Third Quarter
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Russel Metals

1900 Minnesota Court, Suite 210
Mississauga, Ontario L5N 3C9
Email: info@russelmetals.com
Visit us at: www.russelmetals.com
Tel: 905.819.7777 ║ Fax: 905.819.7409

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RUSSEL METALS INC.
MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2011

We adopted the International Financial Reporting Standards (IFRS) effective January 1, 2011. These standards required us to restate our January 1, 2010 opening balance sheet and prepare comparative 2010 IFRS financial statements to be presented when we report our 2011 results. The information disclosed for the nine months ended September 30, 2010 and as at December 31, 2010 has been restated for IFRS differences in the financial statements and in this Management's Discussion and Analysis of Financial Condition and Results of Operations. IFRS is considered Canadian generally accepted accounting principles (GAAP) for Canadian reporting issuers for reporting periods commencing on or after January 1, 2011.

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 nine months ended September 30, 2011, including the notes thereto, and the Management's Discussion and Analysis and the audited Consolidated Financial Statements for the year ended December 31, 2010, 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. 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 or on our website at www.russelmetals.com.

Unless otherwise stated, the discussion and analysis contained herein are as of November 3, 2011.

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; cyclicality 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.

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.

For the third quarter of 2011 basic earnings per share were $0.43 compared to $0.14 for the third quarter of 2010. More tons shipped at higher selling prices in the third quarter of 2011 compared to the third quarter of 2010 resulted in an increase in gross margin dollars and operating profits.

For the nine months ended September 30, 2011 our basic earnings per share were $1.50 compared to $0.71 for the same period in 2010. Volume improvements in all three segments and higher steel pricing in 2011 were the main factors contributing to the significant increase in earnings.

IMPACT OF IFRS ON SEPTEMBER 30, 2010 RESULTS

Note 23 to the interim consolidated financial statements discloses the differences between IFRS and Canadian GAAP used prior to January 1, 2011. The most significant financial impact relates to the accounting treatment of the cash conversion feature of our convertible debentures which existed prior to the amendment of the Trust Indenture governing the debentures in December 2010. Prior to this amendment, the conversion feature in our convertible debentures that allowed us to settle the conversion of the debenture in cash or in a combination of cash and common shares in lieu of common shares prior to maturity was a derivative under IFRS. Under IFRS a derivative is fair valued at each reporting period with the net change impacting net earnings.

This table summarizes the impact of the restatement of 2010 to IFRS disclosing the impact of the finance expense of the derivative and the other adjustments for the third quarter and 2010 year:

(millions)	Quarter Ended September 30 2010	Year Ended December 31 2010
Net earnings previously reported under Canadian GAAP	$ 16.6	$ 69.7
Finance expense convertible debentures	(8.2)	(11.1)
	8.4	58.6
Other adjustments, net	(0.2)	(1.3)
Net earnings IFRS	$ 8.2	$ 57.3

See page 13 of this MD&A for more details on the differences.

The amendment of the Trust Indenture resulted in the removal of the charge to the income statement and a split in the convertible debenture between long-term debt and shareholders' equity.

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.

	Quarters Ended September 30			Nine Months Ended September 30		
(millions, except percentages)	**2011**	2010	change as a % of 2010	**2011**	2010	change as a % of 2010
Segment Revenues						
Metals service centers	**$ 390.4**	$ 315.4	24%	**$ 1,142.1**	$ 906.8	26%
Energy tubular products	**223.3**	188.3	19%	**592.7**	514.3	15%
Steel distributors	**89.5**	75.5	19%	**241.9**	186.7	30%
Other	**2.2**	3.3		**5.0**	8.1	
	$ 705.4	$ 582.5	21%	**$ 1,981.7**	$ 1,615.9	23%
Segment Operating Profits(Loss)						
Metals service centers	**$ 24.2**	$ 13.7	77%	**$ 93.9**	$ 48.2	95%
Energy tubular products	**15.1**	14.4	5%	**43.5**	36.3	20%
Steel distributors	**8.1**	5.1	59%	**27.3**	16.2	68%
Corporate expenses	**(3.1)**	(4.8)	35%	**(13.6)**	(12.3)	(11%)
Other	**0.6**	1.6		**0.1**	2.6	
Operating profits	**$ 44.9**	$ 30.0	50%	**$ 151.2**	$ 91.0	66%
Segment Gross Margin as a % of Revenues						
Metals service centers	**20.6%**	21.1%		**23.0%**	22.0%	
Energy tubular products	**14.3%**	14.4%		**15.0%**	14.4%	
Steel distributors	**14.5%**	12.7%		**17.4%**	15.3%	
Total operations	**18.1%**	18.3%		**20.2%**	19.2%	
Segment Operating Profits as a % of Revenues						
Metals service centers	**6.2%**	4.3%		**8.2%**	5.3%	
Energy tubular products	**6.8%**	7.6%		**7.3%**	7.1%	
Steel distributors	**9.1%**	6.8%		**11.3%**	8.7%	
Total operations	**6.4%**	5.2%		**7.6%**	5.6%	

Note: 2010 comparatives restated for IFRS

METALS SERVICE CENTERS

a) Description of operations

We provide processing and distribution services to a broad base of approximately 28,000 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 third quarter of 2011 and 2010 is found in the sections that follow.

Steel pricing fluctuates significantly throughout the steel cycle. Steel pricing increased throughout the first quarter of 2011 due to mill price increases. Steel pricing peaked in April 2011 and declined during the second quarter of 2011. Steel pricing has been stable or slightly down during the third quarter of 2011. Although steel prices increased and peaked in the second quarter of both 2010 and 2011, the price increases in 2011 were larger resulting in higher pricing per ton in 2011 for most products.

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, affects product availability. Trade sanctions are initiated either by steel mills or by government agencies in North America.

Demand is significantly affected by economic cycles, with revenues and operating profit fluctuating with the level of general business activity in the markets served. We are most impacted by the manufacturing, resource and construction segments of the Canadian economy. Tons shipped in the nine months of 2011 were approximately 13% higher than the same period in 2010. Demand has improved year to date in 2011, with tons shipped representing 85% of tons shipped in the first nine months of 2008, which was the year prior to the economic downturn in metal products. Tons shipped per day have been consistent for the second and third quarter of 2011.

Canadian service centers, which represent the majority of our metals service center operations, have operations in all regions of Canada and are affected by general regional economic conditions. Our large market share and our diverse customer base of approximately 18,000 customers suggest that our results should mirror the performance of the regional economies of Canada. Our U.S. operations, which have approximately 10,000 customers, are impacted by the local economic conditions in the regions that they serve.

The change in the Canadian dollar in the first nine months of 2011 versus the same period in 2010 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 nine months ended September 30, 2011 were converted at $0.9780 per US$1 compared to $1.0359 per US$1 for the same period of 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.

c) *Metals service centers segment results -- Three Months Ended September 30, 2011 compared to September 30, 2010*

Revenues for the three months ended September 30, 2011, increased 24% to $391 million compared to the same period in 2010. This 24% increase in revenues was generated by a 13% increase in tons shipped and an 11% increase in selling prices for the third quarter 2011 compared to the same period in 2010. Revenues increased slightly versus the second quarter of 2011 as a volume increase of 3% was offset by a 2% decline in average selling prices.

Gross margin as a percentage of revenues decreased to 20.6% for the three months ended September 30, 2011 compared to 21.1% for the third quarter of 2010 and 23.7% for the second quarter of 2011. Higher cost of goods sold due to increased steel pricing during the first half of 2011 reduced gross margin as a percentage of revenues for the third quarter of 2011 compared to the first half of 2011. Competitive pressures did not allow us to pass the price increase on to our customers.

Operating expenses in the third quarter of 2011 were approximately $3 million or 7% higher than in the third quarter of 2010, mainly related to higher variable compensation and higher freight costs due to increased volumes.

Metals service centers operating profit for the three months ended September 30, 2011 of $24 million compares to $14 million for the same period in 2010. The increase mainly related to higher steel prices and volumes resulting in increased gross margin dollars.

d) *Metals service centers segment results -- Nine Months Ended September 30, 2011 compared to September 30, 2010*

Revenues for the nine months ended September 30, 2011, were $1.1 billion compared to $0.9 billion for the nine months ended September 30, 2010. The increase was a result of higher volumes and selling prices.

Tons shipped in the nine months ended September 30, 2011, were approximately 13% higher than for the same period of 2010. Average selling price for the nine months ended September 30, 2011 was approximately 12% higher than for the nine months ended to September 30, 2010.

Gross margin as a percentage of revenues was 23.0% for the nine months ended September 30, 2011 compared to 22.0% for the same period in 2010. Gross margin percentage was higher due to a larger per ton steel price increase in 2011 compared to 2010.

Operating expenses for the nine months ended September 30, 2011 increased 12% mainly related to higher variable compensation and higher freight costs due to increased volumes.

Metals service centers operating profit for the nine months ended September 30, 2011, almost doubled to $94 million as compared to $48 million for the same period in 2010. Increased volumes and higher steel prices in 2011 are the factors contributing to the increase.

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 Energy Tubulars.

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 third quarter of 2011 and 2010 is found in the sections that follow.

Pricing for natural gas and oil are factors that can impact rig count and drilling activities, particularly in Western Canada. Rig activity affects demand for our products. The price of oil increased during 2010 and remains high resulting in improved rig activity. Canadian rig activity increased in the third quarter of 2011 due to the seasonal pickup. Drilling rig counts, an indicator of demand for pipe product, were at higher levels in both Canada and the U.S. for the third quarter of 2011 compared to the third quarter of 2010. Natural gas prices were at low levels and thus drilling activity related to gas remained below historical levels, particularly in Canada.

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, which remain in effect. 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 September 30, 2011 compared to September 30, 2010

Energy tubular products segment revenues increased 19% to $223 million for the third quarter of 2011 compared to the same period in 2010. Our operations servicing the oil sands had a revenue increase of approximately 21% mainly related to a return to more normal operating levels compared to the very slow third quarter in 2010. Our U.S. operations had a revenue increase of 27% due to increased activity. Our operations servicing oil drilling activity in Western Canada had an increase of 13% related to increased oil drilling activity.

Gross margin as a percentage of revenue for the three months ended September 30, 2011 was 14.3% compared to 14.4% for the same period in 2010.

Operating expenses were $4 million higher in the third quarter of 2011 compared to the third quarter of 2010, mainly due to higher freight, other volume related costs and bonus accruals.

This segment generated an operating profit of $15 million for the three months ended September 30, 2011 compared to $14 million for the same period in 2010. The additional gross margin from higher revenues was offset by higher expenses.

d) Energy tubular products segment results -- Nine Months Ended September 30, 2011 compared to September 30, 2010

The energy tubular products segment revenues increased 15% to $593 million for the nine months ended September 30, 2011 compared to the same period in 2010. All operations have increased volumes, with our U.S. operations and our Canadian operations servicing the oil sands experiencing the largest increases. Our operations servicing oil drilling customers in Western Canada had revenues for the nine months ended September 30, 2011 7% higher than for the same period in 2010 as the increases in the first and third quarter of 2011 related to increased drilling were offset by lower volume due to poor weather in the second quarter of 2011.

