Second Quarter June 30, 2009

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REPORT TO SHAREHOLDERS

The North American manufacturing industry continued to experience weak demand in the second quarter of 2009. The North American oil and natural gas drilling rig counts dropped and our energy tubular products segment experienced weak demand and declining product pricing especially in our U.S. operations. We recorded a net loss of $0.41 per share in the second quarter of 2009 compared to earnings of $1.25 per share in the second quarter of 2008. Inventory write-downs in the second quarter were $56 million or $0.59 per share. We also recorded a gain on sale of a property of $4 million as we are expanding to a larger facility in Saskatoon. Excluding these items we recorded adjusted net income of $0.10 per share in the quarter. The full effect of the cost reductions announced on February 23, 2009 was realized in the quarter with a reduction in operating and corporate expenses of $40 million compared to the second quarter of 2008.

Metals service centers revenues for the second quarter of 2009 were down 45% compared to the second quarter of 2008. Segment operating income, before inventory write-downs of $2 million, was $4 million. Steel prices started to fall in the fourth quarter of 2008 and continued to weaken through 2009. Service center prices on all products softened throughout the second quarter but the pace of decline slowed. In July, product pricing has stabilized in most service center products. Demand in the quarter was 40% lower than the same period in 2008. 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. In addition to the decline in demand, selling prices have decreased by approximately 12% over the second quarter of 2008.

The second quarter is traditionally a slower quarter in the energy tubular products segment due to the seasonal slowdown in drilling activity, which was exacerbated in the 2009 second quarter due to weak natural gas prices. This combined with an abundance of pipe inventory in the energy distribution channel resulted in price declines, and inventory write-downs of $55 million were recorded in this segment during the second quarter. Revenues at energy tubular products decreased by 45% for the second quarter of 2009 compared to the same quarter in 2008. Gross margins dropped in reaction to competitive pricing pressures caused by excess inventory and falling prices. The gross margins before inventory write-downs were 12.1% compared to 20.5% in the comparative 2008 second quarter. This segment generated an operating profit, before inventory write-downs, of $6 million in the second quarter of 2009.

Revenues in the steel distributors segment declined in the second quarter of 2009 by 53% compared to the second quarter of 2008. This segment continues to experience weak demand as it’s customers, OEM’s and service centers, reduce high inventory levels in reaction to the economic slowdown. Steel distributors generated an operating profit of $5 million in the second quarter of 2009. This segment did not record inventory write-downs in the second quarter of 2009 as pricing, although comparatively low, stabilized.

As previously announced during the first quarter, we implemented significant cost reduction initiatives across the Company. Our operations managers are constantly reviewing cost reduction proposals and have initiated reductions in a timely and aggressive manner. We appreciate the tremendous effort put forth by our operating teams to deal with the economic slowdown.

During the quarter, we generated $81 million in cash from operating activities. Cash generated from accounts receivable was $77 million and from inventory reductions was $99 million. Cash utilized to reduce trade accounts payable was $115 million as our energy tubular products segment paid for inventory purchases received in the first quarter of 2009.

The Board of Directors has approved a quarterly dividend of $0.25 per common share payable September 15, 2009 for shareholders of record as of August 24, 2009.

Outlook

In the third quarter of 2009, the steel mills have announced price increases, which should result in margin improvements. Demand levels remain unchanged and need to improve in each of our three business segments to achieve more normalized profit levels. Our energy tubular products segment may have additional inventory write-downs in 2009 if our competitors continue to drop selling prices in reaction to excess inventory positions and cash flow pressures.

We anticipate demand levels in all three segments will improve through the balance of 2009 but to what extent is impossible to forecast at this time.

B. R. Hedges
President and Chief Executive Officer

August 5, 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 June 30, 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.

August 5, 2009

B. R. Hedges
President and Chief Executive Officer

M. E. Britton
Vice President and Chief Financial Officer

CONSOLIDATED BALANCE SHEETS *(UNAUDITED)*

(millions)	**June 30 2009**	December 31 2008
ASSETS		
Current		
Cash and cash equivalents	**$ 113.7**	$ 44.9
Accounts receivable	**243.7**	429.3
Inventories (Note 5)	**644.1**	925.1
Prepaid expenses and other assets	**6.2**	8.1
Income taxes	**65.7**	7.1
	1,073.4	1,414.5
Property, Plant and Equipment	**239.7**	249.9
Future Income Tax Assets	**1.0**	1.0
Pensions and Benefits	**6.9**	6.5
Other Assets (Note 6)	**8.5**	7.0
Goodwill and Intangibles	**68.4**	71.8
	$ 1,397.9	$ 1,750.7
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current		
Bank indebtedness	**$ 44.3**	$ 64.9
Accounts payable and accrued liabilities	**245.5**	420.7
Income taxes payable	**2.4**	30.3
Current portion long-term debt	**1.4**	1.4
	293.6	517.3
Derivatives	**21.1**	22.1
Long-Term Debt	**205.9**	217.5
Pensions and Benefits	**5.9**	5.8
Future Income Tax Liabilities	**11.8**	7.9
	538.3	770.6
Shareholders' Equity (Note 13)		
Common shares	**478.8**	478.8
Retained earnings	**357.6**	467.0
Contributed surplus	**10.3**	9.4
Accumulated other comprehensive income	**12.9**	24.9
	859.6	980.1
	$ 1,397.9	$ 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 June 30 **2009**	2008	Six months ended June 30 **2009**	2008
Revenues	**$ 462.5**	$ 856.3	**$ 1,104.8**	$ 1,568.6
Cost of sales and operating expenses (Note 5)	**506.7**	734.9	**1,229.9**	1,395.1
(Loss) earnings before the following	**(44.2)**	121.4	**(125.1)**	173.5
Other income (expense) (Note 7)	**4.3**	0.7	**4.3**	(2.5)
Interest expense, net (Note 8)	**(4.4)**	(2.3)	**(9.2)**	(4.4)
(Loss) earnings before income taxes	**(44.3)**	119.8	**(130.0)**	166.6
Recovery of (provision for) income taxes	**19.7**	(41.0)	**50.4**	(58.6)
Net (loss) earnings for the period	**$ (24.6)**	$ 78.8	**$ (79.6)**	$ 108.0
Basic (loss) earnings per common share	**$ (0.41)**	$ 1.25	**$ (1.33)**	$ 1.71

