



**Russel Metals**

**First Quarter  
March 31, 2010**

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## REPORT TO SHAREHOLDERS

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We returned to profitability in each of our segments and reported earnings per share of \$0.28 in the first quarter of 2010 compared to a profit of \$0.10 per share in the first quarter of 2009, excluding inventory write-downs. Improved demand and increasing steel prices both contributed to these results. The North American steel industry is slowly recovering from the economic downturn experienced in 2009. During the first quarter of 2010, steel prices increased as mills responded to higher input costs to manufacture steel.

Revenues in our metals service centers increased 19% over the 2009 fourth quarter but remain lower than the comparable 2009 first quarter. Steel pricing in 2010 is increasing and tons sold in the first quarter were up 14% over the 2009 first quarter and up 17% versus the fourth quarter of 2009. Demand levels, while stronger, remain at historically low levels. Each region in this segment had positive operating profits in all three months of the quarter for the first time since 2008.

All four of our oil country tubular goods and line pipe operations had stronger revenues than the first quarter of last year. Our oil sands operation experienced a significant drop in revenues due to the delayed start-up of new projects in the oil sands. Inventory levels continue to be reduced in this segment with inventory reductions of \$52 million in the quarter. We recorded lower margins as higher priced inventory purchased in 2008 remained in our system.

Revenues in our steel distributor segment increased 7% over the 2009 fourth quarter. Inventory levels were reduced \$20 million to approximately \$40 million at the end of the quarter. The current North American steel environment consists of strong product availability, unattractive off shore pricing, dumping actions, demand uncertainty and doubt about the sustainability of current domestic pricing levels. Our steel distributor operations, therefore, did not aggressively pursue off shore purchases, intentionally reducing their inventory levels.

During the quarter we exited our cross currency swaps and sold our non-bank asset backed commercial paper. We utilized cash of \$35 million to pay our obligations under the swaps. On April 5, 2010 we received cash of \$6 million from the sale of our asset backed commercial paper. The swap termination did not affect earnings for the quarter while the sale of the asset backed commercial paper generated income of \$1.5 million or \$0.03 per share. Our U.S. note interest expense now floats with the U.S./Canada exchange rate; however, at exchange rates close to par, the termination of the swaps reduces our annual interest expense by approximately \$0.03 per share.

Our cash position remains very healthy at \$311 million and we are well positioned to grow internally and through acquisitions.

The Board of Directors has approved a quarterly dividend of \$0.25 per common share payable June 15, 2010 for shareholders of record as of June 1, 2010.

### OUTLOOK

We have benefited from the start of the recovery of the North American economy, seen throughout our sector. We expect that current aggressive steel mill price increases will positively impact the second quarter. We believe the demand improvement will be gradual and there is the potential for supply/demand imbalances which clouds the outlook for the second half of 2010.



B.R. Hedges  
President and Chief Executive Officer

May 12, 2010

## MANAGEMENT'S REPORT TO THE SHAREHOLDERS

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The accompanying interim consolidated financial statements, management's discussion and analysis and report to shareholders for the quarter ended March 31, 2010, 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 has evaluated its internal and disclosure controls for the quarter ended March 31, 2010, and has concluded that they are effective.

The Company's Audit Committee is appointed annually by the Board of Directors. The Audit Committee, which is composed entirely of outside directors, meets with management to satisfy itself that management is properly discharging its financial reporting responsibilities and to review the interim consolidated financial statements, the management's discussion and analysis and the report to shareholders. The Audit Committee reports its findings to the Board of Directors for consideration in approving the interim consolidated financial statements, the management's discussion and analysis and the report to shareholders for presentation to the shareholders.

May 12, 2010



B. R. Hedges  
President and Chief Executive Officer



M. E. Britton  
Vice President and Chief Financial Officer

## CONSOLIDATED BALANCE SHEETS (UNAUDITED)

<i>(millions)</i>	March 31 2010	December 31 2009
<b>ASSETS</b>		
<b>Current</b>		
Cash and cash equivalents	\$ 311.1	\$ 359.6
Accounts receivable	291.7	217.8
Inventories (Note 4)	466.5	517.9
Prepaid expenses and other assets (Note 5)	10.5	4.9
Income taxes	50.7	53.0
	<b>1,130.5</b>	<b>1,153.2</b>
<b>Property, Plant and Equipment</b>	<b>225.9</b>	<b>231.9</b>
<b>Future Income Tax Assets</b>	<b>5.7</b>	<b>5.9</b>
<b>Pensions and Benefits</b>	<b>7.9</b>	<b>8.0</b>
<b>Other Assets</b>	<b>3.6</b>	<b>8.3</b>
<b>Goodwill and Intangibles</b>	<b>27.7</b>	<b>28.4</b>
	<b>\$ 1,401.3</b>	<b>\$ 1,435.7</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
<b>Current</b>		
Accounts payable and accrued liabilities	\$ 259.2	\$ 252.3
Income taxes payable	1.3	1.4
Current portion long-term debt	1.3	1.3
	<b>261.8</b>	<b>255.0</b>
<b>Derivatives</b>	<b>-</b>	<b>30.9</b>
<b>Long-Term Debt</b>	<b>335.5</b>	<b>340.8</b>
<b>Pensions and Benefits</b>	<b>6.0</b>	<b>5.9</b>
<b>Future Income Tax Liabilities</b>	<b>10.6</b>	<b>9.9</b>
	<b>613.9</b>	<b>642.5</b>
<b>Shareholders' Equity (Note 12)</b>		
Common shares	478.9	478.9
Retained earnings	316.9	315.3
Contributed surplus	11.8	11.4
Accumulated other comprehensive income (loss)	(31.8)	(24.0)
Equity component of convertible debenture	11.6	11.6
	<b>787.4</b>	<b>793.2</b>
	<b>\$ 1,401.3</b>	<b>\$ 1,435.7</b>

ON BEHALF OF THE BOARD,



(signed) A. Benedetti  
Director



(signed) L. Lachapelle  
Director

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

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

<i>(millions, except per share data)</i>	Quarters ended March 31	
	2010	2009
<b>Revenues</b>	\$ 525.9	\$ 642.3
Cost of sales	431.0	646.6
Gross margin	94.9	(4.3)
Operating expenses	68.6	76.6
<b>Earnings (loss) before the following</b>	<b>26.3</b>	<b>(80.9)</b>
Other income (expense) (Note 6)	1.5	-
Interest expense, net (Note 7)	(6.7)	(4.8)
<b>Earnings (loss) before income taxes</b>	<b>21.1</b>	<b>(85.7)</b>
(Provision for) recovery of income taxes	(4.6)	30.7
<b>Net earnings (loss) for the period</b>	<b>\$ 16.5</b>	<b>\$ (55.0)</b>
<b>Basic earnings (loss) per common share</b>	<b>\$ 0.28</b>	<b>\$ (0.92)</b>
<b>Diluted earnings (loss) per common share</b>	<b>\$ 0.28</b>	<b>\$ (0.92)</b>