Gross margin as a percentage of revenue was 15.0% for the nine months ended September 30, 2011 compared to 14.4% for the same period in 2010 due to lower costs of goods sold in 2011.

Operating expenses increased $8 million for the nine months ended September 30, 2011 compared to the nine months ended September 30, 2010 mainly due to higher variable compensation and freight costs.

Operating profits were $44 million for the nine months ended September 30, 2011 compared to $36 million for the same period in 2010. Strong results in the first quarter of 2011, related to higher volumes and gross margins compared to 2010, accounted for the improved earnings.

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 has a cut-to-length facility in Houston, Texas where it processes coil for its customers. Our steel distributors source their steel both domestically and off shore.

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 steel distributors operate under the names 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 third quarter of 2011 and 2010 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. 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 source product outside of Canada that is 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. In addition, the change in the Canadian dollar in 2011 versus 2010 decreased revenues and profits for our U.S. operations translated to Canadian dollars.

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.

c) *Steel distributors segment results -- Three Months Ended September 30, 2011 compared to September 30, 2010*

Steel distributors revenues increased 19% to $90 million for the three months ended September 30, 2011 compared to the three months ended September 30, 2010 due to greater demand and higher steel pricing. Our customers are purchasing more steel in 2011 as their inventory levels are balanced with demand.

Gross margin as a percentage of revenues was 14.5% for the three months ended September 30, 2011 compared to 12.7% for the three months ended September 30, 2010.

Operating expenses were slightly higher for the third quarter of 2011 compared to the third quarter of 2010, mainly related to higher variable compensation.

Operating profit for the three months ended September 30, 2011 was $8 million, compared to $5 million for the three months ended September 30, 2010. Our 2011 results reflect stronger revenues from higher volumes and steel pricing.

d) *Steel distributors segment results -- Nine Months Ended September 30, 2011 compared to September 30, 2010*

Revenues for the nine months ended September 30, 2011, were 30% higher than the nine months ended September 30, 2010 mainly due to higher volumes. Extended lead times for certain products from steel mills during the first six months of 2011 as well as higher steel purchases as customers have balanced inventory levels, resulted in increased demand and revenues in 2011.

Gross margin as a percentage of revenues increased to 17.4% from 15.3% in the comparable 2010 period. Gross margin is higher in 2011 due to rising steel prices in the first six month of 2011.

Operating expenses for the nine months ended September 30, 2011 of $15 million increased from $12 million in the same period was 2010 mainly due to higher variable compensation in 2011.

Operating profit for the nine months ended September 30, 2011 was $27 million compared to $16 million for the nine months ended September 30, 2010 as a result of higher volumes and gross margins.

Corporate Expenses -- Three and Nine Months Ended September 30, 2011 compared to September 30, 2010

Corporate expenses for the three months ended September 30, 2011 were $3 million, compared to $5 million for the three months ended September 30, 2010 due to the lower mark to market valuation of deferred and restricted stock units. For the nine months ended September 30, 2011 corporate expenses increased by $1 million compared to the same period in 2010, relating to higher bonus accruals in 2011 due to improved earnings per share.

Consolidated Results -- Three and Nine Months Ended September 30, 2011 compared to September 30, 2010

Operating profits increased 50% to $45 million for the three months ended September 30, 2011, compared to $30 million for the three months ended September 30, 2010. Operating profits for the nine months ended September 30, 2011 were $151 million compared to $91 million for the same period in 2010. Improved volumes and increased steel prices in 2011 were the most significant factors impacting the improved results.

INTEREST EXPENSE AND INCOME

Net interest expense for the three months ended September 30, 2011 was $6 million compared to $7 million for the three months ended September 30, 2010. Net interest expense was $19 million for the nine months ended September 30, 2011 compared to $21 million for the same period in 2010. The reduction in net interest expense related to lower interest on the Senior Notes as we have repurchased Senior Notes with cash.

OTHER FINANCE INCOME AND EXPENSE

Net financial expense was $0.4 million for the third quarter of 2011 compared to net financial expense of $8 million for the third quarter of 2010. The expense in 2011 mainly related to the repurchase of US$8 million of our Senior Notes. The cash conversion feature that was in our convertible debentures is a derivative under IFRS and has resulted in a fair value expense of $8 million for the third quarter of 2010. In December 2010, we amended the Trust Indenture governing our convertible debentures to remove this settlement option under the conversion feature prior to maturity, which eliminated the derivative and associated impact on earnings in 2011.

INCOME TAXES

We recorded a provision for income taxes of $13 million for the third quarter of 2011. Our effective income tax rate for the three months ended September 30, 2011 was 32.7% and 31.0% for the nine months ended September 30, 2011. We estimate our normalized effective income tax rate for 2011 to be similar to the year-to-date rate.

NET EARNINGS

Net earnings for the third quarter of 2011 were $26 million compared to $8 million for the third quarter of 2010. Basic earnings per share for the third quarter of 2011 were $0.43 compared to $0.14 per share for the third quarter of 2010. Basic earnings per share for the nine months ended September 30, 2011 were $1.50 compared to basic earnings per share of $0.71 for the nine months ended September 30, 2010.

Results improved due to rising steel prices, higher volumes and the removal of the cash conversion feature in our convertible debentures that created an expense in the third quarter and for the nine months in 2010.

SHARES OUTSTANDING AND DIVIDENDS

The weighted average number of common shares outstanding for the third quarter of 2011 was 60,062,831 compared to 59,700,907 for the third quarter of 2010. The weighted average number of common shares outstanding for the nine months ended September 30, 2011 was 60,035,321 compared to 59,699,462 for the nine months ended September 30, 2010. As at September 30, 2011 and November 3, 2011, we had 60,063,173 common shares outstanding. The number of common shares outstanding has increased as a result of options being exercised.

We paid common share dividends of $18 million or $0.30 per share in the third quarter of 2011 compared to $15 million or $0.25 per share in the third quarter of 2010.

We have $175 million of 7.75% convertible unsecured subordinated debentures outstanding which mature on September 30, 2016. Each debenture is convertible into common shares at the option of the holder at any time on or prior to the business day immediately preceding (i) the maturity date, or (ii) the date specified for redemption of the convertible debentures, at a conversion price of $25.75 per share being a conversion rate of 38.8350 common shares per $1,000 principal amount of convertible debentures.

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 $260 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 from shares issued increase the basket.

Under our syndicated bank facility the payment of dividends is subject to 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 percentages of accounts receivable and inventories, has traditionally been in excess of borrowings plus four times the current dividend.

EBITDA

The following table shows the reconciliation of net earnings to EBITDA:

(millions)	**Quarters Ended September 30 2011**	Quarters Ended September 30 2010	**Nine Months Ended September 30 2011**	Nine Months Ended September 30 2010
Net earnings for the period	**$ 25.7**	$ 8.2	**$ 89.8**	$ 42.1
Provision for income taxes	**12.5**	6.2	**40.5**	20.1
Interest expense, net	**6.3**	7.4	**19.2**	21.0
Earnings before interest and income taxes (EBIT)	**44.5**	21.8	**149.5**	83.2
Depreciation and amortization	**5.8**	6.3	**17.7**	18.9
Earnings before interest, income taxes, depreciation and amortization (EBITDA)	**$ 50.3**	$ 28.1	**$ 167.2**	$ 102.1

We believe that EBITDA, a non-GAAP measure, 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 $13 million for the nine months ended September 30, 2011 compared to $8 million in the same period of 2010 which are both below historical levels. Depreciation expense was $17 million for the nine months ended September 30, 2011 and $18 million for the nine months ended September 30, 2010.

In 2011, we relocated our Ontario structural steel business to our plant in Cambridge, Ontario. Our capital expenditure included $5 million for the cost of a new outside crane facility at this location.

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 September 30, 2011, we had cash of $224 million compared to $324 million at December 31, 2010.

Our operations generated $113 million for the nine months ended September 30, 2011. Our net cash position decreased due to $131 million used to finance increased working capital, $51 million utilized for dividend payments and $26 million for the repurchase of our Senior Notes.

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 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 $1.5 billion at September 30, 2011 and $1.4 billion at December 31, 2010. At September 30, 2011, current assets excluding cash represented 82% of our total assets excluding cash, versus 78% at December 31, 2010.

Cash used in operating activities was $19 million for the nine months ended September 30, 2011 compared to cash generated from operating activities of $56 million for the nine months ended September 30, 2010. During the nine months ended September 30, 2011, we had a $131 million increase in working capital compared to an increase of $21 million for the nine months ended September 30, 2010. This use of cash for working capital as revenues increase is consistent with our business model.

Cash invested for inventory was $100 million in the nine months to September 30, 2011, mainly related to increased tons and steel pricing in all the three segments.

Inventory by Segment (millions)	**Sept. 30 2011**	**June 30 2011**	**Mar. 31 2011**	**Dec. 31 2010**	Sept. 30 2010
Metals service centers	**$ 264**	**$ 249**	**$ 238**	**$ 202**	$ 249
Energy tubular products	**295**	**300**	**257**	**290**	161
Steel distributors	**94**	**83**	**54**	**52**	66
Total operations	**$ 653**	**$ 632**	**$ 549**	**$ 544**	$ 476

Inventory Turns	Quarters Ended **Sept. 30 2011**	**June 30 2011**	**Mar. 31 2011**	**Dec. 31 2010**	Sept. 30 2010
Metals service centers	**4.7**	**4.8**	**4.6**	**4.8**	4.9
Energy tubular products	**2.6**	**1.6**	**3.0**	**2.3**	2.2
Steel distributors	**3.2**	**3.2**	**4.2**	**4.0**	5.2
Total operations	**3.5**	**3.1**	**3.8**	**3.4**	3.5

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.

At September 30, 2011, our metals service centers had more tons of inventory priced at a higher average price than at December 31, 2010. Inventory has been increased to align with increased sales as volumes increased compared to 2010.

Our energy tubular products operations had inventory at the end of the third quarter of 2011 consistent with the second quarter of 2011. Higher revenues in the quarter compared to the second quarter of 2011 resulted in increased inventory turns.

Our steel distributors segment has increased inventory to service higher demand.

As a result of higher volumes and selling prices, accounts receivable utilized cash of $90 million since December 31, 2010. Accounts receivable represented 26% of our total assets at September 30, 2011.

During the nine months ended September 30, 2011, we made income tax payments of $38 million compared to payments of $34 million for the nine months ended September 30, 2010 due to increased earnings.