CONSOLIDATED STATEMENTS OF RETAINED EARNINGS *(UNAUDITED)*

(millions)	Quarters ended June 30 **2009**	2008	Six months ended June 30 **2009**	2008
Retained earnings, beginning of the period	**$ 397.1**	$ 412.5	**$ 467.0**	$ 411.7
Net (loss) earnings for the period	**(24.6)**	78.8	**(79.6)**	108.0
Dividends on common shares	**(14.9)**	(28.5)	**(29.8)**	(56.9)
Retained earnings, end of the period	**$ 357.6**	$ 462.8	**$ 357.6**	$ 462.8

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

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

(millions)	Quarters Ended June 30 2009	2008	Six months Ended June 30 2009	2008
Net (loss) earnings for the period	**$ (24.6)**	$ 78.8	**$ (79.6)**	$ 108.0
Other comprehensive (loss) income				
Unrealized foreign exchange (losses) gains on translation of self-sustaining foreign operations (U.S. subsidiaries)	**(34.9)**	(2.6)	**(21.3)**	9.6
Unrealized gains (losses) on items designated as net investment hedges (Note 15)	**5.3**	0.5	**3.4**	(1.6)
Unrealized gains (losses) on items designated as cash flow hedges (Note 15)	**1.3**	(2.2)	**0.5**	(2.7)
Other comprehensive (loss) income	**(28.3)**	(4.3)	**(17.4)**	5.3
Comprehensive (loss) income	**$ (52.9)**	$ 74.5	**$ (97.0)**	$ 113.3

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

(millions)	Quarters Ended June 30 2009	2008	Six months Ended June 30 2009	2008
Accumulated net unrealized foreign currency translation gains and losses				
Balance, beginning of period	**$ 50.5**	$ (33.5)	**$ 36.9**	$ (45.7)
Unrealized foreign exchange (losses) gains on translation of self-sustaining foreign operations	**(34.9)**	(2.6)	**(21.3)**	9.6
Balance, end of period	**15.6**	(36.1)	**15.6**	(36.1)
Accumulated net unrealized (loss) gain on cash flow and net investment hedges				
Balance, beginning of period	**(9.3)**	4.8	**(12.0)**	7.4
Transitional adjustment (net of tax of $2.0) (Note 2)	**-**	-	**5.4**	-
Unrealized gains (losses) on items designated as net investment hedges (Note 15)	**5.3**	0.5	**3.4**	(1.6)
Unrealized gains (losses) on items designated as cash flow hedges (Note 15)	**1.3**	(2.2)	**0.5**	(2.7)
Balance, end of period	**(2.7)**	3.1	**(2.7)**	3.1
Accumulated other comprehensive income (loss)	**$ 12.9**	$ (33.0)	**$ 12.9**	$ (33.0)

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

CONSOLIDATED CASH FLOW STATEMENTS *(UNAUDITED)*

(millions)	Quarters ended June 30 **2009**	2008	Six months ended June 30 **2009**	2008
Operating activities				
Net (loss) earnings from continuing operations	**$ (24.6)**	$ 78.8	**$ (79.6)**	$ 108.0
Depreciation and amortization	**6.5**	5.7	**13.0**	11.4
Future income taxes	**1.9**	1.2	**4.0**	1.3
(Gain) loss on sale of fixed assets	**(4.3)**	0.1	**(4.5)**	0.1
Stock-based compensation	**0.5**	0.4	**0.9**	2.9
Pension expense (funding) (Note 11)	**(0.2)**	-	**(0.3)**	(0.1)
Other	**0.1**	(0.7)	**0.4**	2.7
Cash (used in) from operating activities before non-cash working capital	**(20.1)**	85.5	**(66.1)**	126.3
Changes in non-cash working capital items				
Accounts receivable	**77.0**	(62.4)	**182.2**	(133.7)
Inventories - change in NRV reserve	**56.2**	-	**150.7**	-
Inventories	**99.1**	(55.3)	**114.1**	(42.6)
Accounts payable and accrued liabilities	**(115.4)**	90.1	**(172.2)**	145.8
Current income taxes	**(16.2)**	13.1	**(84.9)**	21.9
Other	**0.8**	(0.9)	**1.9**	0.2
Change in non-cash working capital	**101.5**	(15.4)	**191.8**	(8.4)
Cash from operating activities	**81.4**	70.1	**125.7**	117.9
Financing activities				
Increase (decrease) in bank borrowing	**7.0**	-	**(17.9)**	-
Issue of common shares	**-**	1.5	**-**	2.5
Dividends on common shares	**(14.9)**	(28.5)	**(29.8)**	(56.9)
Repayment of long-term debt	**(0.3)**	(0.2)	**(0.7)**	(0.4)
Deferred financing	**(2.3)**	-	**(2.3)**	-
Cash used in financing activities	**(10.5)**	(27.2)	**(50.7)**	(54.8)
Investing activities				
Purchase of fixed assets	**(2.9)**	(6.1)	**(6.7)**	(10.4)
Proceeds on sale of fixed assets	**5.0**	0.1	**5.6**	0.1
Other	**(6.0)**	(0.8)	**(4.8)**	(0.3)
Cash used in investing activities	**(3.9)**	(6.8)	**(5.9)**	(10.6)
Effect of exchange rate changes on cash and cash equivalents	**(0.4)**	(0.2)	**(0.3)**	1.2
Increase in cash and cash equivalents	**66.6**	35.9	**68.8**	53.7
Cash and cash equivalents, beginning of the period	**47.1**	199.6	**44.9**	181.8
Cash and cash equivalents, end of the period	**$ 113.7**	$ 235.5	**$ 113.7**	$ 235.5
Supplemental cash flow information:				
Income taxes paid	**$ 1.5**	$ 25.5	**$ 36.7**	$ 35.7
Interest paid	**$ 0.5**	$ 0.1	**$ 9.0**	$ 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 natural 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)

Working capital	**$ 19.6**
Property, plant and equipment	**8.5**
Taxes payable	**(3.6)**
Intangible assets	**1.3**
Goodwill (non-tax deductible)	**7.5**
Net identifiable assets	**33.3**
Cash, net of debt assumed	**3.3**
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 $440.7 million (six months ended: $1,087.3 million) were expensed through cost of sales during the period including $56.2 million (six months ended: $150.7 million) for inventory write-downs to net realizable value.

