

CONSOLIDATED CASH FLOW STATEMENTS *(UNAUDITED)*

(millions)	Quarters ended March 31, **2009**	2008
Operating activities		
Net (loss) earnings from continuing operations	**$ (55.0)**	$ 29.2
Depreciation and amortization	**6.5**	5.7
Future income taxes	**2.1**	0.1
Gain (loss) on sale of fixed assets	**(0.2)**	-
Stock-based compensation	**0.4**	2.5
Pension expense (funding) (Note 11)	**(0.1)**	(0.1)
Other	**0.3**	3.4
Cash (used in) from operating activities before non-cash working capital	**(46.0)**	40.8
Changes in non-cash working capital items		
Accounts receivable	**105.2**	(71.3)
Inventories - non-cash change in NRV reserve	**94.5**	(0.2)
Inventories	**15.0**	12.9
Accounts payable and accrued liabilities	**(56.8)**	55.7
Current income taxes	**(68.7)**	8.8
Other	**1.1**	1.1
Change in non-cash working capital	**90.3**	7.0
Cash from operating activities	**44.3**	47.8
Financing activities		
Decrease in bank borrowing	**(24.9)**	-
Issue of common shares	**-**	1.0
Dividends on common shares	**(14.9)**	(28.4)
Repayment of long-term debt	**(0.4)**	(0.2)
Cash used in financing activities	**(40.2)**	(27.6)
Investing activities		
Purchase of fixed assets	**(3.8)**	(4.3)
Proceeds on sale of fixed assets	**0.6**	-
Other	**1.2**	0.5
Cash used in investing activities	**(2.0)**	(3.8)
Effect of exchange rates on cash	**0.1**	1.4
Increase in cash and cash equivalents	**2.2**	17.8
Cash and cash equivalents, beginning of the period	**44.9**	181.8
Cash and cash equivalents, end of the period	**$ 47.1**	$ 199.6

Supplemental cash flow information:		
Income taxes paid	**$ 35.2**	$ 10.2
Interest paid	**$ 8.5**	$ 7.5

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

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 2008 annual consolidated financial statements except as disclosed in Note 2. These interim consolidated financial statements should be read in conjunction with the 2008 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, 2009, the Company adopted the new accounting standard CICA Handbook section 3064, Goodwill and Intangible Assets. This standard is effective for fiscal years beginning on or after October 1, 2008 and establishes standards for the recognition, measurement and disclosure of goodwill and intangible assets. The adoption of this standard did not have a material effect on the Company's results of operation.

On January 1, 2009, the Company adopted EIC Abstract No. 173 "Credit Risk and the Fair Value of Financial Assets and Liabilities". This standard requires that the Company consider credit risk and counter party risk when determining the fair value of financial assets and liabilities. The Company adopted this standard retrospectively without restatement. The effect of the standard was to decrease derivatives by $7.4 million, increase future income tax liabilities by $2.0 million and increase accumulated other comprehensive income by $5.4 million on the balance sheet as of January 1, 2009.

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 sector 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.

4. ACQUISITION

On November 28, 2008, the Company completed its acquisition of 100% of the outstanding capital stock of Norton Metal Products, Inc., which is part of the metals service centers segment. The Company has contingent consideration of up to US$5 million which may be paid based on Norton achieving certain performance targets. The Company has accounted for the acquisition using the purchase method. The purchase price was allocated to the assets acquired and liabilities assumed based on their estimated fair value at the date of acquisition.

(millions)

Accounts receivable	**$ 5.5**
Inventories	**20.5**
Prepaid expenses and other assets	**0.1**
Property, plant and equipment	**8.5**
Accounts payable and accrued liabilities	**(6.4)**
Taxes payable	**(3.6)**
Intangible assets	**1.3**
Goodwill (non-tax deductible)	**7.4**
Net identifiable assets	**33.3**
Debt assumed	**(2.4)**
	30.9
Cash	**5.7**
Net assets acquired	**$ 36.6**
Consideration:	
Cash	**$ 36.2**
Transaction costs	**0.4**
	$ 36.6

5. INVENTORIES

Inventories are recorded at the lower of cost and net realizable value. Cost is determined on an average cost basis. Inventories of $646.6 million were expensed through cost of sales during the period including $94.5 million for inventory write-downs to net realizable value.

6. OTHER ASSETS

As at March 31, 2009, the Company held an investment in non-bank Canadian asset-backed commercial paper (ABCP). This investment, which had an original face value of $11.0 million, is included in other assets at its estimated fair value of $4.1 million. This investment matured on August 23, 2007 but was not repaid due to a disruption of the Canadian ABCP market. These notes were restructured under the Companies' Creditors Arrangement Act.

Under the terms of the restructuring, on January 21, 2009, the Company received $3.4 million A-1 notes, $6.1 million A-2 notes, $1.1 million B notes and $0.3 million C notes and designated these notes as held-for-trading. The A-1 and A-2 notes were assigned an investment grade rating of 'A' by DBRS. The B and C notes were not rated and are expected to accrue interest that will only be paid subsequent to the payment of interest and principal on the investment grade notes. In addition, on January 22, 2009, the Company received $0.4 million in accrued interest which was applied to the carrying value.

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 restructuring and other factors. Based on the Company's fair value assessment, no fair value adjustment was recorded in the quarter ended March 31, 2009 (2008: $2.9 million). The Company utilized the following assumptions:

Bankers' acceptance rate	0.64%
Discount rate for cash flows	9.2% - 9.7%
A-1 notes	100%
A-2 notes	88%
B and C notes	0%

The fair market value of this investment may be affected by changes in market conditions. 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 $0.6 million.