During the nine months ended September 30, 2011, we utilized cash of $13 million for capital expenditures and $51 million in common share dividends. During the nine months ended September 30, 2010, we utilized $8 million for capital expenditures and $45 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 September 30 **2011**	2010	Nine Months Ended September 30 **2011**	2010
Cash from operating activities before working capital	**$ 34.4**	$ 26.4	**$ 112.8**	$ 76.6
Purchase of fixed assets	**(3.3)**	(4.7)	**(12.9)**	(8.1)
	$ 31.1	$ 21.7	**$ 99.9**	$ 68.5

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

CASH, DEBT AND CREDIT FACILITIES

Debt

(millions)	**Sept. 30, 2011**	Dec. 31, 2010
Long-Term Debt		
6.375% US$142 million Senior Notes due March 1, 2014	**$ 146**	$ 164
7.75% $175 million convertible debentures due September 30, 2016	**153**	151
Finance lease obligations, maturing 2014 to 2017	**4**	5
	303	320
Current portion	**1**	1
	$ 302	$ 319

During the third quarter of 2011, we repurchased US$8 million of our U.S. Senior Notes. The face value of Notes outstanding at September 30, 2011 was US$142 million compared to US$167 million as at December 31, 2010.

Our convertible debentures have been split between debt and equity. The amount allocated to equity is $29 million representing the valuation of the holders' option to convert the convertible debentures into common shares and the fair value adjustments on the cash conversion feature that was a derivative under IFRS prior to the amendment of the Trust Indenture in December 2010.

Cash and Bank Credit Facilities

As at September 30, 2011 (millions)	Russel Metals Facility	U.S. Subsidiary Facility	Total
Bank loans	$ -	$ -	$ -
Cash net of outstanding cheques	214	10	224
Net cash	214	10	224
Letters of credit	(12)	(13)	(25)
	$ 202	$ (3)	$ 199
Facilities			
Borrowings and letters of credit	$ 202	$ 21	$ 223
Letters of credit facility	50	26	76
Facilities availability	$ 252	$ 47	$ 299
Cash availability	$ 416	$ 31	$ 447

We have a facility with a syndicate of Canadian and U.S. banks totaling $252 million which was extended to June 24, 2014 during the second quarter of 2011. In July 2011, our U.S. subsidiary facility of US$45 million was renewed with an expiry of July 2012.

The syndicated 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 are issued under the $50 million line first and additional needs are issued under the $202 million line. The borrowings and letters of credit are available on a revolving basis, up to an amount equal to the sum of specified percentages of our eligible accounts receivable and inventories, to a maximum of $252 million. As of September 30, 2011, we were entitled to borrow and issue letters of credit totaling $252 million under this facility. At September 30, 2011 and 2010, we had no borrowings. At September 30, 2011, we had letters of credit of $12 million compared to $25 million at September 30, 2010.

The maximum borrowings including letters of credit under the U.S. subsidiary's facility are US$45 million. At September 30, 2011, this subsidiary had no borrowings and had letters of credit of US$12 million. At September 30, 2010, this subsidiary had no borrowings and had letters of credit of US$12 million.

With our cash, cash equivalents and our bank facilities we have access to approximately $447 million of cash based on our September 30, 2011 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 may be used to support increases in working capital when volumes and steel prices increase.

CONTRACTUAL OBLIGATIONS

As at September 30, 2011, we were contractually obligated to make payments under our long-term debt agreements, finance leases and operating leases that come due in the future. See the notes to our interim condensed consolidated 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. During the nine months ended September 30, 2011, we contributed $3 million to these plans. We expect to contribute approximately $1 million during the remainder of the year.

ACCOUNTING AND REPORTING CHANGES

We adopted IFRS effective January 1, 2011, which required us to restate our January 1, 2010 opening balance sheet and prepare comparative 2010 IFRS financial statements to report with our 2011 financial statements. IFRS requires significantly more disclosure than the previous requirements under Canadian GAAP and during the first reporting year we are required to include a number of reconciliations compared to prior Canadian GAAP which are in Note 23.

Note 24 to our first quarter ended March 31, 2011 consolidated interim financial statements provides details on our exemption options on initial conversion to IFRS, key Canadian GAAP to IFRS differences, reconciliations of Canadian GAAP to IFRS for 2010, changes in accounting policies, presentation reclassifications and additional IFRS annual disclosures.

As a result of the IFRS conversion and the exemption options chosen, our January 1, 2010 opening shareholders' equity was reduced by $42 million. This reduction was as a result of the following:

- *Employee benefits* - charge to retained earnings for unamortized actuarial gains and losses and other adjustments relating to our pension plans,
- *Share based compensation* - change to graded vesting on stock options and restricted share units,
- *Financial instruments* - revaluation of the cash conversion feature on our convertible debentures,
- *Decommissioning liabilities* - realization of previously unrecognized constructive obligations for environmental cleanup,
- *Property, Plant and Equipment* - accelerated depreciation caused by componentization,
- *Asset impairment* - assessment of cash generating units at a lower level and discounting of expected cash flows, and
- *Income taxes* - on above items.

The above changes similarly impacted the 2010 earnings. The most significant item impacting our 2010 earnings was the cash conversion feature in our convertible debenture, which caused it to be a derivative. We removed this feature by amending our Trust Indenture governing the convertible debentures in December 2010.

The remaining items, representing a $1.3 million impact of 2010 earnings, relate to the following:

(millions)		Year ended December 31, 2010
Employee benefits - reduced pension expense as unamortized actuarial gains and losses were charged to opening retained earnings	$	0.5
Share based compensation - increased expense as graded vesting results in larger expense in earlier years		(0.2)
Financial instruments - increased accretion on revalued conversion option in convertible debentures		(0.8)
Decommissioning liabilities - expenses related to constructive obligations of prior environmental matters		(0.4)
Depreciation on plant and equipment - charge for accelerated depreciation rates on componentized assets		(0.4)
Foreign currency translation - change in 2010		(0.3)
Income taxes - tax effect of above items		0.3
Impact on earnings excluding cash conversion derivative expense	$	(1.3)

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, fair values, income taxes, pensions and benefits obligations, guarantees, decommissioning liabilities, 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 was to deteriorate, resulting in an impairment of their ability to make payments, additional allowances may be required. Our reserve for bad debts at September 30, 2011 approximates our reserve at December 31, 2010; however, our accounts receivable balance is significantly higher.

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 to be slow moving or obsolete. The inventory reserve level at September 30, 2011 decreased compared to the level at December 31, 2010 mainly due to the sale of inventory that was written-down.

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 $82 million in plan assets at September 30, 2011 a decline from $87 million at December 31, 2010.

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 third quarter of 2011 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 part of our 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 continue to review 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 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 products is at approximately 85% of pre-2009 levels and we cannot predict when or if it will return to pre-2009 levels. Our Annual Information Form includes a summary of risks.

OUTLOOK

Our improved results year to date reflect stronger demand levels which are expected to continue into the fourth quarter. Gross margin pressure experienced in the third quarter is expected to continue into the fourth quarter due to lower steel prices. We believe oil pricing and drilling activity will support strong revenues in our energy tubular products segment over the next two quarters. We believe our disciplined approach and strong balance sheet leave us well positioned in this uncertain environment.

MANAGEMENT'S REPORT TO THE SHAREHOLDERS

The accompanying condensed consolidated financial statements and management's discussion and analysis of financial condition have been prepared by management and approved by the Audit Committee and the Board of Directors of the Company.

These interim condensed consolidated financial statements were prepared in accordance with International Financial Reporting Standards, as issued by the International Accounting Standards Board (IASB), and, where appropriate, reflect management's best estimates and judgements. Management is responsible for the accuracy, integrity and objectivity of the interim condensed consolidated financial statements and management's discussion and analysis within reasonable limits of materiality.

To assist management in the discharge of these responsibilities, the Company has developed, documented and maintained a system of internal controls in order to provide reasonable assurance that its assets are safeguarded; that only valid and authorized transactions are executed; and that accurate, timely and comprehensive financial information is prepared in accordance with International Financial Reporting Standards. In addition, the Company has developed and maintained a system of disclosure controls in order to provide reasonable assurance that the financial information is relevant, reliable and accurate.

The Company'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 condensed consolidated financial statements and management's discussion and analysis of financial condition. The Audit Committee reports its findings to the Board of Directors for consideration in approving the interim condensed consolidated financial statements and management's discussion and analysis of financial condition for presentation to the shareholders.

November 3, 2011

B. R. Hedges
President and
Chief Executive Officer

M. E. Britton
Vice President and
Chief Financial Officer

CONDENSED CONSOLIDATED STATEMENTS OF EARNINGS *(UNAUDITED)*

(in millions of Canadian dollars, except per share data)	Quarters ended September 30 **2011**	2010	Nine months ended September 30 **2011**	2010
Revenues	**$ 705.4**	$ 582.5	**$ 1,981.7**	$ 1,615.9
Cost of materials	**578.0**	476.0	**1,582.2**	1,305.3
Employee expenses (Note 15)	**49.6**	45.6	**152.6**	132.4
Other operating expenses (Note 15)	**32.9**	30.9	**95.7**	87.2
Earnings before the following	**44.9**	30.0	**151.2**	91.0
Interest expense (Note 16)	**6.7**	7.9	**20.7**	22.1
Interest income (Note 16)	**(0.4)**	(0.5)	**(1.5)**	(1.1)
Finance expense convertible debentures (Note 16)	**-**	8.2	**-**	9.3
Other finance expense (income), net (Note 16)	**0.4**	-	**1.7**	(1.5)
Earnings before income taxes	**38.2**	14.4	**130.3**	62.2
Provision for income taxes (Note 17)	**(12.5)**	(6.2)	**(40.5)**	(20.1)
Net earnings for the period	**$ 25.7**	$ 8.2	**$ 89.8**	$ 42.1
Basic earnings per common share (Note 14)	**$ 0.43**	$ 0.14	**$ 1.50**	$ 0.71
Diluted earnings per common share (Note 14)	**$ 0.43**	$ 0.14	**$ 1.46**	$ 0.71

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(UNAUDITED)

(in millions of Canadian dollars)	Quarters ended September 30 **2011**	2010	Nine months ended September 30 **2011**	2010
Net earnings for the period	**$ 25.7**	$ 8.2	**$ 89.8**	$ 42.1
Other comprehensive income (loss) (Note 22)				
Unrealized foreign exchange gains (losses) on translation of foreign operations	**27.3**	(10.2)	**16.9**	(5.4)
Unrealized (losses) gains on items designated as net investment hedges	**(9.4)**	4.4	**(5.1)**	3.6
Unrealized losses on items designated as cash flow hedges	**-**	-	**-**	(2.5)
Gains (losses) on derivatives designated as cash flow hedges transferred to net income in the period	**0.2**	0.3	**0.8**	(0.1)
Other comprehensive income (loss)	**18.1**	(5.5)	**12.6**	(4.4)
Total comprehensive income	**$ 43.8**	$ 2.7	**$ 102.4**	$ 37.7