6. OTHER ASSETS

Other Assets includes deferred charges on credit facilities, long-term receivables and non-bank asset-backed commercial paper.

As at June 30, 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 $4.0 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 May 14, 2009, the Company received $0.1 million (six months ended: $0.5 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 six months ended June 30, 2009 (2008: $3.2 million). The Company utilized the following assumptions:

Bankers' acceptance rate	0.31%
Discount rate for cash flows	9.4% - 9.9%
Expected return on principal:	
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 INCOME (EXPENSE)

	Quarters ended June 30		Six months ended June 30	
(millions)	**2009**	2008	**2009**	2008
Gain on sale of long-lived asset	$ 4.3	$ -	$ 4.3	$ -
Unrealized loss on investment (Note 6)	**-**	(0.3)	**-**	(3.2)
Ineffectiveness on cash flow hedges	**-**	1.0	**-**	0.7
	$ 4.3	$ 0.7	$ 4.3	$ (2.5)

On May 8, 2009, the Company completed the sale of its Saskatoon, Saskatchewan facility. The property was sold since a larger facility in Saskatoon is being constructed.

8. INTEREST EXPENSE, NET

	Quarters ended June 30		Six months ended June 30	
(millions)	**2009**	2008	**2009**	2008
Interest on long-term debt	**$ 4.1**	$ 3.8	**$ 8.2**	$ 7.6
Other interest expense (income)	**0.3**	(1.5)	**1.0**	(3.2)
	$ 4.4	$ 2.3	**$ 9.2**	$ 4.4

9. STOCK-BASED COMPENSATION

During the quarter ended June 30, 2009, the Company did not issue stock options. 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
Granted	**-**	-	**-**	-
Exercised	**(2,000)**	(94,798)	**9.15**	16.24
Forfeited	**(8,000)**	(12,300)	**29.13**	24.51
Balance, June 30	**2,410,926**	2,771,126	**$ 25.47**	$ 26.37
Exercisable	**1,520,721**	1,933,626	**$ 23.81**	$ 23.14

10. SEGMENTED INFORMATION

	Quarters ended June 30		**Six months ended June 30**	
(millions)	**2009**	2008	**2009**	2008
Segment Revenues				
Metals service centers	**$ 274.3**	$ 497.3	**$ 599.7**	$ 898.5
Energy tubular products	**130.1**	235.4	**361.1**	448.9
Steel distributors	**56.0**	119.6	**140.8**	215.6
	460.4	852.3	**1,101.6**	1,563.0
Other	**2.1**	4.0	**3.2**	5.6
	$ 462.5	$ 856.3	**$ 1,104.8**	$ 1,568.6
Segment Operating (Losses) Profits				
Metals service centers	**$ 2.3**	$ 72.3	**$ (33.1)**	$ 104.4
Energy tubular products	**(48.7)**	28.5	**(43.8)**	44.1
Steel distributors	**5.2**	25.6	**(41.5)**	36.3
	(41.2)	126.4	**(118.4)**	184.8
Corporate expenses	**(3.4)**	(6.8)	**(6.4)**	(12.7)
Other operating income	**0.4**	1.8	**(0.3)**	1.4
	$ (44.2)	$ 121.4	**$ (125.1)**	$ 173.5

(millions)	June 30 2009	December 31 2008
Identifiable assets		
Metals service centers	**$ 603.4**	$ 800.5
Energy tubular products	**448.9**	586.1
Steel distributors	**127.5**	274.2
Identifiable assets by segment	**1,179.8**	1,660.8
Assets not included in segments		
Cash	**113.7**	44.9
Income tax assets	**66.7**	8.1
Other assets	**15.2**	13.4
Corporate and other operating assets	**22.5**	23.5
Total assets	**$ 1,397.9**	$ 1,750.7

11. PENSION AND BENEFITS

For the quarter ended June 30, 2009 the total benefit cost from the defined benefit pension plans relating to employee future benefits was $0.6 million (2008: $0.4 million) and for the six months ended Jun 30, 2009 the cost was $1.2 million (2008: $0.7 million).

12. FINANCIAL INSTRUMENTS

a) As at June 30, 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 And Derivatives Maturities	Long-Term Debt Interest	Capital Lease Obligations	Operating Lease Obligations	Total
2009 from June 30, 2009	$ -	$ 7.7	$ 0.8	$ 6.4	$ 14.9
2010	21.1	15.3	1.6	11.6	49.6
2011	-	15.2	1.4	9.3	25.9
2012	-	15.2	1.5	7.8	24.5
2013	-	15.1	1.5	5.8	22.4
2014 and beyond	203.4	6.4	1.5	10.0	221.3
Total	$ 224.5	$ 74.9	$ 8.3	$ 50.9	$ 358.6

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 6.375% 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, 2009, this results in an obligation of $15.6 million. The fair value of the swaps includes an additional obligation of $5.5 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, 2009. At June 30, 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 June 30, 2009, the Company had outstanding forward foreign exchange contracts in the amounts of US$1.0 million maturing in 2009 (2008: US$6.8 million and €11.3 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 June 30, 2009 was as follows:

	Number of Shares	**Amount (millions)**
Balance December 31, 2008	59,695,290	$ 478.8
Stock options exercised	2,000	-
Balance June 30, 2009	59,697,290	$ 478.8

	Quarters ended June 30		**Six months ended June 30**	
	2009	2008	**2009**	2008
Average shares outstanding				
Basic	**59,696,213**	63,201,572	**59,695,754**	63,145,200
Diluted	**59,745,847**	63,530,533	**59,751,168**	63,344,113

Fully-diluted loss per common share has not been disclosed as the effect of the exercise of options would be anti-dilutive (2008 three months ended: $1.24 and six months ended: $1.71).