7. OTHER EXPENSE

(millions)	**Quarters ended March 31, 2009**	2008
Unrealized loss on investment (Note 6)	**$ -**	$ 2.9
Ineffectiveness on cash flow hedges	**-**	0.3
	$ -	$ 3.2

8. INTEREST EXPENSE

(millions)	**Quarters ended March 31, 2009**	2008
Interest on long-term debt	**$ 4.1**	$ 3.8
Other interest expense (income)	**0.7**	(1.7)
	$ 4.8	$ 2.1

9. STOCK-BASED COMPENSATION

During the quarter ended March 31, 2009, 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 per share and a fair value of $4.73. The following is a continuity of the Company's stock options outstanding:

	Number of Options		Weighted Average Exercise Price	
	2009	2008	**2009**	2008
Balance, January 1	**2,745,926**	2,146,683	**$ 26.46**	$ 25.07
Granted	**-**	834,841	**-**	26.70
Exercised	**-**	(95,700)	**-**	10.54
Forfeited	**(325,000)**	(7,600)	**33.81**	24.73
Balance, March 31	**2,420,926**	2,878,224	**$ 25.47**	$ 26.03
Exercisable	**1,228,888**	1,083,384	**$ 24.04**	$ 19.45

10. SEGMENTED INFORMATION

(millions)	Quarters ended March 31, **2009**	2008
Segment Revenues		
Metals service centers	**$ 325.4**	$ 401.2
Energy tubular products	**231.0**	213.5
Steel distributors	**84.8**	96.0
	641.2	710.7
Other	**1.1**	1.6
	$ 642.3	$ 712.3
Segment Operating (Losses) Profits		
Metals service centers	**$ (35.4)**	$ 32.1
Energy tubular products	**4.9**	15.6
Steel distributors	**(46.7)**	10.7
	(77.2)	58.4
Corporate expenses	**(3.0)**	(5.9)
Other income	**(0.7)**	(0.4)
	$ (80.9)	$ 52.1

(millions)	**March 31, 2009**	December 31, 2008
Identifiable assets		
Metals service centers	**$ 677.9**	$ 800.5
Energy tubular products	**616.1**	586.1
Steel distributors	**169.4**	274.2
Identifiable assets by segment	**1,463.4**	1,660.8
Assets not included in segments		
Cash	**47.1**	44.9
Income tax assets	**48.4**	8.1
Other assets	**13.6**	13.4
Corporate and other operating assets	**19.9**	23.5
Total assets	**$ 1,592.4**	$ 1,750.7

11. PENSION AND BENEFITS

For the quarter ended March 31, 2009 the total benefit cost from the defined benefit pension plans relating to employee future benefits was $0.6 million (2008: $0.3 million).

12. FINANCIAL INSTRUMENTS

a) As at March 31, 2009, the Company was contractually obligated to make payments under its long-term debt agreement, cross currency swap agreements and operating and capital lease obligations that come due during the following periods.

(millions)	Long-Term Debt Maturities	Long-Term Debt Interest	Capital Lease Obligations	Operating Lease Obligations	Total
2009 from March 31, 2009	$ -	$ 11.6	$ 1.4	$ 9.6	$ 22.6
2010	11.7	15.4	1.9	11.6	40.6
2011	-	15.4	2.1	9.3	26.8
2012	-	15.4	1.7	7.8	24.9
2013	-	15.4	1.8	5.8	23.0
2014 and beyond	220.5	6.4	1.8	10.0	238.7
Total	$ 232.2	$ 79.6	$ 10.7	$ 54.1	$ 376.6

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 March 31, 2009, this results in an obligation of $5.8 million. The fair value of the swaps includes an additional obligation of $5.9 million, which represents the fair value of payments for the remaining life of the swaps if the Company was to extinguish the swaps at March 31, 2009. At March 31, 2009, swaps contained an option for the Company and the swap counterparties to early terminate the swaps in the first quarter of 2010.

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 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 bank debt, net of cash and cash equivalents, is used to finance working capital, which is short-term in nature. The bank debt is 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 March 31, 2009, the Company had outstanding forward foreign exchange contracts in the amounts of US$3.1 million, maturing in the first half of 2009 (2008: US$34.7 million and €2.1 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 continuity of common shares issued and outstanding at March 31, 2009 was as follows:

	Number of Shares	Amount (millions)
Balance December 31, 2008	59,695,290	$ 478.8
Stock options exercised	-	-
Balance March 31, 2009	59,695,290	$ 478.8

	Quarters ended March 31,	
	2009	2008
Average shares outstanding		
Basic	**59,695,290**	63,088,828
Diluted	**59,756,485**	63,157,694

Fully-diluted loss per common share has not been disclosed as the effect of the exercise of options would be anti-dilutive (2008: $0.46).

The continuity of contributed surplus is as follows:

(millions)	**2009**	2008
Balance, January 1	**$ 9.4**	$ 6.2
Stock-based compensation expense	**0.4**	2.5
Exercise of options	**-**	(0.3)
Balance March 31	**$ 9.8**	$ 8.4

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 23, 2009, the Company announced a reduction in its common share dividend to $0.25 per share to preserve capital. The Company also did not renew its Normal Course Issuer Bid.

14. CREDIT FACILITY

On May 1, 2009, the Company entered into an agreement with a syndicate of banks to amend and restate its credit agreement. The new agreement provides an additional $52.5 million of credit availability to $252.5 million, increased interest and standby fees and an adjustment to the fixed charge coverage ratio covenant for potential inventory write-downs and goodwill and intangibles impairment.