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

CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION *(UNAUDITED)*

(in millions of Canadian dollars)	**September 30 2011**	December 31 2010
ASSETS		
Current		
Cash and cash equivalents (Note 3)	**$ 223.9**	$ 323.7
Accounts receivable (Note 4)	**396.4**	301.4
Inventories (Note 5)	**652.8**	544.1
Prepaid expenses	**3.9**	3.0
Income taxes receivable	**1.8**	2.8
	1,278.8	1,175.0
Property, Plant and Equipment (Note 6)	**202.7**	205.2
Deferred Income Tax Assets	**4.8**	7.1
Pensions and Benefits	**0.7**	0.7
Other Assets (Note 7)	**3.4**	3.8
Goodwill and Intangibles (Note 8)	**25.2**	24.9
	$ 1,515.6	$ 1,416.7
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current		
Accounts payable and accrued liabilities (Note 10)	**$ 341.1**	$ 272.8
Income taxes payable	**15.2**	14.4
Current portion long-term debt (Note 11)	**1.3**	1.2
	357.6	288.4
Long-Term Debt (Note 11)	**302.0**	318.5
Pensions and Benefits	**16.7**	17.9
Provision (Note 21)	**5.4**	5.6
Deferred Income Tax Liabilities	**4.6**	7.0
Other Non-Current Liabilities (Note 21)	**2.1**	6.5
	688.4	643.9
Shareholders' Equity (Note 12)		
Common shares	**485.3**	483.7
Retained earnings	**296.3**	257.5
Contributed surplus	**15.3**	13.9
Accumulated other comprehensive income (loss)	**1.6**	(11.0)
Equity component of convertible debenture	**28.7**	28.7
	827.2	772.8
	$ 1,515.6	$ 1,416.7

ON BEHALF OF THE BOARD,

(signed) A. Benedetti
Director

(signed) L. Lachapelle
Director

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

CONDENSED CONSOLIDATED STATEMENTS OF CASHFLOW *(UNAUDITED)*

(in millions of Canadian dollars)	Quarters ended September 30 **2011**	2010	Nine months ended September 30 **2011**	2010
Operating activities				
Net earnings for the period	**$ 25.7**	$ 8.2	**$ 89.8**	$ 42.1
Depreciation and amortization	**5.8**	6.3	**17.7**	18.9
Deferred income taxes	**1.3**	0.3	**0.1**	2.1
Loss (gain) on investment and sale of property, plant and equipment	**0.1**	1.4	**-**	(0.1)
Stock-based compensation	**0.3**	0.4	**1.6**	1.1
Loss on derivatives	**-**	8.6	**-**	10.0
Difference between pension expense and amount funded	**(0.3)**	(0.1)	**(1.3)**	(0.3)
Debt accretion, amortization and other	**1.5**	1.3	**4.9**	2.8
Cash from operating activities before non-cash working capital	**34.4**	26.4	**112.8**	76.6
Changes in non-cash working capital items				
Accounts receivable	**(41.9)**	(37.7)	**(90.3)**	(98.5)
Inventories	**(5.6)**	(12.3)	**(99.5)**	(31.0)
Accounts payable and accrued liabilities	**28.7**	33.5	**55.5**	49.2
Current income taxes receivable/ payable	**4.8**	54.7	**3.8**	58.3
Other	**1.6**	1.1	**(0.9)**	0.9
Change in non-cash working capital	**(12.4)**	39.3	**(131.4)**	(21.1)
Cash from (used in) operating activities	**22.0**	65.7	**(18.6)**	55.5
Financing activities				
Issue of common shares	**0.1**	0.1	**1.3**	0.1
Dividends on common shares	**(18.0)**	(15.0)	**(51.0)**	(44.8)
Repayment of long-term debt	**(8.8)**	(0.3)	**(25.9)**	(8.8)
Deferred financing	**-**	-	**(0.5)**	(0.7)
Swap termination	-	-	**-**	(35.2)
Cash used in financing activities	**(26.7)**	(15.2)	**(76.1)**	(89.4)
Investing activities				
Purchase of property, plant and equipment	**(3.3)**	(4.7)	**(12.9)**	(8.1)
Proceeds on sale of property, plant and equipment	**-**	0.2	**0.7**	0.5
Proceeds on sale of investment	**-**	-	**-**	6.0
Cash used in investing activities	**(3.3)**	(4.5)	**(12.2)**	(1.6)
Effect of exchange rates on cash and cash equivalents	**7.2**	(12.0)	**7.1**	(6.3)
(Decrease) increase in cash and cash equivalents	**(0.8)**	34.0	**(99.8)**	(41.8)
Cash and cash equivalents, beginning of the period	**224.7**	283.8	**323.7**	359.6
Cash and cash equivalents, end of the period	**$ 223.9**	$ 317.8	**$ 223.9**	$ 317.8
Supplemental cash flow information:				
Income taxes paid	**$ 6.7**	$ 39.4	**$ 37.9**	$ 34.4
Interest paid	**$ 12.3**	$ 12.7	**$ 25.0**	$ 26.2

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

CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY *(UNAUDITED)*

(in millions of Canadian dollars)	Common Shares	Contributed Surplus	Retained Earnings	Equity Component of Convertible Debentures	Accumulated Other Comprehensive Income	Total
Balance, January 1, 2011	$ 483.7	$ 13.9	$ 257.5	$ 28.7	$ (11.0)	$ 772.8
Payment of dividends	-	-	(51.0)	-	-	(51.0)
Net earnings for the period	-	-	89.8	-	-	89.8
Other comprehensive income for the period	-	-	-	-	12.6	12.6
Recognition of stock-based compensation	-	1.4	-	-	-	1.4
Stock options exercised	1.6	-	-	-	-	1.6
Balance, September 30, 2011	**$ 485.3**	**$ 15.3**	**$ 296.3**	**$ 28.7**	**$ 1.6**	**$ 827.2**

(in millions of Canadian dollars)	Common Shares	Contributed Surplus	Retained Earnings	Equity Component of Convertible Debentures	Accumulated Other Comprehensive Income	Total
Balance, January 1, 2010	$ 478.9	$ 13.2	$ 259.9	$ -	$ (1.1)	$ 750.9
Payment of dividends	-	-	(44.8)	-	-	(44.8)
Net earnings for the period	-	-	42.1	-	-	42.1
Other comprehensive income for the period	-	-	-	-	(4.4)	(4.4)
Recognition of stock-based compensation	0.2	1.0	-	-	-	1.2
Balance, September 30, 2010	$ 479.1	$ 14.2	$ 257.2	$ -	$ (5.5)	$ 745.0

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a) *General business description*

Russel Metals Inc. (the "Company"), a Canadian corporation, with common shares listed on the Toronto Stock Exchange (TSX), is a metals distribution company operating in various locations within North America. The Company's registered office is located at 1900 Minnesota Court, Suite 210, Mississauga, Ontario, L5N 3C9.

These condensed consolidated financial statements were authorized for issue by the Board of Directors on November 3, 2011.

b) *Statement of compliance and basis of presentation*

These condensed consolidated financial statements, including comparatives, have been prepared in accordance with International Accounting Standard ("IAS") 34 *Interim Financial Reporting* and using the accounting policies the Company expects to adopt in its consolidated financial statements for the year ending December 31, 2011. These accounting policies are disclosed in Note 1 of the Company's interim consolidated financial statements for the quarter ended March 31, 2011.

As these condensed consolidated financial statements are prepared in accordance with IAS 34, certain information and footnote disclosure normally included in annual financial statements prepared in accordance with International Financial Reporting Standards ("IFRS"), as issued by the International Accounting Standards Board ("IASB"), have been omitted or condensed. The preparation of financial statements in accordance with IAS 34 requires the use of certain critical accounting estimates. It also requires management to exercise judgement in applying the Company's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements have been set out in Note 2 of the Company's interim consolidated financial statements for the quarter ended March 31, 2011.

These condensed consolidated financial statements should be read in conjunction with the Company's consolidated financial statements for the year ended December 31, 2010, which are included in the Company's 2010 annual report and in consideration of the IFRS transition disclosures and additional annual disclosures refer to Note 24 of the Company's interim consolidated financial statements for the quarter ended March 31, 2011.

The Company's condensed consolidated financial statements were previously prepared in accordance with accounting principles generally accepted in Canada ("Canadian GAAP"). IFRS is considered Canadian GAAP for Canadian reporting issuers for reporting periods commencing on or after January 1, 2011. Previous Canadian GAAP differs in some areas from IFRS. In preparing these financial statements, management has amended certain accounting and measurement methods previously applied in the Canadian GAAP financial statements to comply with IFRS. Note 23 contains reconciliations and descriptions of the effect of the transition from Canadian GAAP to IFRS on equity, earnings and other comprehensive income for the periods ended September 30, 2010.

These financial statements were prepared on a going concern assumption using the historical cost basis except for certain financial instruments. Historical cost is generally based on the fair value of the consideration given in exchange for assets at the time of the transaction.

These condensed consolidated financial statements are presented in Canadian dollars, which is the Company's functional currency.

2. FUTURE ACCOUNTING CHANGES

a) *IAS 1 Presentation of Financial Statements: Other Comprehensive Income*

In June 2011, the IASB issued amendments to IAS 1, *Presentation of Financial Statements*, which require entities preparing financial statements in accordance with IFRS to group together items within OCI that may be reclassified to the profit or loss section of the income statement and to separately group together items that will not be reclassified to the profit or loss section of the income statement. These amendments are effective for financial years commencing on or after July 1, 2012.

b) IAS 19 Post Employment Benefits

In June 2011, the IASB issued amendments to IAS 19 *Employee Benefits,* in order to improve the accounting for pensions and other post-employment benefits. The amendments eliminate the use of the 'corridor method', streamline the presentation of changes in assets and liabilities arising from defined benefit plans and enhance the disclosure requirements. These amendments are effective for financial years beginning on or after January 1, 2013.

c) IFRS 9 Financial Instruments

This new standard replaces the requirements in IAS 39, *Financial Instruments: Recognition and Measurement* for classifying and measuring of financial assets and liabilities. This new standard is effective for financial years beginning on or after January 1, 2013.

The Company is assessing the impact of the new standard and these amendments on its consolidated financial statements.

3. CASH AND CASH EQUIVALENTS

(millions)	**September 30 2011**	December 31 2010
Cash on deposit	**$ 121.3**	$ 173.9
Short-term investments	**102.6**	149.8
	$ 223.9	$ 323.7

Cash on deposit in bank accounts includes demand deposits, net of outstanding cheques.

4. ACCOUNTS RECEIVABLE

(millions)	**September 30 2011**	December 31 2010
Trade receivables	**$ 394.0**	$ 298.5
Other receivables	**2.4**	2.9
	$ 396.4	$ 301.4

Trade and other receivables are classified as loans and receivables and therefore are measured at amortized cost which approximates fair value.