## CONSOLIDATED STATEMENTS OF RETAINED EARNINGS (UNAUDITED)

<i>(millions)</i>	Quarters ended March 31	
	2010	2009
<b>Retained earnings, beginning of the period</b>	\$ 315.3	\$ 467.0
Net earnings (loss) for the period	16.5	(55.0)
Dividends on common shares	(14.9)	(14.9)
<b>Retained earnings, end of the period</b>	<b>\$ 316.9</b>	<b>\$ 397.1</b>

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

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

<i>(millions)</i>	<b>Quarters ended March 31</b>	
	<b>2010</b>	<b>2009</b>
<b>Net earnings (loss) for the period</b>	<b>\$ 16.5</b>	<b>\$ (55.0)</b>
Other comprehensive income (loss) (Note 13)		
Unrealized foreign exchange gains (losses) on translation of self-sustaining U.S. operations	(10.2)	13.6
Unrealized gains (losses) on items designated as net investment hedges	5.6	(1.9)
Unrealized gains (losses) on items designated as cash flow hedges	(2.2)	2.2
Losses on derivatives designated as cash flow hedges transferred to net income in the current period	(1.0)	(3.0)
Other comprehensive income (loss)	(7.8)	10.9
<b>Comprehensive income (loss)</b>	<b>\$ 8.7</b>	<b>\$ (44.1)</b>

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

<i>(millions)</i>	<b>Quarters ended March 31</b>	
	<b>2010</b>	<b>2009</b>
Accumulated net unrealized foreign currency translation gains and losses		
Balance, beginning of period	\$ (30.0)	\$ 36.9
Unrealized foreign exchange gains (losses) on translation of self-sustaining U.S. operations	(10.2)	13.6
Balance, end of period	(40.2)	50.5
Accumulated net unrealized gains (losses) on cash flow and net investment hedges		
Balance, beginning of period	6.0	(12.0)
Transitional adjustment	-	5.4
Unrealized gains (losses) on items designated as net investment hedges	5.6	(1.9)
Unrealized gains (losses) on items designated as cash flow hedges	(2.2)	2.2
Losses on derivatives designated as cash flow hedges transferred to net income in the current period	(1.0)	(3.0)
Balance, end of period	8.4	(9.3)
Accumulated other comprehensive income (loss)	\$ (31.8)	\$ 41.2

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

## CONSOLIDATED CASH FLOW STATEMENTS *(UNAUDITED)*

<i>(millions)</i>	Quarters ended March 31	
	2010	2009
Operating activities		
Net earnings (loss) for the period	\$ 16.5	\$ (55.0)
Depreciation and amortization	6.3	6.5
Future income taxes	1.8	2.1
Unrealized gain on investment	(1.5)	-
Stock-based compensation	0.4	0.4
Difference between pension expense and amount funded (Note 10)	0.2	(0.1)
Other	0.4	0.1
Cash from (used in) operating activities before non-cash working capital	24.1	(46.0)
Changes in non-cash working capital items		
Accounts receivable	(75.7)	105.2
Inventories	46.7	15.0
Inventories - net increase in NRV reserve	-	94.5
Accounts payable and accrued liabilities	8.2	(56.8)
Current income taxes	6.5	(68.7)
Other	0.5	1.1
Change in non-cash working capital	(13.8)	90.3
<b>Cash from operating activities</b>	<b>10.3</b>	<b>44.3</b>
Financing activities		
Decrease in bank borrowing	-	(24.9)
Dividends on common shares	(14.9)	(14.9)
Repayment of long-term debt	(0.4)	(0.4)
Swap termination	(35.2)	-
<b>Cash used in financing activities</b>	<b>(50.5)</b>	<b>(40.2)</b>
Investing activities		
Purchase of property, plant and equipment	(1.3)	(3.8)
Proceeds on sale of property, plant and equipment	-	0.6
<b>Cash used in investing activities</b>	<b>(1.3)</b>	<b>(3.2)</b>
<b>Effect of exchange rates on cash and cash equivalents</b>	<b>(7.0)</b>	<b>1.3</b>
<b>(Decrease) increase in cash and cash equivalents</b>	<b>(48.5)</b>	<b>2.2</b>
Cash and cash equivalents, beginning of the period	359.6	44.9
<b>Cash and cash equivalents, end of the period</b>	<b>\$ 311.1</b>	<b>\$ 47.1</b>
Supplemental cash flow information:		
Income taxes paid	\$ 2.7	\$ 35.2
Interest paid	\$ 12.8	\$ 8.5

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

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**MARCH 31, 2010 (UNAUDITED)**

1. These interim consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles; however, they do not include all of the disclosure requirements for annual consolidated financial statements. These interim consolidated financial statements follow the same accounting policies disclosed in Note 1 to the 2009 annual consolidated financial statements. These interim consolidated financial statements should be read in conjunction with the 2009 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. FUTURE ACCOUNTING CHANGES**

Effective January 1, 2011, Canadian generally accepted accounting principles for profit-oriented publicly accountable enterprises will be replaced with International Financial Reporting Standards (IFRS). The Company will begin reporting its financial statements in accordance with IFRS commencing January 1, 2011. The Company's conversion to IFRS is progressing as planned and the full impact on its financial position and results of operations has not yet been determined.

**3. ECONOMIC CYCLE**

All three of the metals operating segments are significantly affected by economic cycles in the markets where they operate. Revenues and operating profits in the energy sector are also affected by oil and gas drilling in Western Canada, which is predominantly carried out during the period from October to March. For these reasons, the results of operations for the periods shown are not necessarily indicative of the results for the full year.

**4. INVENTORIES**

Inventories are recorded at the lower of cost and net realizable value. Cost is determined on an average cost basis. Inventories of \$430.0 million (2009: \$646.6 million) were expensed through cost of sales and no inventory was written-down to net realizable value in the quarter ended March 31, 2010 (2009: \$94.5 million).

**5. OTHER ASSETS**

The Company held an investment in non-bank Canadian asset-backed commercial paper (ABCP). This investment, which had a fair value of \$4.5 million at December 31, 2009, is included in prepaids and other assets. On March 29, 2010, the Company sold its non-bank Canadian ABCP for net proceeds of \$6.0 million to be settled on April 5, 2010. Accordingly, the Company recorded a fair value increase of \$1.5 million for the quarter ended March 31, 2010.