The continuity of contributed surplus is as follows:

(millions)	**2009**	2008
Balance, January 1	**$ 9.4**	$ 6.2
Stock-based compensation expense	**0.9**	2.9
Exercise of options	**-**	(0.5)
Balance June 30	**$ 10.3**	$ 8.6

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. The Company incurred costs of $2.3 million to amend the facility which has been included in Other Assets (Note 6). In addition, on July 30, 2009, the Company renewed its U.S. subsidiary credit facility and reduced the maximum borrowings under this facility to US$30 million.

15. OTHER COMPREHENSIVE INCOME (LOSS)

Gains and losses on derivatives designated as net investment hedges are net of income tax of $(0.6) million and $(0.4) million (2008: $nil and $0.2 million) for the three and six months ended June 30, 2009, respectively.

Gains and losses on derivatives designated as cash flow hedges are net of income tax of $(0.5) million and $(0.2) million (2008: $0.8 million and $1.0 million) for the three and six months ended June 30, 2009, respectively.

RUSSEL METALS INC.
MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS FOR THE SIX MONTHS ENDED JUNE 30, 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 six months ended June 30, 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 $0.41 for the quarter ended June 30, 2009, is significantly lower than our basic earnings per share of $1.25 for the second quarter of 2008. The loss for the second quarter of 2009 includes pretax inventory write-downs of approximately $56 million or $0.59 per share and a gain on sale of a property of $4 million. Excluding both of these items our adjusted earnings for the second quarter of 2009 was $0.10 per share. For the six months ended June 30, 2009, our basic loss per share is $1.33. This includes inventory write-downs of $151 million or approximately $1.61 per share. Excluding inventory write-downs and the gain on sale of a property our adjusted earnings were $0.20 per share compared to $1.71 for the six months ended June 30, 2008.

Since October 2008, the metals industry has been significantly impacted by a difficult economic environment. 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 centers and steel distributors segments were both able to report an operating profit in the quarter. Our management team did a number of things in response to the large decline in volumes, including significantly reducing expenses. For the quarter ended June 30, 2009 compared to the second quarter in 2008, our operating expenses were reduced 39%, or $40 million, adjusting for changes in exchange rates and our acquisition of Norton Metals in November 2008. This positive result was driven by lower bonuses and commissions, staff reductions and proactive expense management put in place during the first quarter.

Our metals service center segment had a volume decline of approximately 40% in the second quarter of 2009 compared to the second quarter of 2008. This decline is consistent with statistics reported for the North American industry by the Metals Service Center Institute. During the second quarter of 2009 our metals service centers started to replace inventory as they had been reducing inventories to align with current demand during the first quarter of 2009. The purchase of inventory at lower prices has reduced the average cost of our inventory and improved margins.

Our energy tubular products segment volumes have declined from the second quarter of 2008 due to low oil and natural gas pricing impacting drilling and reduced capital spending by customers in this segment. We have taken inventory write-downs of $55 million in the energy tubular products segment in the second quarter of 2009. Excess pipe in the industry as well as low drilling activity could result in margin pressure or further inventory write-downs in this segment.

In accordance with GAAP, we have taken write-downs 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.

	Quarters Ended			
(millions)	June 30, 2009		March 31, 2009	
Metals service centers	$ 2	1%	$ 29	12%
Energy tubular products	55	13%	16	3%
Steel distributors	-	-	49	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 June 30			Six Months Ended June 30		
(millions, except percentages)	**2009**	2008	% Change	**2009**	2008	% Change
Segment Revenues						
Metals service centers	**$ 274.3**	$ 497.3	(45%)	**$ 599.7**	$ 898.5	(33%)
Energy tubular products	**130.1**	235.4	(45%)	**361.1**	448.9	(20%)
Steel distributors	**56.0**	119.6	(53%)	**140.8**	215.6	(35%)
Other	**2.1**	4.0		**3.2**	5.6	
	$ 462.5	$ 856.3	(46%)	**$ 1,104.8**	$ 1,568.6	(30%)
Segment Operating Profit (Loss) Excluding Inventory Write-down						
Metals service centers	**$ 3.9**	$ 72.3	(95%)	**$ (2.7)**	$ 104.4	(103%)
Energy tubular products	**5.9**	28.5	(79%)	**27.1**	44.1	(39%)
Steel distributors	**5.2**	25.6	(80%)	**7.9**	36.3	(78%)
Corporate expenses	**(3.4)**	(6.8)	50%	**(6.4)**	(12.7)	50%
Other	**0.4**	1.8		**(0.3)**	1.4	
Operating profit	**$ 12.0**	$ 121.4	(90%)	**$ 25.6**	$ 173.5	(85%)
Inventory Write-down						
Metals service centers	**$ 1.6**	$ -		**$ 30.4**	$ -	
Energy tubular products	**54.6**	-		**70.9**	-	
Steel distributors	**-**	-		**49.4**	-	
	$ 56.2	$ -		**$ 150.7**	$ -	
Segment Operating Profit (Loss)						
Metals service centers	**$ 2.3**	$ 72.3	(97%)	**$ (33.1)**	$ 104.4	(132%)
Energy tubular products	**(48.7)**	28.5	(271%)	**(43.8)**	44.1	(199%)
Steel distributors	**5.2**	25.6	(80%)	**(41.5)**	36.3	(214%)
Corporate expenses	**(3.4)**	(6.8)	50%	**(6.4)**	(12.7)	50%
Other	**0.4**	1.8		**(0.3)**	1.4	
Operating profit (loss)	**$ (44.2)**	$ 121.4	(136%)	**$ (125.1)**	$ 173.5	(172%)
Segment Gross Margin as a % of Revenues Excluding Inventory Write-down						
Metals service centers	**18.6%**	27.4%		**15.8%**	25.0%	
Energy tubular products	**12.1%**	20.5%		**14.6%**	17.1%	
Steel distributors	**16.8%**	28.7%		**12.3%**	24.0%	
Total operations	**16.9%**	26.0%		**15.2%**	22.9%	
Segment Operating Profit (Loss) as a % of Revenues Excluding Inventory Write-down						
Metals service centers	**1.4%**	14.5%		**(0.5%)**	11.6%	
Energy tubular products	**4.5%**	12.1%		**7.5%**	9.8%	
Steel distributors	**9.3%**	21.4%		**5.6%**	16.8%	
Total operations	**2.6%**	14.2%		**2.3%**	11.1%	

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 group. 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 2009 and 2008 is found in the sections that follow.