5. INVENTORIES

Inventories are recorded at the lower of cost and net realizable value. Cost is determined on an average cost basis. During the nine months ended September 30, 2011, no inventory was written-down to net realizable value (2010: $nil) and no previous net realizable value write-down was reversed (2010: $1.9 million).

6. PROPERTY, PLANT AND EQUIPMENT

Cost *(millions)*	Land and Buildings	Machinery and Equipment	Leasehold Improvements	Total
Balance, January 1, 2011	$ 181.4	$ 259.1	$ 26.9	$ 467.4
Additions	6.0	6.9	-	12.9
Disposals	(0.6)	(1.3)	-	(1.9)
Effect of movements in exchange rates	1.3	1.8	0.1	3.2
Balance, September 30, 2011	**$ 188.1**	**$ 266.5**	**$ 27.0**	**$ 481.6**

Depreciation and impairment *(millions)*	Land and Buildings	Machinery and Equipment	Leasehold Improvements	Total
Balance, January 1, 2011	$ 66.9	$ 176.5	$ 18.8	$ 262.2
Depreciation and amortization	5.3	10.6	0.6	16.5
Disposals	(0.1)	(1.0)		(1.1)
Effect of movements in exchange rates	0.4	0.9	-	1.3
Balance, September 30, 2011	**$ 72.5**	**$ 187.0**	**$ 19.4**	**$ 278.9**

Net book value *(millions)*	
December 31, 2010	$ 205.2
September 30, 2011	**$ 202.7**

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

Land included in land and buildings was $23.5 million (December 31, 2010: $24.1 million).

For the quarter ended September 30, 2011, depreciation of $1.6 million was included in cost of material (2010: $1.7 million) and depreciation of $3.9 million (2010: $4.2 million) was included in other operating expenses. For the nine months ended September 30, 2011, depreciation of $4.7 million was included in cost of material (2010: $4.9 million) and depreciation of $11.8 million (2010: $12.6 million) was included in other operating expenses.

7. OTHER ASSETS

(millions)	**September 30 2011**	December 31 2010
Deferred charges on short-term revolving credit facility	**$ 1.0**	$ 1.0
Other	**2.4**	2.8
	$ 3.4	$ 3.8

Amortization of deferred financing charges for the quarter ended September 30, 2011 was $0.2 million (2010: $0.3 million) and for the nine months ended September 30, 2011, the amortization was $0.8 million (2010: $1.0 million).

8. GOODWILL AND INTANGIBLES

a) The continuity of intangibles which are comprised of customer lists acquired through business combinations within the metals service centers are, as follows:

Cost *(millions)*	
Balance, January 1, 2011	$ 9.9
Foreign exchange	0.3
Balance, September 30, 2011	**$ 10.2**

Accumulated amortization
(millions)

Balance, January 1, 2011	$ (3.2)
Amortization	(0.4)
Balance, September 30, 2011	**$ (3.6)**

Carrying amount

December 31, 2010	$ 6.7
September 30, 2011	**$ 6.6**

The carrying amount of intangible assets as at September 30, 2011 relates to customer lists arising from the acquisition of JMS Metals Services, Inc. and Norton Metal Products, Inc. The remaining amortization period for customer lists is 10 to 12 years.

b) The continuity of goodwill is as follows:

(millions)

Balance, January 1, 2011	$ 18.2
Foreign exchange	0.4
Balance, September 30, 2011	**$ 18.6**

The entire goodwill balance relates to the metals service centers segment.

9. REVOLVING CREDIT FACILITIES

On June 24, 2011, the Company extended its credit agreement with a syndicate of banks which provides a credit facility of $202.5 million available for borrowings and letters of credit and an additional $50 million for letters of credit. The renewed agreement provides decreased interest and standby fees. During 2011, the Company incurred costs of $0.5 million to renew the facility which have been included as deferred charges in other assets (Note 7). The facility expires on June 24, 2014. Interest and standby fees are at rates which vary based on the Company's credit rating.

The Company was in compliance with the financial covenants at September 30, 2011. The obligations of the Company under this agreement are secured by a pledge of trade accounts receivable and inventories of a significant portion of the Company's operations. At September 30, 2011, the Company had no borrowings (December 31, 2010: $nil) and letters of credit of $11.7 million (December 31, 2010: $14.5 million).

In July 2011, the Company renewed its U.S. subsidiary's one year credit facility. The maximum credit available under this facility is US$45 million. At September 30, 2011, this subsidiary had no borrowings (December 31, 2010: $nil) and letters of credit of US$12.3 million (December 31, 2010: US$12.9 million).

10. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

(millions)	**September 30 2011**	December 31 2010
Trade accounts payable and accrued expenses	**$ 340.2**	$ 265.7
Accrued interest	**0.9**	7.1
	$ 341.1	$ 272.8

11. LONG-TERM DEBT

Long-term debt was comprised of the following:

(millions)		**September 30 2011**		December 31 2010
7.75% $175 million convertible debentures due September 30, 2016	**$**	**153.5**	$	151.1
6.375% US$141.9 million Senior Notes due March 1, 2014 (2010: US$167.2 million)		**145.7**		163.7
Finance lease obligations (Note 19)		**4.1**		4.9
Less: current portion		**(1.3)**		(1.2)
Total long-term debt	**$**	**302.0**	$	318.5

a) In October 2009, the Company issued $175 million of 7.75% convertible unsecured subordinated debentures for net proceeds of $167.1 million. The convertible debentures mature on September 30, 2016, and interest is payable semi-annually on March 31 and September 30 in each year. Each debenture is convertible into common shares of the Company at the option of the holder at any time on or prior to the business day immediately preceding (i) maturity date; or (ii) the date specified for redemption of the convertible debentures, at a conversion price of $25.75 being a conversion rate of 38.8350 common shares per $1,000 principal amount of convertible debentures.

At the time of issue, the Company valued the holder's option to convert the debenture into common shares, using a Black-Scholes valuation model and the residual was recorded as the debt portion. The holder's option to convert the debenture into common shares was initially classified as a derivative liability, as the Company could elect to settle the instrument in cash.

On issuance, the Company recorded a debt liability of $147.7 million, net of issue costs of $7.0 million, and a derivative financial liability of $20.3 million. The derivative financial liability was fair valued every quarter during 2010 and the change in fair value was recognized in earnings for the period. During December 2010, the Company amended the Trust Indenture for the convertible debenture removing the cash settlement feature and therefore the instrument did not meet the criteria for a derivative liability classification. As a result, the fair value at the date of the amendment of $28.7 million, net of income tax of $4.6 million, was reclassified from a liability to equity.

b) On February 20, 2004, the Company issued US$175 million Senior Notes due March 1, 2014, bearing interest at 6.375%. During 2010, the Company repurchased US$7.8 million of its Senior Notes and during the nine months ended September 30, 2011 the Company repurchased an additional US$25.3 million of its Senior Notes. The Company designated the remaining US$141.9 million Senior Notes as a hedge of its net investment in foreign subsidiaries.

The US$141.9 million Senior Notes are redeemable, in whole or in part, at the option of the Company on or after March 1, 2011 at 101.063% and on or after March 1, 2012 at 100.000%. In addition, the Senior Notes are also redeemable, in whole, at the option of the Company at any time at 100% of the principal amount in the event of certain changes affecting Canadian withholding taxes. The Senior Notes contain certain restrictions on the payment of common share dividends in excess of $0.08 per share per quarter. The Company was in compliance with the debt covenants at September 30, 2011. Fees associated with the issue of the debt are included in the carrying amount of the debt and amortized using the effective interest method.

12. SHAREHOLDERS' EQUITY

a) At September 30, 2011 and 2010, the authorized share capital of the Company consisted of:

(i) an unlimited number of common shares without nominal or par value;

(ii) an unlimited number of Class I preferred shares without nominal or par value, issuable in series; and

(iii) an unlimited number of Class II preferred shares without nominal or par value, issuable in series.

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

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

	Number of Shares	Amount (millions)
Balance, January 1, 2011	59,978,173	$ 483.7
Stock options exercised	85,000	1.6
Balance, September 30, 2011	**60,063,173**	**$ 485.3**

The continuity of contributed surplus is as follows:

(millions)	
Balance, January 1, 2011	$ 13.9
Stock-based compensation expense	1.6
Exercise of options	(0.2)
Balance, September 30, 2011	**$ 15.3**

Dividends paid or declared are as follows:

	Quarters ended September 30	
	2011	2010
Dividends paid (millions)	**$ 18.0**	$ 15.0
Dividends paid per share	**$ 0.30**	$ 0.25
Dividends declared on November 3, 2011 (November 2, 2010) per share	**$ 0.30**	$ 0.25

13. STOCK BASED COMPENSATION

Stock Options

The Company has a shareholder-approved share option plan, the purpose of which is to provide the employees of the Company and its subsidiaries with the opportunity to participate in the growth and development of the Company. On May 12, 2011, the share option plan was amended. The number of common shares that may be issued under the new share option plan is 4,498,909 and any options will be exercisable on a cumulative basis to the extent of 25% per year of total options granted in years two to five after the date of grant. Other terms and conditions of the plan such as the 10 year life and immediate vesting under certain change of control provisions are the same as the old plan. The options currently outstanding are exercisable on a cumulative basis to the extent of 20% per year of total options granted. The consideration paid by employees for the purchase of common shares is added to share capital.

The following is a continuity of options outstanding:

	Number of Options		Weighted Average Exercise Price	
	September 30 2011	December 31 2010	**September 30 2011**	December 31 2010
Balance, beginning of period	**2,684,662**	2,702,084	**$ 25.08**	$ 24.52
Granted	**307,127**	289,411	**25.70**	19.84
Exercised	**(85,000)**	(279,483)	**15.27**	14.19
Expired or forfeited	**(15,750)**	(27,350)	**26.95**	25.52
Balance, end of the period	**2,891,039**	2,684,662	**$ 25.42**	$ 25.08
Exercisable	**2,197,049**	1,813,063	**$ 26.19**	$ 25.64

The outstanding options had an exercise price range as follows:

(number of options)	**September 30 2011**	December 31 2010
$ 25.75 - $ 33.81	**2,215,953**	1,922,826
$ 15.86 - $ 25.74	**514,386**	542,336
$ 9.16 - $ 15.85	**111,100**	154,700
$ 3.00 - $ 9.15	**49,600**	64,800
Options outstanding	**2,891,039**	2,684,662

Deferred Share Units

The Company has a Deferred Share Unit ("DSU") Plan for non-executive directors. A DSU is a unit equivalent in value to one common share based on market price, which is defined by the daily average of the high and low board lot on the Toronto Stock Exchange for the last five trading days immediately prior to the grant date. DSU's are granted quarterly to each non-executive director’s account as determined by dividing $7,500 by the market price and at the option of the individual director they may elect to receive other board fees in the form of DSU's. DSU's vest immediately and are redeemable for cash only when a non-executive director leaves the Board.