**6. OTHER INCOME (EXPENSE)**

<i>(millions)</i>	<b>Quarters ended March 31</b>	
	<b>2010</b>	<b>2009</b>
Unrealized gain on investment (Note 5 and 11)	\$ 1.5	\$ -
Ineffectiveness on cash flow hedges	0.4	-
Other	(0.4)	-
	<b>\$ 1.5</b>	<b>\$ -</b>

## 7. INTEREST EXPENSE, NET

<i>(millions)</i>	Quarters ended March 31	
	2010	2009
Interest on long-term debt	\$ 6.9	\$ 4.1
Other interest expense (income), net	(0.2)	0.7
	<b>\$ 6.7</b>	<b>\$ 4.8</b>

## 8. STOCK-BASED COMPENSATION

During the quarter ended March 31, 2010, 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	
	2010	2009	2010	2009
Balance, January 1	2,702,084	2,745,926	\$ 24.52	\$ 26.46
Forfeited	(10,450)	(325,000)	24.91	33.81
Balance, March 31	2,691,634	2,420,926	\$ 24.71	\$ 25.47
Exercisable	1,855,318	1,228,888	\$ 23.97	\$ 24.04

## 9. SEGMENTED INFORMATION

<i>(millions)</i>	Quarters ended March 31	
	2010	2009
<b>Segment Revenues</b>		
Metals service centers	\$ 280.0	\$ 325.4
Energy tubular products	194.6	231.0
Steel distributors	49.9	84.8
	<b>524.5</b>	<b>641.2</b>
Other	1.4	1.1
	<b>\$ 525.9</b>	<b>\$ 642.3</b>
<b>Segment Operating Profit (Loss)</b>		
Metals service centers	\$ 15.1	\$ (35.4)
Energy tubular products	11.2	4.9
Steel distributors	4.4	(46.7)
	<b>30.7</b>	<b>(77.2)</b>
Corporate expenses	(3.9)	(3.0)
Other income	(0.5)	(0.7)
	<b>\$ 26.3</b>	<b>\$ (80.9)</b>

<i>(millions)</i>	<b>March 31 2010</b>	December 31 2009
<b>Identifiable assets</b>		
Metals service centers	<b>\$ 565.3</b>	\$ 515.7
Energy tubular products	<b>363.8</b>	375.0
Steel distributors	<b>67.8</b>	87.7
Identifiable assets by segment	<b>996.9</b>	978.4
Assets not included in segments		
Cash	<b>311.1</b>	359.6
Income tax assets	<b>56.4</b>	58.9
Other assets	<b>17.6</b>	16.3
Corporate and other operating assets	<b>19.3</b>	22.5
<b>Total assets</b>	<b>\$ 1,401.3</b>	\$ 1,435.7

## 10. PENSION AND BENEFITS

For the quarter ended March 31, 2010 the total benefit cost from the defined benefit pension plans relating to employee future benefits was \$1.0 million (2009: \$0.6 million).

## 11. FINANCIAL INSTRUMENTS

**a)** On January 22, 2010, the Company terminated its US\$ 100 million cross currency swaps. The Company paid \$35.2 million to its swap counterparties to terminate the swaps which represented the fair value of the swaps. Concurrent with the termination of the swaps, the Company designated its entire US\$175 million Senior Notes as a hedge of its net investment in foreign subsidiaries. During the quarter ended March 31, 2010, \$0.4 million was reclassified from accumulated other comprehensive income (loss) to net earnings related to the swap.

As at March 31, 2010, the Company was contractually obligated to make payments under its long-term debt agreement and operating lease obligations that come due during the following periods:

<i>(millions)</i>	Long-Term Debt Maturities	Long-Term Debt Interest	Operating Lease Obligations	Total
2010 from March 31, 2010	\$ -	\$ 21.8	\$ 9.8	\$ 31.6
2011	-	25.2	10.9	36.1
2012	-	25.1	9.2	34.3
2013	-	25.1	7.0	32.1
2014	177.7	18.4	5.0	201.1
2015 and beyond	175.0	23.9	6.9	205.8
<b>Total</b>	<b>\$ 352.7</b>	<b>\$ 139.5</b>	<b>\$ 48.8</b>	<b>\$ 541.0</b>

Long-term debt interest has been estimated based on current exchange rates.

At March 31, 2010, the Company was contractually obligated to repay its letters of credit of \$31.6 million (2009: \$9.7 million) under both its syndicated bank facility and its U.S. subsidiary facility at maturity during 2010.

As at March 31, 2010, the Company was contractually obligated to make payments under capital leases as follows:

(millions)

2010 from March 31, 2010	\$ 1.3
2011	1.5
2012	1.5
2013	1.5
2014	0.7
2015 and beyond	0.2
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Total minimum lease payments	6.7
Interest at rates varying between 4.6% and 17.3%	(0.9)
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Net minimum lease payments	5.8
Less: current portion	(1.3)
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Long-term portion	\$ 4.5

The following table presents the fair value hierarchy of financial instruments by level:

(millions)	March 31, 2010			December 31, 2009		
	Level One	Level Two	Level Three	Level One	Level Two	Level Three
<b>Financial assets and liabilities</b>						
Cash and cash equivalents	\$ 311.1	\$ -	\$ -	\$ 359.6	\$ -	\$ -
Asset-backed commercial paper	-	6.0	-	-	-	4.5
Swaps	-	-	-	-	(34.7)	-
<hr/>						
Total	\$ 311.1	\$ 6.0	\$ -	\$ 359.6	\$ (34.7)	\$ 4.5

On March 29, 2010, the Company sold its non-bank Canadian ABCP for net proceeds of \$6.0 million to be settled on April 5, 2010. Fair value gains of \$1.5 million were included in net earnings for the quarter ended March 31, 2010 and were recorded in other income (Note 6).

**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. At March 31, 2010, trade accounts receivable greater than 90 days represented less than 2% of trade accounts receivable. The Company is also exposed to credit risk from the potential default by any of its counterparties on its foreign exchange forward contracts and short-term investments. The Company mitigates this risk by utilizing multiple counterparties and entering into forward contracts.

**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 borrowings, net of cash and cash equivalents, are used to finance working capital, which is short-term in nature, at floating interest rates.

#### d) **Foreign exchange risk**

The Company uses foreign exchange contracts with maturities of less than a year to manage foreign exchange risk on certain future committed cash outflows. At March 31, 2010, the Company had outstanding forward foreign exchange contracts in the amounts of US\$6.9 million, maturing in 2010 (2009: US\$3.1 million) and the fair value equals the contract value.

In order to mitigate its foreign exchange exposure, the Company has designated its entire US\$175 million Senior Notes as a hedge of its net investment in foreign subsidiaries.

### 12. **SHAREHOLDERS' EQUITY**

As at March 31, 2010, 59,698,690 common shares in the amount of \$478.9 million, were issued and outstanding.