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 and second 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, affect 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 second quarter of 2009 were approximately the same as the first quarter of 2009 and approximately 40% less than the second quarter of 2008. The North American industry is experiencing similar declines in volume. A year over year drop in demand of approximately 40% is unprecedented in the service center industry.

Canadian service centers, which represent the majority of our metals service centers operations, have operations in all regions of Canada and are particularly affected by regional general economic conditions. Our large market share and our diverse customer base of approximately 20,000 customers suggests 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 change in the Canadian dollar in 2009 versus the same period in 2008 has increased revenues and losses. Revenues and profits or losses of our U.S. operations reported for the six months ended June 30, 2009 are converted at $1.2062 per US$1 compared to $1.0070 per US$1 for the same period 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 from the summer of 2008 to the second quarter of 2009 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 June 30, 2009 Compared to June 30, 2008

Revenues for the three months ended June 30, 2009, declined 45% to $274 million compared to the same period in 2008. The decline is approximately 48% after adjusting for the acquisition of Norton Metals and the change in the U.S. dollar exchange rate.

Tons shipped in metals service centers in the second quarter of 2009 were approximately 40% lower than the second quarter of 2008. The average selling price of metal for the three months ended June 30, 2009 was approximately 12% lower than the average selling price for the three months ended June 30, 2008.

Excluding inventory write-downs, gross margin as a percentage of revenues was 18.6% for the three months ended June 30, 2009 compared to 27.4% for the same period in 2008. The average cost of inventory is lower in the second quarter of 2009 versus the second quarter of 2008. Steel costs increased during the second quarter of 2008 while during the second quarter of 2009 the average cost of our inventory declined as we purchased new product at lower replacement costs. Gross margin for the second quarter of 2009 was impacted negatively by a $2 million inventory write-down to net realizable values.

Operating expenses in the second quarter of 2009 were approximately $20 million, or 31% lower than those in the second 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. Staff reductions and pay cuts implemented in the first quarter of 2009 as well as the significant reduction in bonuses and commissions based on 2009 earnings compared to earnings in the second quarter of 2008 has significantly reduced expenses in the second quarter of 2009. In addition, freight costs have declined with demand and other plant expenses have been reduced.

Metals service centers operating profit for the three months ended June 30, 2009 was $2 million compared to $72 million for the same period in 2008. The decline mainly related to lower volumes and selling prices.

d) Metals service centers segment results -- Six Months Ended June 30, 2009 Compared to June 30, 2008

Revenues for the six months ended June 30, 2009, declined 33% to $600 million compared to the six months ended June 30, 2008. The decline is approximately 38% after adjusting for the acquisition of Norton Metals and the change in the U.S. dollar exchange rate.

Tons shipped in the six months ended June 30, 2009, are approximately 39% less than for the same period of 2008. The reduced volume has been consistent since December 31, 2008. During 2008 the average selling price per ton increased each month to October 2008 and has declined since then. Average selling price for the six months ended June 30, 2009 is approximately 5% higher than for the first six months of 2008 even though selling price fell below that of the prior year in April 2009.

Gross margin as a percentage of revenues, excluding inventory write-downs, was 15.8% for the six months ended June 30, 2009 compared to 25.0% for the same period in 2008.

The average cost of inventory is higher for the six months ended June 30, 2009 versus the same period for 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 six months ended June 30, 2009 was impacted negatively by a $30 million write-down of inventory to net realizable values.

Operating expenses for the six months ended June 30, 2009 were 26% lower than the same period in 2008 due to staff reductions and reduced work weeks implemented in the first quarter of 2009 as well as lower variable compensation. Freight costs and other plant expenses have also declined with volumes.

Metals service centers operating loss for the six months ended June 30, 2009 of $33 million compares to an operating profit of $104 million for the same period in 2008, mainly related to the lower volumes and inventory write-downs.

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 operations in the energy tubular products segment. More specific information on how these factors impacted 2009 and 2008 is found in the sections that follow.

Oil and natural 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. The price of oil has increased slightly during the second quarter of 2009; however, the movement has not resulted in significant increased drilling activity. The decline in pricing of oil and natural gas has impacted drilling and thus demand for our product in 2009.

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 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.

Drilling related to oil and natural 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 natural gas drilling in Western Canada during the second and third quarter of 2008. We experienced less activity in our energy operations during the second quarter of 2009 and anticipate this to continue into the third quarter of 2009.

c) Energy tubular products segment results -- Three Months Ended June 30, 2009 Compared to June 30, 2008

Revenues decreased 45% to $130 million in the three months ended June 30, 2009 compared to the three months ended June 30, 2008. The decline is 48% when adjusted for the change in the U.S. dollar exchange rate. The decline relates mainly to volume, driven by lower drilling activities due to low oil and natural gas pricing compared to 2008 and the reduction in spending by many of our customers in this segment based on the uneconomic price of their commodity and cash conservation during this uncertain economic time. The price of oil increased during the second quarter but that has had little impact on our operations as rig activity remains at low levels. We need the price of natural gas to increase to see more activity.

Our gross margin for the three months ended June 30, 2009 included $55 million for inventory write-downs. Excluding inventory write-downs our gross margin was 12.1% compared to 20.5% for 2008. The cost of our inventory, excess pipe inventory in the industry and weak demand have made selling prices very competitive, resulting in lower margins in 2009. Gross margins in 2008 were inflated due to high demand and price increases.