At September 30, 2011, there were 79,486 DSUs outstanding (December 31, 2010: 65,827). The liability and fair value of DSU's was $1.7 million at September 30, 2011 (December 31, 2010: $1.5 million). Dividends declared on common shares accrue to the units in the DSU plan in the form of additional DSU's.

Restricted Share Units

The Company has a Restricted Share Unit ("RSU") Plan for eligible employees as designated by the Board of Directors. The plan was established to provide medium-term compensation. RSU's are awarded by the Board of Directors to eligible employees annually based on the earnings performance of the recently completed year. RSU's vest one third on each of the first, second and third anniversary after the grant date. RSU's expire on the third anniversary of the grant date and the Company is obligated to pay in cash an amount equal to the number of RSU's multiplied by the market price, which is defined as the daily average of the high and low board lot on the Toronto Stock Exchange for the last five trading days immediately prior to the expiry date.

At September 30, 2011, there were 237,619 RSUs issued and outstanding (December 31, 2010: 216,629). The RSU liability at September 30, 2011 was $4.9 million (December 31, 2010: $5.0 million). The fair value of RSU's was $5.0 million at September 30, 2011 (December 31, 2010: $5.3 million). Dividends declared on common shares accrue to the units in the RSU plan in the form of additional RSU's.

Employee Share Purchase Plan

The Company has an Employee Share Purchase Plan to provide employees with the opportunity to purchase common shares. Employees may make contributions of between 1% and 5% of their base pay and the Company will contribute one-third of the employee's contribution. Employees are eligible to make contributions above the 5% of base pay threshold but the Company contributes only to a maximum of one-third of 5% of base pay. The plan does not provide for a discount for employee purchases and is administered by a trustee who purchases shares for the plan through the TSX. Dividends paid on the shares are used to purchase additional shares.

14. EARNINGS PER SHARE

The following table provides the numerator and denominator used to compute basic and diluted earnings per share:

(millions)	Quarters ended September 30 **2011**	Quarters ended September 30 2010	Nine months ended September 30 **2011**	Nine months ended September 30 2010
Net income used in calculation of basic earnings per share	**$ 25.7**	$ 8.2	**$ 89.8**	$ 42.1
Net income used in calculation of diluted earnings per share	**$ 28.4**	$ 8.2	**$ 97.8**	$ 42.1

(number of shares)	Quarters ended September 30 **2011**	Quarters ended September 30 2010	Nine months ended September 30 **2011**	Nine months ended September 30 2010
Weighted average shares outstanding	**60,062,831**	59,700,907	**60,035,321**	59,699,462
Dilution impact of stock options	**167,655**	64,334	**130,837**	97,058
Dilution impact of convertible debentures	**6,796,117**	-	**6,796,117**	-
Diluted weighted average shares outstanding	**67,026,603**	59,765,241	**66,962,275**	59,796,520

As at September 30, 2010, the effect of the conversion of the convertible debenture under the "if converted" method would have been 6,796,117 shares, but the effect was anti-dilutive and has therefore been excluded from the computation of diluted earnings per share. Interest, accretion and fair value adjustment related to convertible debentures for the quarter and the nine months ended September 30, 2010, have been excluded from net income used in the calculation of diluted earnings per share.

15. EXPENSES

Details of expense items on the condensed consolidated statements of earnings are as follows:

(millions)	Quarters ended September 30 **2011**	Quarters ended September 30 2010	Nine months ended September 30 **2011**	Nine months ended September 30 2010
Employee Expenses				
Wages and salaries	**$ 42.2**	$ 38.6	**$ 128.8**	$ 111.4
Other employee related costs	**7.4**	7.0	**23.8**	21.0
	$ 49.6	$ 45.6	**$ 152.6**	$ 132.4
Other Operating Expenses				
Plant and other expenses	**$ 14.6**	$ 14.9	**$ 45.3**	$ 47.1
Delivery expenses	**11.7**	10.0	**33.4**	25.7
Repairs and maintenance	**2.4**	1.9	**6.9**	6.2
Selling expenses	**2.0**	1.3	**6.0**	3.2
Professional and audit fees	**1.5**	1.3	**4.1**	3.4
Loss on sale of property, plant and equipment	**0.1**	1.4	**-**	1.4
Foreign exchange loss	**0.6**	0.1	**-**	0.2
	$ 32.9	$ 30.9	**$ 95.7**	$ 87.2

16. FINANCE EXPENSE

Finance expense (income) is comprised of the following:

(millions)	Quarters ended September 30 2011	Quarters ended September 30 2010	Nine months ended September 30 2011	Nine months ended September 30 2010
Interest at 6.375% on U.S. Senior Notes	**$ 2.4**	$ 3.2	**$ 8.0**	$ 9.0
Interest at 7.75% on convertible debentures	**4.2**	4.1	**12.5**	12.3
Other interest expense	**0.1**	0.6	**0.2**	0.8
Interest expense	**6.7**	7.9	**20.7**	22.1
Interest income	**(0.4)**	(0.5)	**(1.5)**	(1.1)
Net change in fair value of convertible debentures	**-**	8.2	**-**	9.3
Other finance expense	**0.3**	-	**1.2**	-
Gain on investment	**-**	-	**-**	(1.5)
Loss on repurchase of U.S. Senior Notes	**0.1**	-	**0.5**	-
Other finance expense (income), net	**0.4**	-	**1.7**	(1.5)
Finance expense, net	**$ 6.7**	$ 15.6	**$ 20.9**	$ 28.8

Interest expense on long-term debt is composed of the interest calculated on the face value of long-term debt, issue costs and accretion of the carrying value of the long-term debt. Long-term debt interest expense is charged to earnings using the effective interest method. Accretion and issue cost amortization for the quarter ended September 30, 2011 was $1.0 million (2010: $0.8 million) and for the nine months ended September 30, 2011 was $2.9 million (2010: $2.6 million).

17. INCOME TAXES

The consolidated effective tax rates for the quarters ended September 30, 2011 and 2010 were 32.7% and 43.0% respectively and for the nine months ended September 30, 2011 and 2010 were 31.0% and 32.3% respectively.

The tax rate for the quarter ended September 30, 2010 was impacted by the accounting treatment for the convertible debenture for which a deferred tax asset was not recorded.

18. SEGMENTED INFORMATION

For the purpose of segment reporting operating segments were identified as a component of an entity:

- that engages in business activities from which it may earn revenues and incur expenses;
- whose operating results are regularly reviewed by the Company's chief executive officer to make decisions about resources to be allocated to the segment and assess its performance; and
- for which discrete financial information is available.

Accordingly, the Company conducts business in Canada and the U.S. in three business segments.

i) Metals service centers

The Company's network of metals service centers provides processing and distribution services on a broad line of metal products in a wide range of sizes, shapes and specifications, including carbon hot rolled and cold finished steel, pipe and tubular products, stainless steel and aluminium. The Company services all major geographic regions of Canada and certain regions in the Southeastern and Midwestern regions in the United States.

ii) Energy tubular products

The Company's energy tubular products operations distribute oil country tubular products, line pipe, tubes, valves and fittings, primarily to the energy industry in Western Canada and the United States.

iii) Steel distributors

The Company's steel distributors act as master distributors selling steel to customers in large volumes, mainly on an "as is" basis. Steel distributors source their steel domestically and offshore.

The Company has segmented its operations on the basis of management reporting and geographic segments in which it operates. For the quarter ended September 30, 2011, the inter-segment sales from steel distributors to metals service centers were $13.2 million (2010: $8.4 million) and for the nine months ended September 30, 2011 were $31.7 million (2010: $20.0 million). These sales, which are at market rates, are eliminated in the following table.

a) *Results by business segment:*

(millions)	Quarters ended September 30 **2011**	2010	Nine months ended September 30 **2011**	2010
Segment Revenues				
Metals service centers	**$ 390.4**	$ 315.4	**$ 1,142.1**	$ 906.8
Energy tubular products	**223.3**	188.3	**592.7**	514.3
Steel distributors	**89.5**	75.5	**241.9**	186.7
	703.2	579.2	**1,976.7**	1,607.8
Other	**2.2**	3.3	**5.0**	8.1
	$ 705.4	$ 582.5	**$ 1,981.7**	$ 1,615.9
Segment Operating Profits				
Metals service centers	**$ 24.2**	$ 13.7	**$ 93.9**	$ 48.2
Energy tubular products	**15.1**	14.4	**43.5**	36.3
Steel distributors	**8.1**	5.1	**27.3**	16.2
	47.4	33.2	**164.7**	100.7
Corporate expenses	**(3.1)**	(4.8)	**(13.6)**	(12.3)
Other	**0.6**	1.6	**0.1**	2.6
Earnings before interest and income taxes	**44.9**	30.0	**151.2**	91.0
Finance expense, net	**(6.7)**	(15.6)	**(20.9)**	(28.8)
Provision for income taxes	**(12.5)**	(6.2)	**(40.5)**	(20.1)
Net earnings	**$ 25.7**	$ 8.2	**$ 89.8**	$ 42.1

(millions)	Quarters ended September 30 **2011**	2010	Nine months ended September 30 **2011**	2010
Capital Expenditures				
Metals service centers	**$ 2.8**	$ 4.5	**$ 11.9**	$ 7.6
Energy tubular products	**0.1**	0.2	**0.6**	0.4
Steel distributors	**0.3**	-	**0.3**	0.1
Other	**0.1**	**-**	**0.1**	**-**
	$ 3.3	$ 4.7	**$ 12.9**	$ 8.1
Depreciation Expense				
Metals service centers	**$ 4.7**	$ 5.1	**$ 14.3**	$ 15.1
Energy tubular products	**0.4**	0.5	**1.2**	1.4
Steel distributors	**0.1**	0.1	**0.3**	0.3
Other	**0.2**	0.2	**0.7**	0.7
	$ 5.4	$ 5.9	**$ 16.5**	$ 17.5

(millions)	September 30 2011	December 31 2010
Current Identifiable Assets		
Metals service centers	**$ 485.4**	$ 357.9
Energy tubular products	**433.7**	408.4
Steel distributors	**133.4**	81.3
	1,052.5	847.6
Non-Current Identifiable Assets		
Metals service centers	**203.0**	203.9
Energy tubular products	**6.7**	7.4
Steel distributors	**1.0**	0.8
Identifiable assets by segment	**1,263.2**	1,059.7
Assets not included in segments		
Cash	**223.9**	323.7
Income tax assets	**6.6**	9.9
Deferred financing charges	**1.0**	1.0
Other assets	**2.4**	2.8
Corporate and other operating assets	**18.5**	19.6
Total assets	**$ 1,515.6**	$ 1,416.7
Liabilities		
Metals service centers	**$ 206.4**	$ 146.3
Energy tubular products	**116.4**	105.6
Steel distributors	**6.0**	13.7
Liabilities by segment	**328.8**	265.6
Liabilities not included in segments		
Income taxes payable and deferred income tax liabilities	**19.8**	21.4
Long-term debt	**303.3**	319.7
Pensions and benefits	**16.7**	17.9
Corporate and other liabilities	**19.8**	19.3
Total liabilities	**$ 688.4**	$ 643.9

b) *Results by geographic segment:*

	Quarters ended September 30		Nine months ended September 30	
(millions)	**2011**	2010	**2011**	2010
Segment Revenues				
Canada	**$ 497.0**	$ 410.1	**$ 1,382.0**	$ 1,130.0
United States	**206.2**	169.1	**594.7**	477.8
	$ 703.2	$ 579.2	**$ 1,976.7**	$ 1,607.8