	<b>Quarters ended March 31,</b>	
	<b>2010</b>	<b>2009</b>
Weighted average shares outstanding		
Basic	<b>59,698,690</b>	59,695,290
Dilution impact of stock options	<b>82,444</b>	61,195
Diluted weighted average shares outstanding	<b>59,781,134</b>	59,756,485

The effect of the conversion of the convertible debentures under the "if convertible" method would be anti-dilutive and has therefore been excluded from the computation of diluted earnings per share.

The continuity of contributed surplus is as follows:

<i>(millions)</i>	<b>2010</b>	<b>2009</b>
Balance, January 1	<b>\$ 11.4</b>	\$ 9.4
Stock-based compensation expense	<b>0.4</b>	0.4
Balance March 31	<b>\$ 11.8</b>	\$ 9.8

The Company manages capital in order to safeguard its ability to continue as a going concern, provide returns to shareholders through its dividend policy and provide the ability to finance future growth. Capital includes shareholders' equity, bank indebtedness and long-term debt, net of cash. The Company manages its capital structure and may make adjustments to the amount of dividends paid to shareholders, purchase shares for cancellation pursuant to issuer bids, issue new shares, issue new debt, repurchase existing debt and extend or amend its syndicated bank facility.

During the quarter ended March 31, 2010, the Company terminated its swaps and designated its entire U.S. Senior Notes as a hedge of its net investment in U.S. Subsidiaries.

### 13. **OTHER COMPREHENSIVE INCOME (LOSS)**

Unrealized gains (losses) on items designated as net investment hedges are net of income taxes of \$(1.2) million (2009: \$0.2 million). Unrealized gains (losses) on items designated as cash flow hedges are net of income taxes of \$1.2 million (2009: \$(0.8) million). Gains and losses on derivatives designated as cash flow hedges transferred to net income in the current period are net of income taxes of \$0.4 million (2009: \$1.1 million).

# **RUSSEL METALS INC.**

## **MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS FOR THE THREE MONTHS ENDED MARCH 31, 2010**

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This Management's Discussion and Analysis of Financial Condition and Results of Operations of Russel Metals Inc. and its subsidiaries provides information to assist readers of, and should be read in conjunction with, the Interim Consolidated Financial Statements for the three months ended March 31, 2010, including the notes thereto, and the Management's Discussion and Analysis and the audited Consolidated Financial Statements for the year ended December 31, 2009, 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. Our annual and interim financial statements have been prepared in accordance with generally accepted accounting principals (GAAP) and are reported in Canadian dollars. All dollar references in this report are in Canadian dollars unless otherwise stated.

Additional information related to Russel Metals Inc., including our Annual Information Form, may be obtained from SEDAR at [www.sedar.com](http://www.sedar.com) or on our website at [www.russelmetals.com](http://www.russelmetals.com).

Unless otherwise stated, the discussion and analysis contained herein are as of May 12, 2010.

### **FORWARD-LOOKING STATEMENTS**

Certain statements contained in this document constitute forward-looking statements or information within the meaning of applicable securities laws. These statements relate to future events or our future performance. All statements other than statements of historical fact may be forward-looking statements. Forward looking statements are often, but not always, identified by the use of words such as "seek", "anticipate", "plan", "continue", "estimate", "expect", "may", "will", "project", "predict", "potential", "targeting", "intend", "could", "might", "should", "believe" and similar expressions. These statements involve known and unknown risks, uncertainties and other factors that may cause actual results or events to differ materially from those anticipated in such forward-looking statements. These risks and uncertainties include, among other things: no assurance future financing will be available; dilution; change of control; interest rate risk; foreign exchange risk; volatile metal prices; cyclical nature of the metals industry and the industries that purchase our products; significant competition; interruption in sources of metals supply; integrating future acquisitions; collective agreements and work stoppages; environmental liabilities; changes in government regulations; failure of key computer-based systems; loss of key individuals; and the current economic climate. While we believe that the expectations reflected in the forward-looking statements contained herein are reasonable, no assurance can be given that these expectations will prove to be correct, and such forward looking statements included herein should not be unduly relied upon. These statements speak only as of the date hereof. Except as required by law, we do not assume any obligation to update the aforementioned forward-looking statements. Our actual results could differ materially from those anticipated in the aforementioned forward-looking statements, as applicable, including as a result of the risk factors set forth elsewhere herein and in our filings with the securities regulatory authorities which are available on SEDAR at [www.sedar.com](http://www.sedar.com).

### **NON-GAAP MEASURES**

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

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

## OVERVIEW

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

Our basic earnings per share of \$0.28 for the quarter ended March 31, 2010, compares to a basic loss per share of \$0.92 for the first quarter of 2009. Volumes have started to improve but remain at historically low levels. Steel prices were rising during the first quarter of 2010 compared to significant declines during the first quarter of 2009. Our earnings per share for the first quarter of 2009, excluding inventory write-downs, was \$0.10. All three business segments were profitable each month in the first quarter of 2010 for the first time since 2008.

## RESULTS OF OPERATIONS

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

<i>(millions, except percentages)</i>	<b>Quarters Ended March 31</b>		
	<b>2010</b>	2009	2010 change as a % of 2009
<b>Segment Revenues</b>			
Metals service centers	<b>\$ 280.0</b>	\$ 325.4	(14%)
Energy tubular products	<b>194.6</b>	231.0	(16%)
Steel distributors	<b>49.9</b>	84.8	(41%)
Other	<b>1.4</b>	1.1	
	<b>\$ 525.9</b>	\$ 642.3	(18%)
<b>Segment Operating Profits (Loss) Excluding Inventory Write-down</b>			
Metals service centers	<b>\$ 15.1</b>	\$ (6.6)	329%
Energy tubular products	<b>11.2</b>	21.2	(47%)
Steel distributors	<b>4.4</b>	2.7	63%
Corporate expenses	<b>(3.9)</b>	(3.0)	(30%)
Other	<b>(0.5)</b>	(0.7)	
Operating profits	<b>\$ 26.3</b>	\$ 13.6	93%
<b>Inventory Write-down</b>			
Metals service centers	<b>\$ -</b>	\$ 28.8	
Energy tubular products	<b>-</b>	16.3	
Steel distributors	<b>-</b>	49.4	
	<b>\$ -</b>	\$ 94.5	
<b>Segment Operating Profits (Loss)</b>			
Metals service centers	<b>\$ 15.1</b>	\$ (35.4)	143%
Energy tubular products	<b>11.2</b>	4.9	129%
Steel distributors	<b>4.4</b>	(46.7)	109%
Corporate expenses	<b>(3.9)</b>	(3.0)	(30%)
Other	<b>(0.5)</b>	(0.7)	
Operating profits (Loss)	<b>\$ 26.3</b>	\$ (80.9)	133%
<b>Segment Gross Margin as a % of Revenues Excluding Inventory Write-down</b>			
Metals service centers	<b>22.5%</b>	13.6%	
Energy tubular products	<b>11.8%</b>	16.1%	
Steel distributors	<b>15.2%</b>	9.3%	
Total operations	<b>18.0%</b>	14.0%	
<b>Segment Operating Profits (Loss) as a % of Revenues Excluding Inventory Write-down</b>			
Metals service centers	<b>5.4%</b>	(2.0%)	
Energy tubular products	<b>5.8%</b>	9.2%	
Steel distributors	<b>8.8%</b>	3.2%	
Total operations	<b>5.0%</b>	2.1%	

## **METALS SERVICE CENTERS**

### **a) *Description of operations***

We provide processing and distribution services to a broad base of approximately 30,000 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 centers operate under the names Russel Metals Williams Bahcall, JMS Russel Metals, Norton Metals and Baldwin International.