RUSSEL METALS INC.
MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS FOR THE THREE MONTHS ENDED MARCH 31, 2009

This Management's Discussion and Analysis of Financial Condition and Results of Operations of Russel Metals Inc. and its subsidiaries provides information to assist readers of, and should be read in conjunction with, the Interim Consolidated Financial Statements for the three months ended March 31, 2009, including the notes thereto, and the Management's Discussion and Analysis and the audited Consolidated Financial Statements for the year ended December 31, 2008, including the notes thereto. 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 loss per share of $0.92 for the quarter ended March 31, 2009, is significantly lower than our basic earnings per share of $0.46 for the first quarter of 2008. The loss for the first quarter of 2009 includes an inventory write-down of approximately $94.5 million or $1.02 per share.

The metals industry has been significantly impacted by the difficult economic environment starting in October 2008. The environment has impacted demand from our customers in all three segments. The decline in demand has resulted in excess steel in the distribution channel in North America causing continued pressure on pricing.

Our metals service center segment had a volume decline of approximate 37% in the first quarter of 2009 compared to the first quarter of 2008. This decline is consistent with statistics reported for the industry by the Metals Service Center Institute. The drop in demand at service centers has in turn resulted in lower purchases from suppliers being either mills or steel distributors. Steel mills reacted to the decline in demand by significantly reducing production including shut-downs; however, excess inventory still exists which resulted in further price reductions during the month of March 2009. This excess inventory has impacted revenues at our steel distributor operations as service centers represent a large portion of their sales. Our metals service centers recorded inventory write-downs of approximately $28.8 million and steel distributors approximately $49.4 million related to pricing declines across most of their products in March 2009.

Our energy tubular products segment continued to service ongoing activity in the oil and gas sector during the first quarter of 2009. Volumes have declined from the first quarter of 2008; however, revenues are higher due to higher pricing. We are now in our seasonal low period and remain concerned about pricing of our product in this segment as oil and gas pricing remains at low levels. We have taken inventory write-downs of $16.3 million in the energy tubular products segment in the first quarter of 2009. Further price declines are anticipated for pipe product which would result in additional inventory write-downs.

In accordance with GAAP, we have taken a write-down of inventory to net realizable value. Net realizable value is an estimate of future selling price less costs to sell, which is higher than replacement cost and thus gross margins will be lower than historical levels until the average cost of inventory averages down to a level in line with current replacement costs.

Inventory write-downs as a percentage of pre write-down inventories were as follows.

	Quarter Ended March 31, 2009
Metals service centers	12%
Energy tubular products	3%
Steel distributors	27%

Results of Operations

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

	Quarters Ended March 31,		
(millions, except percentages)	**2009**	2008	2009 change as a % of 2008
Segment Revenues			
Metals service centers	**$ 325.4**	$ 401.2	(19%)
Energy tubular products	**231.0**	213.5	8%
Steel distributors	**84.8**	96.0	(12%)
Other	**1.1**	1.6	
	$ 642.3	$ 712.3	(10%)
Segment Operating Profit (Loss) Excluding Inventory Write-down			
Metals service centers	**$ (6.6)**	$ 32.1	(121%)
Energy tubular products	**21.2**	15.6	36%
Steel distributors	**2.7**	10.7	(75%)
Corporate expenses	**(3.0)**	(5.9)	49%
Other	**(0.7)**	(0.4)	
Operating profit (Loss)	**$ 13.6**	$ 52.1	(74%)
Inventory Write-down			
Metals service centers	**$ 28.8**	$ -	
Energy tubular products	**16.3**	-	
Steel distributors	**49.4**	-	
	$ 94.5	$ -	
Segment Operating Profit (Loss)			
Metals service centers	**$ (35.4)**	$ 32.1	(210%)
Energy tubular products	**4.9**	15.6	(69%)
Steel distributors	**(46.7)**	10.7	(536%)
Corporate expenses	**(3.0)**	(5.9)	49%
Other	**(0.7)**	(0.4)	
Operating profit (Loss)	**$ (80.9)**	$ 52.1	(255%)
Segment Gross Margin as a % of Revenues Excluding Inventory Write-down			
Metals service centers	**13.6%**	22.0%	
Energy tubular products	**16.1%**	13.3%	
Steel distributors	**9.3%**	18.2%	
Total operations	**14.0%**	19.1%	
Segment Operating Profit (Loss) as a % of Revenues Excluding Inventory Write-down			
Metals service centers	**(2.0%)**	8.0%	
Energy tubular products	**9.2%**	7.3%	
Steel distributors	**3.2%**	11.1%	
Total operations	**2.1%**	7.3%	

Metals Service Centers

a) Description of operations

We provide processing and distribution services to a broad base of approximately 33,000 end users through a network of 50 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, Norton Metals and Baldwin International.

On November 28, 2008, we completed the acquisition of Norton Metal Products, Inc., a metals service center located in Fort Worth, Texas, which is an addition to our JMS Russel Metals unit. Norton Metals had revenues of approximately $74 million for the trailing 12-month period prior to the acquisition date.

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 the first quarter of 2009 and 2008 is found in the section that follows.

Steel pricing fluctuates significantly throughout the steel cycle. Starting in October 2008, steel pricing and demand declined as a result of the financial and economic crisis, which negatively impacted the first quarter of 2009. 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, affects product availability. Trade sanctions are initiated either by steel mills or government agencies in North America and, less directly, worldwide.

Demand is significantly affected by economic cycles with revenues and operating profit 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. Tons shipped for the first quarter of 2009 are approximately 16% less than the fourth quarter of 2008 and approximately 37% less than the first quarter of 2008. A year over year drop in demand of approximately 37% is unprecedented in the service center industry.