(millions)	Quarters ended September 30 2011	2010	Nine months ended September 30 2011	2010
Segment Operating Profits				
Canada	**$ 34.9**	$ 23.9	**$ 117.8**	$ 69.8
United States	**12.5**	9.3	**46.9**	30.9
	$ 47.4	$ 33.2	**$ 164.7**	$ 100.7

(millions)	September 30 2011	December 31 2010
Identifiable Assets		
Canada	**$ 906.8**	$ 786.4
United States	**356.4**	273.3
	$ 1,263.2	$ 1,059.7

19. FINANCIAL INSTRUMENTS

a) Financial assets and liabilities

Financial assets and liabilities in the statements of financial position were as follows:

September 30, 2011 *(millions)*	Assets/(Liabilities) At Fair Value Through Profit and Loss	Loans and Receivables	Other Financial Liabilities	Total
Cash and cash equivalents	**$ -**	**$ 223.9**	**$ -**	**$ 223.9**
Accounts receivable	**-**	**396.4**	**-**	**396.4**
Financial assets	**-**	**1.0**	**-**	**1.0**
Accounts payable and accrued liabilities	**(15.7)**	**-**	**(325.4)**	**(341.1)**
Current portion of long-term debt	**-**	**-**	**(1.3)**	**(1.3)**
Long-term debt	**-**	**-**	**(302.0)**	**(302.0)**
Total	**$ (15.7)**	**$ 621.3**	**$ (628.7)**	**$ (23.1)**

December 31, 2010 *(millions)*	Assets/(Liabilities) At Fair Value Through Profit and Loss	Loans and Receivables	Other Financial Liabilities	Total
Cash and cash equivalents	$ -	$ 323.7	$ -	$ 323.7
Accounts receivable	-	301.4	-	301.4
Financial assets		1.0	-	1.0
Accounts payable and accrued liabilities	(49.2)	-	(223.6)	(272.8)
Current portion long-term debt	-	-	(1.2)	(1.2)
Long-term debt	-	-	(318.5)	(318.5)
Total	$ (49.2)	$ 626.1	$ (543.3)	$ 33.6

The impact of fair value gains and losses from derivative financial instruments on the statements of earnings and statements of changes in equity was as follows:

	Quarters ended September 30			
	2011		2010	
(millions)	**Fair Value Gain(Loss) Through Earnings**	**Fair Value Gain(Loss) Through AOCI**	Fair Value Gain(Loss) Through Earnings	Fair Value Gain(Loss) Through AOCI
Embedded derivatives	**$ 1.0**	**$ -**	$ (7.9)	$ -
Forward contracts	**-**	**-**	-	-
Hedging instruments				
Cross currency interest rate swaps - cash flow hedges	**0.3**	**-**	0.3	-
US Senior notes - net investment hedges	**-**		-	4.4

	Nine months ended September 30			
	2011		2010	
(millions)	**Fair Value Gain(Loss) Through Earnings**	**Fair Value Gain(Loss) Through AOCI**	Fair Value Gain(Loss) Through Earnings	Fair Value Gain(Loss) Through AOCI
Embedded derivatives	**$ 1.0**	**$ -**	$ (9.1)	$ -
Forward contracts	**(0.3)**	**-**	-	-
Hedging instruments				-
Cross currency interest rate swaps - cash flow hedges	**0.9**	**-**	(0.1)	(2.5)
US Senior notes - net investment hedges	**-**		-	3.6

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, due March 1, 2014, as a hedge of its net investment in foreign subsidiaries (Note 11). During the quarter ended September 30 2011, $0.4 million (2010: $0.4 million) and for the nine months ended September 30, 2011, $1.2 million (2010: $1.2 million) related to the swaps was reclassified from accumulated other comprehensive income (loss) to net earnings before income tax.

b) Fair Value

The fair value of cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities approximate their carrying amounts because of the short-term maturity of these instruments. The fair value of long-term debt and related derivative instruments is set forth below.

Debt and Related Derivative Instruments

Carrying Amounts

Amounts recorded in the statements of financial position are referred to as "carrying amounts". The carrying amounts of primary debt are reflected in "Long-term debt" and "Current portion long-term debt" and the carrying amounts of derivative instruments are included in "Derivatives".

Fair Value

The Company records its debt at amortized cost using the effective interest method. The fair value of long-term debt as at September 30, 2011 and December 31, 2010 was estimated based on the last quoted trade price, where it exists, or based on current rates available to the Company for similar debt with the same period to maturity.

The following summary reflects the fair value of long-term debt:

September 30, 2011	**Primary Debt Instruments**	
(millions)	**Carrying amount**	**Fair value**
6.375% US$141.9 million Senior Notes due March 1, 2014	**$ 145.7**	**$ 148.0**
7.75% $175 million convertible debentures due September 30, 2016	**153.5**	**189.9**
Finance lease obligations	**4.1**	**4.1**
Total	**$ 303.3**	**$ 342.0**
Current portion	**$ 1.3**	
Long-term portion	**$ 302.0**	

December 31, 2010	Primary Debt Instruments	
(millions)	Carrying amount	Fair value
6.375% US$167.2 million Senior Notes due March 1, 2014	$ 163.7	$ 168.5
7.75% $175 million convertible debentures due September 30, 2016	151.1	199.5
Finance lease obligations	4.9	4.9
Total	$ 319.7	$ 372.9
Current portion	$ 1.2	
Long-term portion	$ 318.5	

c) Credit risk

Credit risk is the risk of financial loss to the Company if a counterparty to a financial instrument fails to meet its contractual obligation. Credit risk arises from cash and cash equivalents and derivative financial instruments, as well as credit exposure to customers including outstanding receivables.

The Company attempts to minimize credit exposure as follows:

- Cash investments are placed with high-quality financial institutions, with limited exposure to any one institution. At September 30, 2011, nearly all cash and cash equivalents held were issued by institutions that were rated R1 High;
- Counterparties to derivative contracts are members of the syndicated banking facility (Note 9);
- Credit limits minimize exposure to any one customer; and
- The customer base is geographically diverse and in different industries.

In order to minimize the risk of uncollectability of trade receivables, the Company performs regular credit reviews of all customers with significant credit limits. Provisions for and write-offs of trade receivables are done on a case by case basis taking into account a customer's past credit history as well as their current ability to pay. No allowance for credit losses on financial assets was required as of September 30, 2011 and December 31 2010, other than the allowance for doubtful accounts. As at September 30, 2011, trade accounts receivable greater than 90 days represented less than 3% of trade accounts receivable (December 31, 2010: 3%).

d) Interest rate risk

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

e) Foreign exchange risk

Foreign exchange risk is the risk that the fair value of the future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Company uses foreign exchange contracts with maturities of less than a year to manage foreign exchange risk on certain future committed cash outflows. As at September 30, 2011, the Company had outstanding forward foreign exchange contracts in the amounts of US$4.4 million, maturing in 2011 (December 31, 2010: US$22.5 million).

In order to mitigate its foreign exchange exposure, the Company has designated its entire US$141.9 million Senior Notes as a hedge of its net investment in foreign subsidiaries.

f) Liquidity risk

Liquidity risk is the risk that the Company will not meet its financial obligations when due. Liquidity adequacy is assessed in view of seasonal needs, growth requirements, capital expenditures, and the maturity profile of indebtedness. A centralized treasury function ensures that the Company maintains funding flexibility by assessing future cash flow expectations and by maintaining its committed borrowing facilities. Cash, which is surplus to working capital requirements, is managed by the centralized treasury function and is invested in money market instruments or bank deposits, with durations ranging from current to sixty days.

As at September 30, 2011, the Company was contractually obligated to make payments under its financial liabilities that come due during the following periods:

(millions)	Long-Term Debt Maturities	Long-Term Debt Interest	Operating Lease Obligations	Total
2011	$ -	$ 5.8	$ 3.2	$ 9.0
2012	-	23.2	10.4	33.6
2013	-	23.1	7.5	30.6
2014	147.4	15.2	5.1	167.7
2015 and beyond	175.0	23.8	7.8	206.6
Total	$ 322.4	$ 91.1	$ 34.0	$ 447.5

As at September 30, 2011, the Company was contractually obligated to make payments under finance leases as follows:

(millions)	
2011	$ 0.4
2012	1.6
2013	1.6
2014	0.7
2015	0.3
Total minimum lease payments	4.6
Interest at rates varying between 1.2% and 14.9%	(0.5)
Net minimum lease payments	4.1
Less: current portion	(1.3)
Long-term portion	$ 2.8

At September 30, 2011, the Company was contractually obligated to repay its letters of credit under both its bank facilities at maturity (Note 9).

g) Capital management

The Company manages capital in order to safeguard its ability to continue as a going concern, provide returns to shareholders through its dividend policy and provide the ability to finance future growth. Capital includes shareholders' equity, bank indebtedness and long-term debt, net of cash. The Company manages its capital structure and may make adjustments to the amount of dividends paid to shareholders, purchase shares for cancellation pursuant to issuer bids, issue new shares, issue new debt, repurchase existing debt and extend or amend its banking facilities. During the nine months ended ended September 30, 2011, the Company amended and extended its syndicated banking facility, renewed its U.S. subsidiary facility repurchased U.S. Senior Notes and increased its common share dividend.

20. CONTINGENCIES, COMMITMENTS AND GUARANTEES

a) Lawsuits and legal claims

The Company and certain of its subsidiaries have been named defendants in a number of legal actions. Although the outcome of these claims cannot be determined, management intends to defend all claims and has recorded provisions based on its best estimate of the potential losses. In the opinion of management the resolution of these matters is not expected to have a material adverse effect on the Company's consolidated statements of financial position, cash flows or operations.

The Company has also entered into other agreements that provide indemnifications to counterparties in certain transactions including underwriting agreements. These indemnifications generally require the Company to indemnify the counterparties for costs incurred as a result of losses from litigation that may be suffered by counterparties arising from those transactions except in the case of gross negligence by the counterparties. The Company does not expect to make any payments on these indemnifications and, accordingly, no liability has been accrued.

b) Decommissioning liability

The Company is incurring site cleanup and restoration costs related to properties not utilized in current operations. Remedial actions are currently underway at three sites. Decommissioning liabilities have been estimated using discounted cash flow valuation techniques for cleanup costs based on management's best estimates of the amounts required to settle the liabilities.