Operating expenses were reduced by $10 million for the three months ended June 30, 2009 compared to the three months ended June 30, 2008. The decrease mainly relates to lower bonuses, commissions and delivery costs.

Operating losses for the second quarter of 2009 were $49 million compared to operating profits of $29 million for the same period in 2008. The decrease in operating profits was mainly due to the inventory write-down of $55 million and lower volumes.

d) Energy tubular products segment results -- Six Months Ended June 30, 2009 Compared to June 30, 2008

Revenues decreased 20% to $361 million in the six months ended June 30, 2009 compared to the six months ended June 30, 2008. The seasonally slower period for drilling in Western Canada started earlier this year due to lower oil and natural gas pricing resulting in lower volumes in the six months ended June 30, 2009 compared to the same period in 2008.

Gross margin as a percentage of revenue, excluding inventory write-downs, was 14.6% for the six months ended June 30, 2009 compared to 17.1% for the same period in 2008. The lower margins are driven by higher priced inventory and more competitive selling prices due to excess inventory in the industry in 2009 and very weak demand.

Operating expenses, excluding the change in the U.S. dollar exchange rate, were 27% lower for the six months ended June 30, 2009 compared to the six months ended June 30, 2008. Lower bonuses, commissions and delivery costs are the main factors driving the reduction.

Operating losses were $44 million for the six months ended June 30, 2009 compared to operating profits of $44 million for the same period in 2008. The decrease was due to lower volumes and an inventory write-down of $71 million in the first six months of 2009.

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 segment. More specific information on how these factors impacted 2009 and 2008 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.

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 included in 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 half of 2009 mainly relate to inventory ordered in the second half of 2008 as excess inventory in North America has reduced demand for import material.

c) *Steel distributors segment results -- Three Months Ended June 30, 2009 Compared to June 30, 2008*

Revenues decreased 53% to $56 million for the three months ended June 30, 2009 compared to the three months ended June 30, 2008 mainly due to lower volumes. 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 downward price pressure.

Gross margin as a percentage of revenues was 16.8% for the three months ended June 30, 2009 which declined from 28.7% for the three months ended June 30, 2008. This segment did not require a further write-down in inventory costs during the second quarter of 2009; however, margins reflect pricing pressure and lack of demand.

Operating expenses were $4 million lower for the second quarter of 2009 compared to the second quarter of 2008, mainly related to lower variable compensation.

Operating profit for the three months ended June 30, 2009 was $5 million, which compares to an operating profit of $26 million for the three months ended June 30, 2008, mainly due to reduced volumes in 2009.

d) *Steel distributors segment results -- Six Months Ended June 30, 2009 Compared to June 30, 2008*

Revenues for the six months ended June 30, 2009 are 35% lower compared to the six months ended June 30, 2008 due to lower volumes. The decline in revenue after adjusting for the higher U.S. dollar exchange rate for translation of the U.S. operations in 2009 was 40%. Volumes have declined mainly due to reduced demand from our service center customers.

Gross margin dollars decreased $35 million related to falling steel prices and lower volumes. In addition $49 million of inventory write-downs were recorded in the first quarter of 2009.

Operating expenses in the six months ended June 30, 2009 compared to the same period in 2008 were $6 million, or 39%, lower mainly due to lower variable compensation based on losses reported.

Operating loss for the six months ended June 30, 2009 was $42 million and includes inventory write-downs of $49 million. Operating profit for the six months ended June 30, 2008 was $36 million. The decline mainly relates to inventory write-downs and lower volumes.

Corporate Expenses -- Three and Six Months Ended June 30, 2009 Compared to June 30, 2008

Corporate expenses decreased by $3 million for the three months ended and $6 million for the six months ended June 30, 2009 compared to the same period in 2008. The decrease in expenses mainly related to no bonus accrual for variable compensation due to reported losses and decreased stock compensation as no options have been issued to date in 2009. Starting in the first quarter of 2009, our Board of Directors and all corporate employees have taken a 10% reduction in base compensation.

Other -- Three and Six Months Ended June 30, 2009 Compared to June 30, 2008

Other revenues and income represent the results of our bulk commodities handling terminal in Thunder Bay, Ontario. Revenues have declined due to lower volumes of metallurgical coal and potash handled in 2009. Operating profits have declined in 2009 due to lower volumes.

Consolidated Results -- Three and Six Months Ended June 30, 2009 Compared to June 30, 2008

Loss from operations was $44 million for the three months ended June 30, 2009 compared to an operating profit of $121 million for the three months ended June 30, 2008. Operating losses were $125 million for the six months ended June 30, 2009 compared to an operating profit of $174 million for the same period in 2008. Inventory write-downs totaling $56 million in the quarter and $151 million in the six months ended June 30, 2009 were the major contributing factor to reported losses. In addition, lower volumes in all three segments reduced profits significantly. Metals service centers and steel distributors both reported operating profits in the second quarter of 2009 which we consider positive considering the significant drop in volumes.

Gain on Sale of Property

During the second quarter of 2009 we sold a property in Saskatchewan for a gain of $4 million. This branch is moving to a larger facility.

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 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 are 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 $3 million was taken in the first half of 2008 and no adjustment has been recorded in 2009. Since August 2007 we have recorded write-downs totaling $6.5 million. We received $0.5 million in interest in the first half of 2009 which reduced the receivable. We currently estimate that the fair value of these notes is $4 million. As more information and a market for the notes become available, we expect that the fair value will change.

Interest Expense

Consolidated interest expense for the three months ended June 30, 2009 increased by $2 million to $4 million compared to the three months ended June 30, 2008. The increase in interest expense mainly relates to higher borrowings in 2009 and lower interest rates on cash on deposit.

Income Taxes

Our recovery of income taxes for the second quarter of 2009 was $20 million, due to losses reported. Our income tax rate for the six months ended June 30, 2009 was 38.8%, which is slightly higher than our normalized effective income tax rate mainly due to the large portion of the losses being in the U.S. which has a higher effective income tax rate and the utilization of unrecorded capital losses to offset the gain on sale of a property.