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 20,000 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 13,000 customers. The addition of the JMS Russel Metals operations in 2007 and the Norton Metals operations in 2008 has increased our presence in the U.S.

The weakness of the Canadian dollar in the first quarter of 2009 versus the same period in 2008 has increased revenues and losses. Revenues and profits or losses of our U.S. operations reported in the first quarter of 2009 are converted at $1.2453 per US$1 compared to $1.0041 per US$1 for the first quarter of 2008.

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. Movement in the Canadian dollar can result in some products that we have purchased being subsequently available in the marketplace at a lower or higher cost. The weakness of the Canadian dollar since the summer of 2008 helped insulate our inventory in Canada against steel price declines based on U.S. dollar pricing.

c) Metals service centers segment results -- Three Months Ended March 31, 2009 Compared to March 31, 2008

Revenues for the three months ended March 31, 2009, declined 19% to $325.4 million compared to the same period in 2008. The decline is approximately 25% adjusting for the increase that relates to the acquisition of Norton Metals and the increase from the change in the U.S. dollar exchange rate.

Tons shipped in metals service centers in the first quarter of 2009 were approximately 37% lower than the first quarter of 2008 and 16% lower than the fourth quarter of 2008. The average selling price of metal for the three months ended March 31, 2009 was approximately 25% higher than the average selling price for the three months ended March 31, 2008.

Excluding inventory write-downs, gross margin as a percentage of revenues was 13.6% for the three months ended March 31, 2009 compared to 22.0% for the same period in 2008. The average cost of inventory is higher in the first quarter of 2009 versus the first quarter of 2008 as inventory values still reflect higher purchase prices from 2008. Pricing pressure from our competitors together with demands for lower pricing from our customers resulted in lower margins. In addition, inventory previously written down to net realizable value is priced above replacement cost resulting in a lower gross margin percentage when sold at current market prices. This will occur until inventory purchases at replacement cost lower the average price of our inventory to align with current replacement cost. Gross margin for the first quarter of 2009 was impacted negatively by a $28.8 million, or 12%, write-down of inventory to net realizable values.

Operating expenses in the first quarter of 2009 were approximately $9.8 million, or 17% lower than those in the first quarter of 2008 after adjusting for expenses of Norton Metals acquired in November 2008 and the impact of the U.S. dollar exchange rate on our operations located in the U.S. Our operations have reduced staff levels, reduced work weeks, taken pay cuts to align expenses with demand and substantially reduced or eliminated variable compensation based on current earnings. In addition, freight costs have declined with demand.

Metals service centers operating loss for the three months ended March 31, 2009 of $35.4 million compares to an operating profit of $32.1 million for the same period in 2008, mainly related to the $28.8 million inventory write-down and lower volumes.

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 2 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 the first quarter of 2009 and 2008 is found in the section that follows.

Oil and gas prices, which are among the factors that can impact oil rig count and subsequent drilling activities particularly in Western Canada, significantly affect demand for our products. The price of oil and natural gas declined significantly in the fourth quarter of 2008 and further into the first quarter of 2009. This decline has impacted demand for 2009.

The Government of Alberta raised royalty payments starting in 2009. This has adversely impacted the level of oil and gas rig activity, oil sands activity and investment in this province.

Pricing of metal is influenced by overall demand, trade sanctions and product availability. Trade sanctions are initiated either by steel mills or by government agencies in North America. Both Canadian and U.S. governments imposed duties on certain Chinese pipe effective at the beginning of 2008. In April 2009, the U.S. government has announced another review related to additional sizes and grades of Chinese pipe.

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. Depreciation of the Canadian dollar had a favourable impact on pricing of pipe inventory held at our Canadian locations.

Drilling related to oil and gas in Western Canada usually peaks during the period from October to March. Activity in the oil sands of northern Alberta and line pipe volumes in the U.S. offset declines in oil and gas drilling in Western Canada during the second and third quarter of 2008. We anticipate less activity in our energy operations during the second and third quarter of 2009.

c) Energy tubular products segment results -- Three Months Ended March 31, 2009 Compared to March 31, 2008

Revenues increased 8% to $231.0 million in the three months ended March 31, 2009 compared to the three months ended March 31, 2008. Approximately one-half of the increase relates to the increase in the U.S. dollar exchange rate. The remainder relates to sales of higher priced product as volumes were down. The price for oil and gas is at recent lows. This has impacted rig activity which is also at a recent low in March 2009. The low price of oil and gas, as well as the economic uncertainty, has caused the majority of our customers to reduce their spending budget for 2009. The seasonally slower period for drilling in Western Canada started earlier this year due to lower oil and gas pricing and cash preservation by some users of pipe.

Our gross margin of $20.8 million for the three months ended March 31, 2009 included $16.3 million for inventory write-downs. Excluding inventory write-downs our gross margin was 16.1% compared to 13.3% for 2008. Selling price for most of our product remained at good levels for the first quarter of 2009.

Operating expenses were higher by $3.0 million for the three months ended March 31, 2009 compared to the three months ended March 31, 2008. The increase mainly relates to expenses of our U.S. operations converted at a higher U.S. dollar rate and a bad debt expense of $1 million.

Operating profits decreased by $10.7 million to $4.9 million for the first quarter of 2009 compared to the same period in 2008. The decrease in operating profits was due to the inventory write-down of $16.3 million offset by higher margins on products sold and lower volumes.

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 the first quarter of 2009 and 2008 is found in the section that follows.

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.

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.