### **b) *Factors affecting results***

The following is a general discussion of the significant factors affecting our metals service centers results. More specific information on how these factors impacted the first quarter of 2010 and 2009 is found in the section that follows.

Steel pricing fluctuates significantly throughout the steel cycle. Starting in October 2008, steel pricing and demand declined as a result of the financial and economic crisis, which negatively impacted our results in 2009. Steel prices are influenced by overall demand, trade sanctions, iron ore pricing, 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, resource and construction segments of the Canadian economy. Tons shipped for the first quarter of 2010 were approximately 14% higher than the first quarter of 2009. Tons shipped for the first quarter of 2010 represent 77% of 2008 average quarterly levels.

Canadian service centers, which represent the majority of our metals service center 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 15,000 customers suggests that our results should fluctuate with the performance of the regional economies of Canada.

Our U.S. operations have approximately 15,000 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 the first quarter of 2010 versus the same period in 2009 has decreased revenues and profits for our U.S. operations translated to Canadian dollars. Revenues and profits of our U.S. operations reported for the three months ended March 31, 2010 were converted at \$1.0409 per US\$1 compared to \$1.2453 per US\$1 for the same period of 2009. The exchange rate declined to approximately \$1 per US\$1 in April 2010.

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 has a short-term impact on inventory pricing.

We believe that the recent strength of the Canadian dollar has or will impact our customers who sell product outside of Canada and may result in permanent volume reductions for certain of our Canadian operations.

**c) *Metals service centers segment results -- Three Months Ended March 31, 2010 Compared to March 31, 2009***

Revenues for the three months ended March 31, 2010, declined 14% to \$280 million compared to the same period in 2009. Tons shipped in metals service centers in the first quarter of 2010 were approximately 14% higher than the first quarter of 2009. The average selling price of metal for the three months ended March 31, 2010 was approximately 24% lower than the average selling price for the three months ended March 31, 2009. Average selling price in the first quarter of 2010 was consistent with the fourth quarter of 2009; however, our average cost of goods sold was lower in the first quarter of 2010 resulting in improved margins.

Gross margin as a percentage of revenues improved to 22.5% for the three months ended March 31, 2010 compared to 21.0% in the fourth quarter of 2009 and 13.6% in the first quarter of 2009. For the first time since 2008, our average cost of inventory increased in the quarter, due to higher steel prices from the mills.

Operating expenses in the first quarter of 2010 were approximately \$3 million lower than in the first quarter of 2009, mainly related to the effect of changes in the U.S. dollar exchange rate on our operations located in the U.S. translated to Canadian dollars.

Metals service centers operating profit for the three months ended March 31, 2010 of \$15 million compares to an operating loss of \$7 million, before inventory write-downs, for the same period in 2009, mainly related to higher volumes and gross margins.

**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 United States. Our business units are clustered in Alberta in Canada and Colorado in the U.S. A large portion of our inventories are located in third party warehouses ready for distribution to customers in any region of North America. In addition, we operate from five Canadian and two U.S. facilities. We purchase our products either from the pipe processing arms of North American steel mills, independent manufacturers of pipe and pipe accessories or international steel mills. Our energy tubular products segment operates under the names Comco Pipe and Supply Company, Fedmet Tubulars, Triumph Tubular & Supply, Pioneer Pipe and Spartan Steel.

**b) *Factors affecting results***

The following is a general discussion of the factors affecting our energy tubular products segment operations. More specific information on how these factors impacted the first quarter of 2010 and 2009 is found in the section that follows.

Natural gas prices are one of the factors that can impact rig count and drilling activities, particularly in Western Canada. Rig activity affects demand for our products. Natural gas prices are at low levels and thus drilling activity remains below historical levels, particularly in Canada. The price of oil has increased and we are actively bidding on projects in the oil sands for later this year or 2011 which should result in increased volumes.

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 have imposed duties on certain Chinese pipe. These trade actions tend to reduce imports of these products as higher prices are paid at the time of import.

Our Canadian operations were 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 impacts the cost of inventory and cost of sales.

Drilling related to oil and natural gas in Western Canada usually peaks during the period from October to March.

**c) *Energy tubular products segment results -- Three Months Ended March 31, 2010 Compared to March 31, 2009***

Our operations that service line pipe and drilling customers had a revenue increase of 29% for the first quarter of 2010 versus the same quarter last year. These positive results were off-set by a decline in our operations servicing the oil sands. Our overall segment revenue declined by 16%.

Gross margin as a percentage of revenue for the three months ended March 31, 2010 was 11.8% compared to 16.1%, excluding inventory write-downs, for the same period in 2009. The high average cost of our inventory, excess pipe inventory in the industry and weak demand resulted in lower margins in the first quarter of 2010.

Operating expenses were \$4 million lower in the first quarter of 2010 compared to the first quarter of 2009, mainly due to lower compensation and using a lower exchange rate to convert the results of our U.S. operations to Canadian dollars.

This segment generated an operating profit of \$11 million for the three months ended March 31, 2010, compared to \$21 million, excluding inventory write-downs, for the same period in 2009. In the first quarter of 2009 the energy market remained strong and margins were higher. Demand for energy tubular products collapsed in the second quarter of 2009 impacting pipe pricing and margins.

**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; however, product volumes vary based on the economy and trade actions in North America. Our operations in this sector are Wirth Steel and Sunbelt Group. Arrow Steel, a division of Sunbelt Group, processes coils.

**b) *Factors affecting results***

The following is a general discussion of the factors affecting our steel distributors. More specific information on how these factors impacted the first quarter of 2010 and 2009 is found in the section that follows.

Steel pricing is influenced by overall demand, trade sanctions and product availability both domestically and worldwide. Trade sanctions are initiated either by steel mills or government agencies in North America. Trade actions currently exist on plate and pipe from specified countries. Mill capacity by product line in North America and international supply and demand impact steel imports and significantly affect product availability.