Net (Loss) Earnings

Net loss for the second quarter of 2009 was $25 million compared to net earnings of $79 million for the second quarter of 2008. Basic loss per common share for the second quarter of 2009 was $0.41 compared to basic earnings of $1.25 per share for the second quarter of 2008. Basic loss per common share was $1.33 for the six months ended June 30, 2009 compared to basic earnings of $1.71 per share for the six months ended June 30, 2008. The reduction in earnings mainly relates to inventory write-downs and volume declines in 2009.

Shares Outstanding and Dividends

The weighted average number of common shares outstanding for the second quarter of 2009 was 59,696,213 compared to 63,201,572 for the second quarter of 2008. The weighted average number of common shares outstanding for the six months ended June 30, 2009 was 59,695,754 compared to 63,145,200 for the six months ended June 30, 2008. The decrease relates to the purchase of common shares in the second half of 2008 under a normal course issuer bid. As at June 30, 2009 and August 5, 2009, we had 59,697,290 common shares outstanding.

We paid common share dividends of $15 million in the second quarter of 2009 compared to $29 million in the second quarter of 2008. The decrease relates to our reduced dividend rate and lower shares outstanding. We paid cash dividends of $0.25 per share for the second quarter of 2009 compared to $0.45 per share for the second 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 $283 million available for restricted payments. The basket is adjusted for 50% of net earnings or losses on a quarterly basis unless accumulated losses since March 2004 exceed earnings, 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. In particular, 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 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 June 30, 2009, our fixed charge coverage ratio, before utilization of any portion of the $200 million exclusion, was 1.33 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. We do not believe this requirement will restrict our ability to pay a dividend as our borrowing base, which is based on our levels of accounts receivable and inventories, has traditionally been in excess of borrowings.

EBITDA

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

(millions)	Quarters Ended June 30		Twelve Months Ended June 30	
	2009	2008	**2009**	2008
Net (loss) earnings for the period	**$ (24.6)**	$ 78.8	**$ 40.9**	$ 159.6
(Recovery) provision for income taxes	**(19.7)**	41.0	**7.1**	85.2
Interest expense, net	**4.4**	2.3	**15.4**	8.1
(Loss) earnings before interest and income taxes (EBIT)	**(39.9)**	122.1	**63.4**	252.9
Depreciation and amortization	**6.5**	5.7	**25.0**	21.9
(Loss) earnings before interest, income taxes, depreciation and amortization (EBITDA)	**$ (33.4)**	$ 127.8	**$ 88.4**	$ 274.8

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 $7 million for the six months ended June 30, 2009 compared to $10 million in the same period of 2008. Depreciation expense was $12 million for the six months ended June 30, 2009 and $11 million for the six months ended June 30, 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 over $5 million in 2009. The sale of the current smaller facility for proceeds of $5 million closed in May 2009.

Liquidity

At June 30, 2009, we had cash net of bank indebtedness of $69 million compared to net bank indebtedness of $20 million at December 31, 2008.

We generated net cash of $60 million in the quarter. Accounts receivable and inventory generated more cash than anticipated due to reduced balances a result of lower volumes and selling prices and strong accounts receivable collections. Accounts payable utilized cash as anticipated.

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 June 30, 2009, current assets represented 77% of our total assets versus 81% at December 31, 2008. Total assets were $1.4 billion at June 30, 2009 and $1.8 billion at December 31, 2008. The reduction relates to lower accounts receivable and inventory in 2009.

Decreases in accounts receivable and inventory, excluding inventory write-downs, have generated $176 million of cash in the second quarter of 2009 driven by lower volumes and lower steel pricing. Accounts payable and accrued liabilities utilized cash of $115 million related to the payment of trade payables. The reduction in accounts payable relates to payment for energy tubular purchases in the first quarter of 2009 and this segment has purchased very little inventory since then resulting in lower accounts payable balances.

Cash generated from operating activities was $126 million for the six months ended June 30, 2009 compared to $118 million for the six months ended June 30, 2008. In 2008, the cash flow was from earnings with only a minor increase in working capital whereas in 2009 the cash flow has come from lower working capital reduced by operating losses. The reduction in working capital as earnings decline is consistent with our model.

Cash generated from inventory, excluding inventory write-downs of $56 million, was $99 million in the second quarter of 2009 mainly related to reduced tons on hand in all three segments. Inventories represent 46% of our total assets at June 30, 2009.

Inventory by Segment

(millions)	**June 30, 2009**	Mar. 31, 2009	Dec. 31, 2008	June 30, 2008
Metals service centers	**$ 178**	$ 214	$ 306	$ 319
Energy tubular products	**374**	483	399	223
Steel distributors	**92**	130	220	79
Total operations	**$ 644**	$ 827	$ 925	$ 621

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	**June 30 2009**	Mar. 31 2009	Dec. 31 2008	Sept. 30 2008	June 30 2008
Metals service centers	**5.0**	5.3	4.5	4.2	4.5
Energy tubular products	**1.2**	1.6	2.4	4.0	3.6
Steel distributors	**2.0**	2.4	1.8	2.6	4.3
Total operations	**2.4**	2.7	2.9	3.9	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 June 30, 2009 for U.S. service centers and for Canadian service centers were 4.4 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 our energy tubular products units having more inventory than the current environment supports. In addition, the low volume of sales during the second quarter of 2009 has reduced turns further even though inventory levels are down by $109 million. We anticipate that for the next six months inventory levels in this segment will stay higher than is supported by customer demand. During the second quarter of 2009 we established that certain inventory held at our U.S. energy tubular products operations was above current net realizable value and recorded a write-down of $55 million. The amount of excess inventory of pipe in North America and the low volume of drilling activity provides concern that pricing may deteriorate further in 2009 which will reduce margins and further inventory write-downs may be required.

Our steel distributor segment has reduced inventory on hand since the fourth quarter of 2008; however, they continue to hold more inventory than is supported by the current demand of their customers. Significant inventory write-downs of plate and structural products in the first quarter of 2009 have reduced the average cost to approximate net realizable values.