The Financial Instruments accounting standard adopted on January 1, 2007, 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 exchange rates causes the foreign currency gain or loss to vary significantly from reporting period to reporting period. The amounts recorded in operating expenses will reverse in future periods and will be added 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. During the first half of 2008, orders declined as current pricing for off shore product was higher due to demand outside North America and increased transportation cost, and thus import product was not competitively priced compared to domestic product. During the second half of 2008, off shore pricing was lower relative to escalating domestic prices resulting in imports starting to flow to North America. Sales in the first quarter of 2009 mainly relate to inventory purchased in the second half of 2008.

c) *Steel distributors segment results -- Three Months Ended March 31, 2009 Compared to March 31, 2008*

Steel distributors revenues decreased 12% to $84.8 million for the three months ended March 31, 2009 compared to the three months ended March 31, 2008 due to lower volumes offset by higher steel prices. The decline in revenue after adjusting for the higher U.S. dollar exchange rate for translation of the U.S. operations in 2009 was 20%. Our steel distributors have been impacted by lower demand from service centers due to service centers reducing their inventory levels to match current demand. In addition, the products that they source are under significant price pressure.

Gross margin, excluding inventory write-downs of $49.4 million or 27%, as a percentage of revenues was 9.3% for the three months ended March 31, 2009 which declined from 18.2% for the three months ended March 31, 2008. Gross margin was negatively impacted by falling steel prices and inventory on order prior to the financial crisis which had declined in value by the time the steel arrived resulting in higher costed inventory. The first quarter 2008 gross margin is above our historical levels.

Operating expenses were $1.6 million lower for the first quarter of 2009 compared to the first quarter of 2008, mainly related to lower variable compensation based on results.

Operating loss for the three months ended March 31, 2009 was $46.7 million, which compares to an operating profit of $10.7 million for the three months ended March 31, 2008, due to inventory write-downs and reduced volumes in 2009. Steel distributors had an operating profit of $2.7 million for the three months ended March 31, 2009 before giving effect to the inventory write-down.

Corporate Expenses -- Three Months Ended March 31, 2009 Compared to March 31, 2008

Corporate expenses decreased to $3.0 million for the three months ended March 31, 2009 compared to $5.9 million for the three months ended March 31, 2008. The decrease in expenses mainly related to decreased stock compensation as options were not issued in the first quarter of 2009 and no accrual for variable compensation due to reported losses. Our Board of Directors and all corporate employees have taken a 10% reduction in base salary starting in the first quarter of 2009.

Other -- Three Months Ended March 31, 2009 Compared to March 31, 2008

Other revenues and income represents the results of our bulk commodities handling terminal in Thunder Bay, Ontario. Revenues and operating loss for the first quarter of 2009 approximate those recorded in the first quarter of 2008.

Consolidated Results -- Three Months Ended March 31, 2009 Compared to March 31, 2008

Loss from operations was $80.9 million for the three months ended March 31, 2009, compared to an operating profit of $52.1 million for the three months ended March 31, 2008. Inventory write-downs totaling $94.5 million and lower volumes were the main contributing factors to the loss in the period.

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

(in millions)	Quarters Ended March 31 **2009**	2008
Interest on long-term debt	**$ 4.1**	$ 3.8
Other interest (net)	**0.7**	(1.7)
Total interest	**$ 4.8**	$ 2.1

Consolidated interest expense for the three months ended March 31, 2009 increased by $2.7 million to $4.8 million compared to the three months ended March 31, 2008. The increase relates to the change in the U.S. dollar exchange rate used to convert our long-term debt and higher borrowings in 2009.

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 amount of $11.0 million would not be repaid when due as a result of a disruption in the Canadian market for asset-backed commercial paper. A restructuring was completed in January 2009. As no active market exists for this investment, we have 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 A-1 and A-2 senior notes will be rated investment grade; the principal on the A-2, B and C notes will not be 100% redeemed; the notes will be interest bearing; interest received will be net of costs and the interest on the notes other than the A-1 notes will not be paid until 2017. A write-down of $2.9 million was taken in the first quarter of 2008. In the first quarter of 2009, we received $0.4 million in interest. We currently estimate that the fair value of these notes is $4.1 million. As more information and a market for the notes become available, the fair value will change.

Income Taxes
Our recovery of income taxes for the first quarter of 2009 was $30.7 million, due to losses reported. Our income tax rate for the three months ended March 31, 2009 was 35.8%, which is slightly higher than our normalized effective income tax rate due to the large portion of the losses being in the U.S. which has a higher effective income tax rate.

Net Earnings
Net loss for the first quarter of 2009 was $55.0 million compared to net earnings of $29.2 million for the first quarter of 2008. Basic loss per common share for the first quarter of 2009 was $0.92 compared to basic earnings of $0.46 per share for the first quarter of 2008.

Shares Outstanding and Dividends
The weighted average number of common shares outstanding for the first quarter of 2009 was 59,695,290 compared to 63,088,828 for the first quarter of 2008. As at March 31, 2009 and May 12, 2009, we had 59,695,290 common shares outstanding.

We paid common share dividends of $14.9 million in the first quarter of 2009 compared to $28.4 million in the first quarter of 2008. The decrease relates to our reduced dividend rate. We paid cash dividends of $0.25 per share for the first quarter 2009 compared to $0.45 per share for the first quarter of 2008.

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 $308 million available for restricted payments. The basket is adjusted for 50% of net earnings or losses on a quarterly basis unless losses exceed earnings since March 2004 in which case 100% of losses are deducted. Share buybacks deplete the basket and proceeds for shares issued increase the basket.