Our Canadian operations were 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 results of our Canadian operations are impacted by the Financial Instruments accounting standard which considers 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. This creates timing differences on foreign exchange as 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. These gains or losses are recorded in operating expenses and will reverse in future periods.

Demand for steel that is sourced off shore fluctuates significantly and is mainly driven by price and product availability in North America. Our steel distributors have a significant number of customers who buy from them on a periodic basis, which can result in large fluctuations in revenues reported from period to period. Imports in the first quarter of 2010 were at lower than historical levels due to reduced demands of our customers and uncertainty in steel pricing.

**c) *Steel distributors segment results -- Three Months Ended  
March 31, 2010 Compared to March 31, 2009***

Steel distributors revenues decreased 41% to \$50 million for the three months ended March 31, 2010 compared to the three months ended March 31, 2009 due to less demand, lower steel pricing, uncertainty of steel prices and short lead times from North American mills.

Gross margin as a percentage of revenues, was 15.2% for the three months ended March 31, 2010 compared to 9.3% for the three months ended March 31, 2009. Rising steel prices positively impacted the gross margin obtained on inventory in 2010 compared to declining steel prices in 2009 reducing the gross margin percent.

Operating expenses were \$2 million lower for the first quarter of 2010 compared to the first quarter of 2009, mainly related to lower foreign exchange losses than were reported in 2009.

Operating profit for the three months ended March 31, 2010 was \$4 million, compared to \$3 million for the three months ended March 31, 2009. The 2010 results reflect lower volumes at higher margins and reduced expenses.

***Corporate Expenses -- Three Months Ended  
March 31, 2010 Compared to March 31, 2009***

Corporate expenses increased by \$1 million for the three months ended March 31, 2010 compared to the three months ended March 31, 2009. The increase mainly related to accruals for increases in value of deferred and restricted stock units and higher fees related to our credit facility in 2010.

***Other -- Three Months Ended  
March 31, 2010 Compared to March 31, 2009***

Other revenues and income represents the results of our bulk commodities handling terminal in Thunder Bay, Ontario. Revenues and operating loss for the first quarter of 2010 improved due to higher volumes.

***Consolidated Results -- Three Months Ended  
March 31, 2010 Compared to March 31, 2009***

Operating profits from operations were \$26 million for the three months ended March 31, 2010, compared to an operating profit of \$14 million, excluding inventory write-downs, for the three months ended March 31, 2009. Increasing steel prices in 2010 compared to declining steel prices in the first quarter 2009 is the most significant factor impacting the improved results. Improved volumes at our metals service center operations was also a factor.

**GAIN ON INVESTMENT**

During the first quarter of 2010 a more active market developed for the non-bank Canadian asset-backed commercial paper we have held since August 2007. At the end of March 2010 we agreed to sell our notes for \$6 million with settlement in early April. The gain realized on settlement of \$1.5 million was recorded as the fair value adjustment at March 31, 2010.

**INTEREST EXPENSE**

Consolidated interest expense for the three months ended March 31, 2010 was \$7 million compared to \$5 million for the three months ended March 31, 2009. Long-term debt interest expense increased \$3 million due to interest on the convertible debentures issued in October 2009 partially offset by the impact of a lower exchange rate on the interest related to our U.S. Senior Notes. In addition, we had a \$1 million decrease in interest expense on short-term bank debt as we were not borrowing under our bank facilities in the first quarter of 2010.

## INCOME TAXES

We recorded a provision for income taxes of \$5 million for the first quarter of 2010. Our income tax rate for the three months ended March 31, 2010 was 22%, which is lower than our estimated effective income tax rate of 33%. The difference is mainly a result of the gain on asset-backed commercial paper which is not taxed, the recognition of income tax benefits on previously unrecorded capital losses related to foreign exchange gains on our U.S. Senior Notes and lower earnings in our U.S. operations reducing the effective tax rate.

## NET EARNINGS (LOSS)

Net earnings for the first quarter of 2010 was \$17 million compared to a net loss of \$55 million for the first quarter of 2009. Basic earnings per share for the first quarter of 2010 was \$0.28 compared to a \$0.92 loss per share for the first quarter of 2009.

## SHARES OUTSTANDING AND DIVIDENDS

The weighted average number of common shares outstanding for the first quarter of 2010 was 59,698,690 compared to 59,695,290 for the first quarter of 2009. As at March 31, 2010 and May 12, 2010, we had 59,698,690 common shares outstanding.

We paid common share dividends of \$15 million or \$0.25 per share in the first quarter of 2010 and in the first quarter of 2009.

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 \$252 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 not less than 1.1 to 1, and this ratio includes 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 in 2009 plus any write-down of goodwill and intangibles currently on the balance sheet as non-cash charges from the trailing 12-month earnings. As at March 31, 2010, our fixed charge coverage ratio, excluding \$64 million of inventory write-downs and \$34 million of impairment of goodwill and intangibles, was 2.3 to 1. In addition, if we utilize any portion of the adjustment for excluded items, the payment of any dividend will be subject to our having excess borrowing base availability of not less than four times the declared dividend. We do not believe this requirement will restrict our ability to pay 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 net earnings (loss) to EBITDA and adjusted EBITDA:

<i>(millions)</i>	Quarters		Twelve Months	
	Ended March 31 2010	2009	Ended March 31 2010	2009
Net earnings (loss) for the period	\$ 16.5	\$ (55.0)	\$ (20.5)	\$ 144.3
Provision for (recovery of ) income taxes	4.6	(30.7)	(23.1)	67.8
Interest expense, net	6.7	4.8	22.1	13.3
Earnings (loss) before interest and income taxes (EBIT)	27.8	(80.9)	(21.5)	225.4
Inventory write-downs, net	-	94.5	64.2	131.6
Asset impairment	-	-	35.4	-
Adjusted EBIT	\$ 27.8	\$ 13.6	\$ 78.1	\$ 357.0
Depreciation and amortization	\$ 6.3	\$ 6.5	\$ 25.5	\$ 24.2
Earnings (loss) before interest, income taxes, depreciation and amortization (EBITDA)	\$ 34.1	\$ (74.4)	\$ 4.0	\$ 249.6
Adjusted EBITDA	\$ 34.1	\$ 20.1	\$ 103.6	\$ 381.2

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 \$1 million for the first quarter of 2010 compared to \$4 million in the first quarter of 2009. Depreciation expense was \$6 million for the three months ended March 31, 2010 and 2009.

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

## LIQUIDITY

At March 31, 2010, we had cash of \$311 million compared to \$360 million at December 31, 2009.

Our net cash position decreased due to a payment of \$35 million to terminate the swaps on U.S. Senior Notes, \$14 million used for increased working capital and \$15 million for dividend payments.