As a result of lower revenues and selling prices and continued good collections, accounts receivable generated cash of $77 million during the second quarter of 2009 and $182 million since December 31, 2008. We remain cautious concerning our customers ability to access funding to operate their businesses over this current business cycle. Accounts receivable represent 17% of our total assets.

During the six months ended June 30, 2009, we made income tax payments of $37 million compared to payments of $36 million for the six months ended June 30, 2008. The 2009 payments of $37 million included $30 million related to 2008. The current tax asset mainly represents refunds receivable from losses to be carried back to prior years' taxable income.

During the six months ended June 30, 2009, we utilized cash of $7 million for capital expenditures and $30 million for common share dividends. During the six months ended June 30, 2008, we utilized cash of $10 million for capital expenditures and $57 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 June 30 **2009**	Quarters Ended June 30 2008	Six Months Ended June 30 **2009**	Six Months Ended June 30 2008
Cash from (used in) operating activities before working capital	**$ (20.1)**	$ 85.5	**$ (66.1)**	$ 126.3
Purchase of fixed assets	**(2.9)**	(6.1)	**(6.7)**	(10.4)
	(23.0)	79.4	**(72.8)**	115.9
Non-cash inventory write-down	**56.2**	-	**150.7**	-
	$ 33.2	$ 79.4	**$ 77.9**	$ 115.9

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 **June 30, 2009**	December 31, 2008
Long-Term Debt		
6.375% US$175 million Senior Notes due March 1, 2014	**$ 200**	$ 210
Capital leases		
Arkansas development bonds, maturing 2014 to 2017	**6**	7
Other	**1**	2
	207	219
Current portion	**1**	1
	$ 206	$ 218
Obligations under cross currency swaps		
Foreign exchange difference on US$100 million	**$ 16**	$ 9
Additional fair value of cash flows to terminate swaps	**5**	13
	$ 21	$ 22

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 June 30, 2009 *(millions)*	Russel Metals Facility	U.S. Subsidiary Facility	Total
Bank loans	$ 44	$ -	$ 44
Cash net of outstanding cheques	(103)	(10)	(113)
Net cash	(59)	(10)	(69)
Letters of credit	14	3	17
	$ (45)	$ (7)	$ (52)
Facilities			
Borrowings and letters of credit	$ 202	$ 21	$ 223
Letters of credit	50	14	64
Facilities availability	$ 252	$ 35	$ 287
Available line based on borrowing base	$ 242	$ 35	$ 277

As at June 30, 2009, we had a facility with a syndicate of Canadian and U.S. banks totaling $252 million. The facility consists of availability of $202 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 million line. On May 1, 2009, the facility was amended to increase availability to the current level and to provide 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 an additional year annually with the consent of the syndicate. 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 million. As of June 30, 2009, we were entitled to borrow and issue letters of credit totaling $242 million under this facility. At June 30, 2009, we had $44 million of borrowings and had letters of credit of $14 million. At June 30, 2008, we had no borrowings and had letters of credit of $75 million under this facility.

In addition, a U.S. subsidiary has its own one year bank credit facility which was renewed for one year in July 2009. The maximum borrowings including letters of credit under this facility was reduced from US$57.5 million to US$30 million. At June 30, 2009, this subsidiary had no borrowings and had letters of credit of US$3 million. At June 30, 2008, this subsidiary had no borrowings and had letters of credit of US$46 million.

Based on cash, cash equivalents and our bank facilities, we have access to approximately $292 million of cash availability based on our June 30, 2009 balances. The use of our bank facilities has been predominantly to fund working capital requirements. As steel prices and demand have declined in 2009, cash generated from accounts receivable and inventory have been utilized to reduce bank borrowings. These lines will be used to support increases in working capital when volumes and steel prices increase.

Contractual Obligations

As at June 30, 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 June 30, 2009 exchange rate of $1.1625 per US$1, we would incur an obligation of $16 million in addition to our long-term debt obligation of $203 million. The fair value of our swaps includes an additional obligation of $5 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, 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 second quarter of 2009, we contributed $1 million to these plans. We expect additional contributions of approximately $2 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 resulted in an adjustment to the January 1, 2009 balance sheet. We decreased derivatives by $7 million, increased future income tax liabilities by $2 million and increased accumulated other comprehensive income by $5 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 completed a high level review of the identification of significant divergences between Canadian GAAP and IFRS. As a result, we have determined that the areas that will have the highest impact on our accounting policies are property, plant and equipment; income taxes; impairments; financial statement disclosures; financial instruments; employee future benefits and the transitional provisions of IFRS 1: First-Time Adoption of IFRS. A timeline and framework for implementation has been established and we are currently analyzing the impact of the significant accounting differences on our financial reporting, business processes, systems and internal controls. We have established a team of our unit controllers who are actively involved in assessing the changes required and the effect of these high impact standards on their units.

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 June 30, 2009 is approximately $1 million higher than at December 31, 2008 and unchanged from the first quarter of 2009.

Inventories
We review our inventory to ensure that the cost of inventory is not in excess of its estimated net realizable value and for obsolete and slow moving product. Inventory reserves or write-downs are recorded when cost exceeds the estimated selling price less cost to sell and when product is determined slow moving or obsolete. Significant reductions in estimated selling price have resulted in additional write-downs. The inventory reserve level at June 30, 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 June 30, 2009, we increased cost of sales by $56 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 $77 million in plan assets at June 30, 2009, which is an increase of approximately $5 million 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 second 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 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 reduced further due to uncertainty of our customer base.

Outlook

In the third quarter of 2009, the steel mills have announced price increases, which should result in margin improvements. Demand levels remain unchanged and need to improve in each of our three business segments to achieve more normalized profit levels. Our energy tubular products segment may have additional inventory write-downs in 2009 if our competitors continue to drop selling prices in reaction to excess inventory positions and cash flow pressures.

We anticipate demand levels in all three segments will improve through the balance of 2009 but to what extent is impossible to forecast at this time.

August 5, 2009