Our ability to pay dividends is also impacted by covenants in our syndicated bank facility. For example, we must maintain a fixed charge coverage ratio of 1.1 to 1 and this ratio is impacted by dividends that we declare. The fixed charge coverage ratio is measured at the end of each fiscal quarter. The numerator consists of our trailing 12-month earnings before depreciation, amortization, interest and taxes less (i) current taxes included in our provision for income taxes for the trailing 12-month period, (ii) the dividend declared in the next following quarter multiplied by four, and (iii) in certain circumstances capital expenditures during the 12-month period. The denominator consists principally of our interest expense, scheduled principal repayments on long-term debt, if applicable, and the principal component of payments under capital leases.

On May 1, 2009, we increased and amended our credit facility with our syndicate of banks to allow us to exclude up to $200 million of inventory write-downs plus $74 million for any write-down of goodwill and intangibles currently on the balance sheet as non-cash charges from the trailing 12-month earnings. The exclusion relates to write-downs after January 1, 2009. As at March 31, 2009, our fixed charge coverage ratio, before utilization of any portion of the $200 million exclusion, was 7.3 to 1. In addition, if we utilize any portion of the adjustment for excluded items, the payment of any dividend will be subject to excess borrowing base availability of four times the declared dividend. Based on our levels of accounts receivable and inventories traditionally held we do not believe this will restrict our ability to pay dividends.

EBITDA

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

(millions)	**Quarters Ended March 31** **2009**	2008	**Twelve Months Ended March 31** **2009**	2008
Net (loss) earnings for the period	**$ (55.0)**	$ 29.2	**$ 144.3**	$ 110.1
(Recovery) provision for income taxes	**(30.7)**	17.6	**67.8**	62.2
Interest expense, net	**4.8**	2.1	**13.3**	7.4
(Loss) earnings before interest and income taxes (EBIT)	**(80.9)**	48.9	**225.4**	179.7
Depreciation and amortization	**6.5**	5.7	**24.2**	21.2
(Loss) earnings before interest, income taxes, depreciation and amortization (EBITDA)	**$ (74.4)**	$ 54.6	**$ 249.6**	$ 200.9

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 $3.8 million for the first quarter of 2009 compared to $4.3 million in the first quarter of 2008. Depreciation expense was $6.3 million for the three months ended March 31, 2009 and $5.4 million for the three months ended March 31, 2008.

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 be at lower levels in 2009; however, we expect them to approximate our depreciation expense over the long term. We are in the process of replacing our Saskatoon facility with a larger facility for which we project a capital expenditure of $5.3 million in 2009. The sale of the current facility for $4.9 million is expected to close in May 2009.

Liquidity

At March 31, 2009, we had cash net of bank indebtedness of $5.5 million compared to net bank indebtedness of $20.0 million at December 31, 2008.

We generated net cash of $25.5 million in the quarter. Accounts receivable generated more cash than anticipated due to strong collections and reduced accounts receivable balances a result of lower volumes and selling prices. An increase in inventory in the energy tubular products segment was offset by a significant reduction at metal service centers and a reduction at steel distributors. Accounts payable, although down from year end, represents an increase in trade payables for the energy tubular products segment related to shipments received in the first quarter of 2009. We expect that accounts payable will reduce further in the second quarter of 2009.

Our metals distribution business experiences significant swings in working capital which impact cash flow. Inventory and accounts receivable represent a large percentage of our total assets employed and vary throughout each cycle. Accounts receivable and inventory comprise our largest liquidity risks. Our customers are impacted by the current economic climate and thus it is possible to experience increased days outstanding for accounts receivable and additional bad debts, which may affect the timing of collections. Similarly, the current environment results in less demand for our products, which may result in higher inventory levels and lower inventory turns. At March 31, 2009, current assets represented 79% of our total assets versus 81% at December 31, 2008. Total assets were $1.6 billion at March 31, 2009 and $1.8 billion at December 31, 2008.

Decreases in accounts receivable and inventory, excluding inventory write-downs, have generated $120.3 million of cash in the first quarter of 2009 driven by lower volumes and lower steel pricing. Accounts payable and accrued liabilities utilized cash of $56.8 million related to payment of trade payables and variable compensation accrued in 2008.

Cash generated from operating activities was $44.3 million for the three months ended March 31, 2009 compared to $47.8 million for the three months ended March 31, 2008.

Cash generated from inventory, excluding inventory write-downs of $94.5 million, was $15.0 million in the first quarter of 2009 mainly related to a significant drop in tons shipped at metals service centers and steel distributors partially offset by an increase in our energy tubular products segment. Inventories represent 52% of our total assets at March 31, 2009.

Inventory by Segment	**Mar. 31, 2009**	**Dec. 31, 2008**	Mar. 31, 2008
Metals service centers	**$ 213.6**	**$ 306.3**	$ 278.1
Energy tubular products	**483.2**	**399.2**	213.8
Steel distributors	**130.6**	**219.6**	74.6
Total operations	**$ 827.4**	**$ 925.1**	$ 566.5

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

	Quarters Ended				
Inventory Turns	**Mar. 31 2009**	**Dec. 31 2008**	**Sept. 30 2008**	**June 30 2008**	Mar. 31 2008
Metals service centers	**5.3**	**4.5**	**4.2**	**4.5**	4.5
Energy tubular products	**1.6**	**2.4**	**4.0**	**3.6**	3.9
Steel distributors	**2.4**	**1.8**	**2.6**	**4.3**	4.2
Total operations	**2.7**	**2.9**	**3.9**	**4.2**	4.2

Our metals service centers have fewer tons of inventory priced at a lower average price. Inventory has been reduced to align with lower sale volumes. The metal service centers turns are at a very strong level considering the decline in demand experienced. Based on information published by the Metals Service Center Institute in its monthly Metals Activity Report, average inventory turns for the three months ended March 31, 2009 for U.S. service centers was 3.7 turns and for Canadian service centers was 4.2 turns.