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. Total assets were \$1.4 billion at March 31, 2010 and December 31, 2009. At March 31, 2010, current assets excluding cash represented 75% of our total assets excluding cash, versus 74% at December 31, 2009.

Cash generated from operating activities was \$10 million for the three months ended March 31, 2010 compared to cash generated of \$44 million for the three months ended March 31, 2009. During the first quarter of 2010 we had a \$14 million decrease in working capital compared to a \$90 million increase in 2009. This use of cash for working capital as earnings increase is consistent with our model.

Cash generated from inventory was \$47 million in the first quarter of 2010, mainly related to reduced tons on hand in the energy and steel distributors segments offset by increased tons at metals service centers.

<i>Inventory by Segment</i>	<b>Mar. 31 2010</b>	<b>Dec. 31 2009</b>	<b>Mar. 31 2009</b>
Metals service centers	\$ 191	\$ 170	\$ 214
Energy tubular products	234	286	483
Steel distributors	42	62	130
<b>Total operations</b>	<b>\$ 467</b>	<b>\$ 518</b>	<b>\$ 827</b>

Inventory turns are calculated using annualized quarterly cost of sales dollars, excluding net inventory write-downs, divided by inventory in dollars at the end of the quarter.

<i>Inventory Turns</i>	<b>Quarters Ended</b>				
	<b>Mar. 31 2010</b>	<b>Dec. 31 2009</b>	<b>Sept. 30 2009</b>	<b>June 30 2009</b>	<b>Mar. 31 2009</b>
Metals service centers	4.5	4.4	4.9	5.0	5.3
Energy tubular products	2.9	1.9	1.2	1.2	1.6
Steel distributors	4.1	2.6	2.6	2.0	2.4
<b>Total operations</b>	<b>3.7</b>	<b>2.8</b>	<b>2.5</b>	<b>2.4</b>	<b>2.7</b>

Our metals service centers have more tons of inventory priced at a slightly higher average price than December 31, 2009. Inventory has been increased to align with increased sales as volumes increased compared to the fourth quarter of 2009. Based on information published by the Metals Service Center Institute in its monthly Metals Activity Report, average inventory turns based on tons for the three months ended March 31, 2010 for U.S. service centers and for Canadian service centers were 5.3 and 4.4 turns, respectively.

Our energy tubular products operations reduced inventory in the first quarter of 2010. Lower inventory and increased revenues in the quarter increased inventory turns.

Our steel distributor segment has reduced inventory which increased turns as they have been cautious in purchasing due to uncertainty of demand and steel pricing.

As a result of higher revenues and selling prices, accounts receivable utilized cash of \$76 million since December 31, 2009. We remain cautious concerning our customers ability to access funding to operate their businesses over this current business cycle. Accounts receivable represent 21% of our total assets at March 31, 2010.

During the three months ended March 31, 2010, we made income tax payments of \$3 million compared to payments of \$35 million for the three months ended March 31, 2009. Our current income tax asset of \$51 million mainly represents refunds receivable for losses to be carried back against prior years' taxable income.

During the three months ended March 31, 2010, we utilized cash of \$1 million for capital expenditures and \$15 million for common share dividends. During the three months ended March 31, 2009, we utilized cash of \$4 million for capital expenditures and \$15 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

<i>(millions)</i>	Quarters Ended March 31	
	2010	2009
Cash from (used in) operating activities before working capital	\$ 24.1	\$ (46.0)
Purchase of fixed assets	(1.3)	(3.8)
	22.8	(49.8)
Non-cash inventory write-down, net	-	94.5
	\$ 22.8	\$ 44.7

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

<i>(millions)</i>	Mar. 31, 2010	Dec. 31, 2009
Long-Term Debt		
6.375% US\$175 million Senior Notes due March 1, 2014	\$ 175	\$ 180
7.75% \$175 million convertible debentures due September 30, 2016	157	156
Capital leases		
Arkansas development bonds, maturing 2014 to 2017	5	6
	337	342
Current portion	1	1
	\$ 336	\$ 341

The convertible debenture has been split between debt and equity. The amount allocated to equity was \$12 million. The equity portion represents the valuation of the holders' option to convert the convertible debentures into common shares. The equity portion and debt issue costs are charged to interest expense.

## Cash and Bank Credit Facilities

<i>As at March 31, 2010 (millions)</i>	Russel Metals Facility	U.S. Subsidiary Facility	Total
Bank loans	\$ -	\$ -	\$ -
Cash net of outstanding cheques	295	16	311
Net cash	295	16	311
Letters of credit	(25)	(7)	(32)
	\$ 270	\$ 9	\$ 279
Facilities			
Borrowings and letters of credit	\$ 202	\$ 18	\$ 220
Letters of credit facility	50	12	62
Facilities availability	\$ 252	\$ 30	\$ 282
Available line based on borrowing base	\$ 252	\$ 30	\$ 282

The Russel Metals Facility with a syndicate of Canadian and U.S. banks expires April 29, 2011. We intend to extend this facility an additional year with the consent of the syndicate. The facilities are available on a revolving basis, based on specified percentages of our eligible accounts receivable and inventories. As of March 31, 2010, we were entitled to borrow and issue letters of credit totaling \$252 million under this facility. At March 31, 2010, we had no borrowings and had letters of credit of \$25 million. At March 31, 2009, we had \$29 million of borrowings and had letters of credit of \$5 million under this facility.

A U.S. subsidiary has its own one year bank credit facility which expires in July 2010. At March 31, 2010, this subsidiary had no borrowings and had letters of credit of US\$7 million. At March 31, 2009, this subsidiary had US\$13 million of borrowings and had letters of credit of US\$4 million.

Based on cash, cash equivalents and our bank facilities, we have access to approximately \$531 million of cash based on our March 31, 2010 balances. The use of our bank facilities has been predominantly to fund working capital requirements and trade letters of credit for inventory purchases. As steel prices and demand declined, cash generated from accounts receivable and inventory was 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 March 31, 2010, we were contractually obligated to make payments under our long-term debt 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.

## 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 2009 annual consolidated financial statements. In the first quarter of 2010, we contributed \$1 million to these plans. We expect to contribute approximately \$2 million during the remainder of the year.

## ACCOUNTING AND REPORTING CHANGES

We will adopt the International Financial Reporting Standards (IFRS) effective January 1, 2011. This standard requires us to restate our January 1, 2010 opening balance sheet and provide comparative 2010 IFRS financial statements when we report in 2011. We have completed a review of the identification of significant differences between Canadian GAAP and IFRS and are in the process of performing a detailed analysis of each standard. We established a team of our unit controllers who are actively involved in assessing the changes required and the effect of high impact standards on their units. We have determined that the following areas will have the highest impact on our accounting policies.