Our energy tubular products operations placed orders in the third quarter of 2008 for the anticipated seasonally strong period of October to March. These orders were based on record high levels of demand during the second and third quarters of 2008 and concern by our customers over availability due to mill allocation of product. The financial crisis and lower oil and gas prices have drastically reduced pipe demand. This has resulted in all of our energy tubular products units having more inventory than the current environment supports. Pipe pricing remains high and has not seen the same downward pressure as our other two segments. We anticipate that inventory levels in this segment for the next six months will stay higher than is supported by customer demand. In addition, we have concerns that pricing may deteriorate during this period resulting in lower margins and additional write-downs of inventory.

Our steel distributor segment received inventory in the fourth quarter of 2008 and the first quarter of 2009 that was ordered when pricing was higher. The current economic downturn has impacted demand and thus this segment also has more inventory than the current demand of its customers. In addition, significant inventory write-downs have been required due to falling prices of plate and structural product.

As a result of lower revenues and selling prices and continued good collections, accounts receivable generated cash of $105.2 million since December 31, 2008. We remain cautious concerning our customers ability to access funding to operate their businesses during this current business cycle. Accounts receivable represent 21% of our total assets.

During the three months ended March 31, 2009, we made income tax payments of $35.2 million compared to payments of $10.2 million for the three months ended March 31, 2008. The 2009 payments of $35.2 million included $28.9 million related to 2008. The current tax recovery represents refunds from loss carrybacks to prior years taxable income.

During the three months ended March 31, 2009, we utilized cash of $3.8 million for capital expenditures and $14.9 million for common share dividends. During the three months ended March 31, 2008, we utilized cash of $4.3 million for capital expenditures and $28.4 million for common share dividends.

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

Free Cash Flow

(millions)	**Quarters Ended March 31 2009**	2008
Cash from operating activities before working capital	**$ (46.0)**	$ 40.8
Purchase of fixed assets	**(3.8)**	(4.3)
	(49.8)	36.5
Non-cash inventory write-down	**94.5**	-
	$ 44.7	$ 36.5

Free cash flow may be useful in assessing our ability to pay dividends, reduce outstanding debt and fund working capital growth. Free cash flow has been adjusted to remove non-cash inventory write-downs from operating activities. Free cash flow is a non-GAAP measure regularly used by investors and analysts to evaluate companies.

Cash, Debt and Credit Facilities

Debt

(millions)	**Amortized Cost or Fair Value** **March 31, 2009**	December 31, 2008
Long-Term Debt		
6.375% US$175 million Senior Notes due March 1, 2014	**$ 216.6**	$ 210.2
Capital leases		
Arkansas development bonds, maturing 2014 to 2017	**7.2**	7.3
Other	**1.4**	1.4
	225.2	218.9
Current portion	**1.5**	1.4
	$ 223.7	$ 217.5
Obligations under cross currency swaps		
Foreign exchange difference on US$100 million	**$ 5.8**	$ 9.3
Additional fair value of cash flows to terminate swaps	**5.9**	12.8
	$ 11.7	$ 22.1

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

Cash and Bank Credit Facilities

As at March 31, 2009 (millions)	Russel Metals Facility	U.S. Subsidiary Facility	Total
Bank loans	$ 29.0	$ 15.9	$ 44.9
Cash net of outstanding cheques	(49.7)	(0.7)	(50.4)
Net (cash) borrowings	(20.7)	15.2	(5.5)
Letters of credit	5.1	4.6	9.7
	$ (15.6)	$ 19.8	$ 4.2
Facilities availability	$ 200.0	$ 72.5	$ 272.5

As at March 31, 2009, we had a facility with a syndicate of Canadian and U.S. banks for a revolving loan of $200 million. On May 1, 2009, the facility was amended to allow for borrowings and letters of credit totaling $252.5 million. In addition, it provides for an adjustment to the fixed charge coverage ratio to exclude from EBIT non-cash inventory write-downs of up to $200 million plus any write-down of goodwill and intangibles currently on the balance sheet. The term of the amended facility was extended to April 29, 2011. We may extend this facility annually with the consent of the syndicate. The facility consists of availability of $202.5 million to be utilized for borrowings and letters of credit and $50 million to be utilized only for letters of credit. Letters of credit will be issued under the $50 million line first and additional needs will be issued under the $202.5 million line. The borrowings and letters of credit are available on a revolving basis, up to an amount equal to the sum of specified percentages of our eligible accounts receivable and inventories, to a maximum of $252.5 million. As of May 1, 2009, we were entitled to borrow and issue letters of credit totaling $252.5 million under this facility. At March 31, 2009, we had $29 million of borrowings and had letters of credit of $5.1 million. At March 31, 2008, we had no borrowings and had letters of credit of $46.7 million under this facility.

In addition, a U.S. subsidiary has its own one year bank credit facility which is renewed annually in July. The maximum borrowing under this facility at March 31, 2009 was US$57.5 million. At March 31, 2009, this subsidiary had borrowings of US$12.6 million and had letters of credit of US$3.7 million. At March 31, 2008, this subsidiary had no borrowings and had letters of credit of US$23.5 million.

Based on cash, cash equivalents and our bank facilities, we have access to approximately $268.3 million of cash availability based on our March 31, 2009 balances. The use of our bank facilities has been predominantly to fund working capital requirements. With increased steel prices and demand we had increased accounts receivable and inventories. As steel prices and demand decline these balances reduce and are used to reduce bank borrowings.

Contractual Obligations

As at March 31, 2009, we were contractually obligated to make payments under our long-term debt agreements, cross currency swap agreements, capital leases, and operating lease obligations that come due in the future. See the notes to the financial statements for future obligations by year.

We have disclosed our obligations related to 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 March 31, 2009 exchange rate of $1.2602 per US$1, we would incur an obligation of $5.8 million in addition to our long-term debt obligation of $216.6 million. The fair value of our swaps includes an additional obligation of $5.9 million, which represents the fair value of payments for the remaining life of the debt if we were to extinguish the swaps at March 31, 2009.

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 financial instruments note to the financial statements.

We have multiple defined benefit pension plans in Canada, as disclosed in Note 18 to our 2008 annual consolidated financial statements. In the first quarter of 2009, we contributed $0.7 million to these plans. We expect additional contributions of approximately $2.5 million during the remainder of the year.

Accounting and Reporting Changes

Effective January 1, 2009, we adopted the new accounting standard: CICA Handbook section 3064, Goodwill and Intangible Assets. This standard is effective for fiscal years beginning on or after October 1, 2008. It establishes standards for the recognition, measurement and disclosure of goodwill and intangible assets. The adoption of this standard did not have a material effect on the Company's results of operations or cash flows.

Effective January 1, 2009, we adopted EIC Abstract No. 173 "Credit Risk and the Fair Value of Financial Assets and Liabilities". This standard requires that the Company consider credit risk and counter party risk when determining the fair value of financial assets and liabilities. The adoption results in an adjustment to the January 1, 2009 balance sheet. We decreased derivatives by $7.4 million, increased future income tax liabilities by $2.0 million and increased accumulated other comprehensive income by $5.4 million.

In February 2008, the Accounting Standards Board announced that International Financial Reporting Standards (IFRS) will become Canadian Accounting Standards for publicly accountable enterprises on January 1, 2011. We have performed a preliminary analysis of the impacts of IFRS on our financial reporting process. As a result, we have identified the areas that we believe will have the most significant changes. We have begun the process of performing a qualitative analysis of the expected impacts as well as a quantitative analysis of the more significant or complex issues. As part of our implementation plan, we have increased our technical resources to help with the development and implementation of our plan and to ensure an effective transition to IFRS. A preliminary timeline and framework for implementation has been established.

As part of our IFRS project, we have compiled information with respect to the implementation of International Accounting Standard (IAS) 16, Property Plant and Equipment (PP&E) on our metal service centers. Specifically we are evaluating the affect of component accounting on our fixed asset accounting systems. During the second quarter of 2009, we plan to continue our focus on implementation of the factors effecting fixed assets.

Accounting Estimates

The preparation of our financial statements requires management to make estimates and judgements that affect the reported amounts. On an ongoing basis, we evaluate our estimates, including those related to bad debts, inventory net realizable value and obsolescence, useful lives of fixed assets, 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 inventories.

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, which 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 March 31, 2009 is approximately $1 million higher than at December 31, 2008.

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 estimated selling price and when product is determined slow moving or obsolete. Significant reductions in estimated selling price have resulted in additional write-downs. The inventory reserve level at March 31, 2009 has increased compared to the level at December 31, 2008. The current financial conditions have negatively impacted both demand and pricing for our inventories. During the quarter ended March 31, 2009, we increased cost of sales by $94.5 million related to inventory write-downs.

Other areas involving significant estimates and judgements include:

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

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 plan costs. We account for differences between actual and assumed results by recognizing differences in benefit obligations and plan performance over the working lives of the employees who benefit from the plans.

We had approximately $71.4 million in plan assets at March 31, 2009, which is consistent with the value from December 31, 2008.

Investment in Asset-Backed Commercial Paper
We have 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 non-bank asset-backed commercial paper is included in Other Assets at its estimated fair value. As there is currently no market for this asset, 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 disclosure controls and procedures and our internal controls over financial reporting. The design of internal controls was completed using the framework and criteria established in "Internal Control – Integrated Framework" issued by the Committee of Sponsoring Organizations of the Treadway Commission.

No changes were made in our disclosure controls or our internal control over financial reporting during the first quarter of 2009 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 Norton Metal Products, Inc. in November 2008 adds to our 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 current financial crisis has created uncertainty in the business communities we service. This uncertainty has caused steel pricing and demand to significantly decrease in the first quarter of 2009. The timing and extent of future price changes from steel producers and their impact on us can not be predicted with any certainty due to the inherent cyclical nature of the steel industry. Demand for our product may be further reduced due to uncertainty of our customer base and if our customers are unable to finance their current operations.

Outlook

Demand levels need to improve in each of our three business segments to achieve more normalized profit levels. In addition, supplier price reductions must stop in order to eliminate the effects of inventory holding losses and restore customer confidence that they can buy without the risk of losses on their inventory.

Metals service centers and steel distributors require end users of steel to increase their purchases. We believe our customers are aligning their finished goods inventory to match the lower demand levels of their customers.

Our energy tubular products segment is most dependent on the price of natural gas, which impacts drilling activity. In addition, margins in this sector will continue to be under pressure for the balance of 2009 until inventory in the distribution channel is reduced.

At the present time demand is unchanged from the first quarter of 2009. We do anticipate the levels in all three segments to improve through the balance of 2009 but to what extent and when is impossible to forecast at this time.

May 12, 2009