- a) *IFRS 1 First Time Adoption* -- All policy decisions with respect to applicable IFRS 1 choices have been reviewed, documented and approved by senior management.
- b) *IAS 1 Presentation of Financial Statements* -- IAS 1 presentation requirements have been reviewed and conversion issues identified. Our income statement will be presented by "nature" in accordance with IAS 1 as this presentation method is the method used by senior management in assessing operating performance.
- c) *IFRS 2 Share-Based Payments* -- A preliminary analysis of IAS 2 has been completed and this standard will result in an additional charge to equity on transition and a reduction in future expense over the period 2010 to 2013 due to the discontinuation of graded vesting. Accounting for new options under IFRS will result in compensation expense being front loaded over the vesting period.
- d) *IAS 12 Income Taxes* -- We have completed the IFRS planning document and gap analysis and are in the process of preparing related documentation.
- e) *IAS 16 Fixed Assets* -- The implementation of this standard will result in property, plant and equipment being split into significant components with each component depreciated over its estimated useful life. We have completed the componentization and uploaded the data into a separate sub-ledger to be used for the dual reporting requirements in 2010. We are in the process of finalizing the transitional adjustment to IFRS. We have chosen not to fair value property, plant and equipment on transition.
- f) *IAS 19 Employee Benefits* -- We have completed our inventory of employee benefits. In early 2010 we will complete the IFRS disclosures and the calculation of the transitional adjustment on conversion. We have concluded and documented that we will utilize the Statement of Recognized Income and Expense method of accounting for employee benefits on conversion to IFRS.
- g) *IAS 32, IAS 39, IFRS 7 Financial Instruments* -- Hedge documentation relating to the conversion to IFRS has been completed and evaluated resulting in no transitional adjustment. The accounting for our convertible debentures, however, will result in a GAAP difference upon conversion to IFRS. We are currently updating our documentation under IFRS for financial instruments and preparing draft disclosure.
- h) *IAS 36 Impairment of Assets* -- Under IFRS the assessment for impairment is performed at the cash generating unit level, which is at a lower level than Canadian GAAP. We have identified our cash generating units under IFRS and are finalizing our evaluation of impairment upon transition to IFRS.
- i) *IAS 37 Provisions, Contingent Liabilities and Contingent Assets* -- Canadian GAAP requires accruals using a legal liability definition whereas IFRS uses a broader definition of a constructive liability. We have evaluated our decommissioning liabilities to determine whether we have constructive obligations. Our evaluation has been documented and is being finalized.

The following tables summarize our progress to date against the key elements of our transition plan:

a) *Financial Statement Presentation*

Key Activity	Progress to Date	Timetable
Assessment of Canadian GAAP to IFRS differences applicable to us.	All applicable significant differences have been assessed and a qualitative analysis has been performed.	Completed
Selection of accounting policy choices under IFRS 1: First Time Adoption and the entity's continuing IFRS accounting policies.	All IFRS 1 accounting policy decisions have been made and documented. Initial drafts of substantially all of our IFRS accounting policy decisions have been drafted.	Q2 2010
Financial statement format including nature versus function presentation for income statement.	Decisions with respect to financial statement presentation have been made and the decision to follow the nature format for income statement presentation has been documented including draft mock statements.	Completed
Changes to note disclosures.	Draft note disclosures have been prepared for significant conversion standards and others are in process.	Q2 2010
Preparation of opening balance sheet.	We have drafted our January 1, 2010 balance sheet; however, certain quantitative analysis has not been finalized and some IFRS standards may be subject to change.	Q3 2010
Quantification of impact, on transition and prospectively.	Quantifications for high impact standards are in progress.	Continuing ongoing process

b) *Training and Communication*

Key Activity	Progress to Date	Timetable
Key finance staff are provided with adequate training and are knowledgeable about applicable IFRS standards.	Training has been provided for all leaders on the conversion team. IFRS standard requirements have been communicated to other affected team members.	Continuing ongoing process
Education of senior management team and Board of Directors.	Senior management has attended various IFRS update and training courses. IFRS/Canadian GAAP differences have been communicated to the Audit Committee. Quarterly updates on the conversion process have been provided to the Audit Committee and senior management.	Continuing ongoing process

c) *Information Technology*

Key Activity	Progress to Date	Timetable
Identify and assess IFRS differences that impact IT systems.	IT implications have been assessed with respect to additional information required under IFRS.	Completed
Creation of additional ledgers in IT system for dual reporting requirements for 2010.	Multiple sub-ledgers have been created, populated and balanced.	Completed

#### d) *Internal Controls Over Financial Reporting and Disclosure Controls & Procedures*

Key Activity	Progress to Date	Timetable
Assess changes required to internal controls as a result of IFRS requirements.	Except for an additional level of review by IFRS team leaders, no significant changes to internal controls have been identified as the processes have not changed significantly.	Continuing ongoing process

### **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, fair values, income taxes, pensions and benefits obligations, component allocation of convertible debentures, 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 that we determine to be uncollectible are reserved in the period in which the determination is made. If the financial condition of our customers were to deteriorate, resulting in an impairment of their ability to make payments, additional allowances may be required. Our reserve for bad debts at March 31, 2010 approximates that of December 31, 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 write-downs. The inventory reserve level at March 31, 2010 decreased compared to the level at December 31, 2009 due to the sale of inventory which was previously written-down during the first half of 2009 and increasing steel prices.

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 defined benefit plan to determine the actuarial present value of the accrued pension 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 \$81 million in plan assets at March 31, 2010, which is consistent with the value from December 31, 2009.

## **CONTROLS AND PROCEDURES**

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

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

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

The President and Chief Executive Officer, and the Vice President and Chief Financial Officer have caused management and other employees to design and document our disclosure controls and procedures and our internal controls over financial reporting. The design of internal controls was completed using the framework and criteria established in "Internal Control – Integrated Framework" issued by the Committee of Sponsoring Organizations of the Treadway Commission.

No changes were made in our disclosure controls or our internal control over financial reporting during the first quarter of 2010 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 in 2008 added to our platform for growth in the Southeastern and Midwestern regions of the United States. We believe that 2010 should provide opportunities for acquisitions.

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. The uncertainty had caused steel pricing and demand to significantly decrease throughout 2009. The timing and extent of future price changes from steel producers and their impact on us cannot be predicted with any certainty due to the inherent cyclical nature of the steel industry. Demand for our product remains at low levels and we cannot predict when or if it will return to pre-2009 levels.

## **OUTLOOK**

We have benefited from the start of the recovery of the North American economy, seen throughout our sector. We expect that current aggressive steel mill price increases will positively impact the second quarter. We believe the demand improvement will be gradual and there is the potential for supply/demand imbalances which clouds the outlook for the second half of 2010.