The Company has asset retirement obligations relating to the land lease for its Thunder Bay Terminal operations whose lease term expires in 2031. The landlord has the option to retain the equipment located on the site or to require the Company to remove it. In addition, the Company has end-of-lease obligations in certain service center operations.

c) Business combinations and investments

The Company may have an obligation to pay additional consideration up to US$5.0 million for its Norton acquisition, based upon achievement of performance measures contractually agreed to at the time of purchase. The obligation accrued during for the nine months ended September 30, 2011 was $1.3 million.

21. PROVISION AND OTHER NON-CURRENT LIABILITIES

(millions)	**September 30 2011**	December 31 2010
Provision - decommissioning liability	**$ 5.4**	$ 5.6
Other non-current liabilities - deferred compensation and employee incentives	**$ 2.1**	$ 6.5

The following table presents the movement in the decommissioning liability provision:

(millions)

Balance, January 1, 2011	$	5.6
Charges		-
Utilization		(0.2)
Balance, September 30, 2011	**$**	**5.4**

Deferred compensation includes the RSU and the DSU liabilities. The RSUs issued in 2008 will be paid in 2012 and consequently $4.7 million has been reclassified as current accrued liabilities during the nine months ended September 30, 2011.

22. OTHER COMPREHENSIVE INCOME (LOSS)

Other comprehensive income is net of income taxes as follows:

	Quarters ended September 30				**Nine months ended September 30**			
(millions)		**2011**		2010		**2011**		2010
Income tax on unrealized gains (losses) on items designated as net investment hedges	**$**	**1.5**	$	(0.7)	**$**	**1.0**	$	(0.6)
Income tax on unrealized gains on items designated as cash flow hedges		**-**		-		**-**		1.2
Income tax on (losses) gains on derivatives designated as cash flow hedges transferred to net earnings in the current period		**(0.2)**		(0.2)		**(0.4)**		0.1
	$	**1.3**	$	(0.9)	**$**	**0.6**	$	0.7

23. TRANSITION TO IFRS

Reconciliations of Canadian GAAP to IFRS

IFRS 1 requires an entity to reconcile prior period financial statements from prior GAAP to IFRS. The Company's first time adoption of IFRS did not have an impact on the total operating, investing or financing cash flows.

The Canadian GAAP statement of earnings and statement of comprehensive income for the nine months ended September 30, 2010 have been reconciled to IFRS as follows:

CONSOLIDATED STATEMENT OF EARNINGS *(UNAUDITED)*

Nine months ended September 30, 2010 *(millions, except per share data)*	Canadian GAAP Balances	Effect of Transition to IFRS	IFRS Balances	Notes
Revenues	$ 1,613.9	$ 2.0	$ 1,615.9	vii
Cost of materials	1,306.0	(0.7)	1,305.3	vii
Employee expenses	-	132.4	132.4	vii,ii,i
Other operating expenses	216.3	(129.1)	87.2	vii
Earnings before the following	91.6	(0.6)	91.0	
Other (income) expense	(0.9)	0.9	-	vii
Interest expense	20.4	1.7	22.1	vii
Interest income	-	(1.1)	(1.1)	vii
Finance expense-convertible debentures	-	9.3	9.3	iii
Other finance expense, net	-	(1.5)	(1.5)	vii
Earnings before income taxes	72.1	(9.9)	62.2	
Provision for income taxes	(20.3)	0.2	(20.1)	vi
Net earnings for the period	$ 51.8	$ (9.7)	$ 42.1	
Basic earnings per common share	$ 0.87		$ 0.71	

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME *(UNAUDITED)*

Nine months ended September 30, 2010 *(millions)*	Canadian GAAP Balances	Effect of Transition to IFRS	IFRS Balances
Net earnings for the period	$ 51.8	$ (9.7)	$ 42.1
Other comprehensive income (loss)			
Unrealized foreign exchange losses on translation of foreign operations	(5.6)	0.2	(5.4)
Unrealized gains on items designated as net investment hedges	3.6	-	3.6
Unrealized losses on items designated as cash flow hedges	(2.5)	-	(2.5)
Losses on derivatives designated as cash flow hedges transferred to net income in the current period	(0.1)	-	(0.1)
Other comprehensive income	(4.6)	0.2	(4.4)
Total Comprehensive income	$ 47.2	$ (9.5)	$ 37.7

The Canadian GAAP statement of earnings and statement of comprehensive income for the three months ended September 30, 2010 have been reconciled to IFRS as follows:

CONSOLIDATED STATEMENT OF EARNINGS *(UNAUDITED)*

Quarter ended September 30, 2010 (millions, except per share data)	Canadian GAAP Balances	Effect of Transition to IFRS	IFRS Balances	Notes
Revenues	$ 581.9	$ 0.6	$ 582.5	vii
Cost of materials	476.1	(0.1)	476.0	vii
Employee expenses	-	45.6	45.6	vii,ii,i
Other operating expenses	75.3	(44.4)	30.9	vii
Earnings before the following	30.5	(0.5)	30.0	
Other expense	0.4	(0.4)	-	vii
Interest expense	7.2	0.7	7.9	vii
Interest income	-	(0.5)	(0.5)	vii
Finance expense-convertible debentures	-	8.2	8.2	iii
Other finance expense, net	-	-	-	vii
Earnings before income taxes	22.9	(8.5)	14.4	
Provision for income taxes	(6.3)	0.1	(6.2)	vi
Net earnings for the period	$ 16.6	$ (8.4)	$ 8.2	
Basic earnings per common share	$ 0.28		$ 0.14	

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME *(UNAUDITED)*

Quarter ended September 30, 2010 (millions)	Canadian GAAP Balances	Effect of Transition to IFRS	IFRS Balances
Net earnings for the period	$ 16.6	$ (8.4)	$ 8.2
Other comprehensive income (loss)			
Unrealized foreign exchange gains on translation of foreign operations	(10.4)	0.2	(10.2)
Unrealized losses on items designated as net investment hedges	4.4	-	4.4
Unrealized losses on items designated as cash flow hedges	-	-	-
Gains on derivatives designated as cash flow hedges transferred to net income in the current period	0.3	-	0.3
Other comprehensive income	(5.7)	-	(5.5)
Total Comprehensive income	$ 10.9	$ (8.2)	$ 2.7

The Canadian GAAP statement of shareholder's equity as at September 30, 2010 has been reconciled to IFRS as follows:

(millions)	September 30 2010	Notes
Shareholders' equity under Canadian GAAP	$ 797.3	
Differences increasing (decreasing) reported shareholders' equity:		
Retained earnings under Canadian GAAP	322.3	
Cumulative retained earnings January 1, 2010 transitional adjustment	(55.4)	v
IFRS adjustments to net earnings for nine months ended September 30, 2010	(9.7)	
Retained earnings under IFRS	$ 257.2	
Contributed surplus under Canadian GAAP	12.9	
Share based compensation	1.3	ii
Contributed surplus under IFRS	$ 14.2	
AOCI under Canadian GAAP	(28.6)	
Foreign currency translation	23.1	v
AOCI under IFRS	$ (5.5)	
Share capital under Canadian GAAP and IFRS	$ 479.1	
Equity component of convertible debentures under Canadian GAAP	11.6	
Reclass of convertible debentures call option to derivative liability	(11.6)	iii
Equity component of convertible debentures under IFRS	$ -	
Total equity under IFRS	$ 745.0	

The Canadian GAAP net earnings have been reconciled to IFRS as follows:

(millions)	Quarter ended September 30, 2010	Nine months ended September 30, 2010	Notes
Net earnings for under Canadian GAAP	$ 16.6	$ 51.8	
IFRS adjustments to net earnings**:**			
Employee benefits	0.2	0.4	i
Share based compensation	(0.2)	(0.1)	ii
Financial instruments	(8.3)	(9.8)	iii
Property, plant and equipment	-	(0.2)	iv
Foreign currency translation	(0.2)	(0.2)	
Income taxes	0.1	0.2	vi
	(8.4)	(9.7)	
Net earnings under IFRS	$ 8.2	$ 42.1	

Changes in Accounting Policies

In addition to the exemption options and mandatory exceptions described in Note 24 of the Company's interim consolidated financial statements for the quarter ended March 31, 2011, the following explains the significant differences between the Company's previous Canadian GAAP accounting policies and its selected IFRS accounting policies.

i. EMPLOYEE FUTURE BENEFITS

The Company elected to recognize all cumulative actuarial gains and losses that existed at the Transition Date in opening retained earnings for all of its employee defined benefit plans.

Actuarial Gains and Losses

Canadian GAAP - Actuarial gains and losses that arise in calculating the present value of the defined benefit obligation and the fair value of plan assets are amortized on a straight-line basis over the estimated average remaining service lives of the employee groups utilizing the corridor approach.

IFRS - The Company elected to recognize all unamortized actuarial gains and losses as an adjustment to retained earnings on transition. Subsequent to transition, actuarial gains and losses are not amortized to the statement of earnings but rather are recorded directly to other comprehensive income at the end of each reporting period. The Company adjusted its 2010 pension expense to remove the amortization of actuarial gains and losses that were charged to retained earnings on transition.

Benefit Improvements

Canadian GAAP - The employees in one of the pension plans are members of numerous collective bargaining groups. These groups have historically negotiated pension benefits which increase annually, creating an expectation for future increases. The future increase is not a legal obligation, and thus has not been provided for.

IFRS - The Company has made a provision for constructive obligations representing the cost of these assumed increases, in accordance with IFRS, resulting in an increase in defined benefit obligations as at January 1, 2010.

ii. SHARE BASED COMPENSATION

Recognition of Expense

Canadian GAAP - For grants of share-based awards with graded vesting, the total fair value of the award is recognized on a straight-line basis over the employment period necessary to vest the award.

IFRS - Each tranche of an award with graded vesting is considered a separate grant with a different vesting date and fair value. Each grant is accounted for on that basis. The Company has adjusted its expense for share-based awards to reflect graded vesting by tranche.

iii. FINANCIAL INSTRUMENTS

Compound Financial Instruments

Canadian GAAP - The Company recorded its convertible debentures by valuing the debt portion using a discounted cash flow valuation technique. The remaining value of the convertible debenture, which represents the cash conversion feature relating to the holders' option to convert the debentures into common shares, is classified as equity.

IFRS - The Company valued the cash conversion feature relating to the holder's option to convert the debenture into common shares using the Black Scholes valuation model and the residual was recorded as the debt portion. The conversion feature in the convertible debentures is considered to be a derivative under IFRS since the Company has the right in certain circumstances to settle the conversion in cash, or in a combination of cash and common shares in lieu of common shares. This derivative is classified as a financial liability and was recorded at fair value on the Transition Date and changes in fair value from the date of transition are recorded through earnings.

iv. PROPERTY, PLANT AND EQUIPMENT

Componentization

Canadian GAAP - Property, plant and equipment are recorded at cost. Depreciation is provided on a straight-line basis at rates that charge the original cost of such assets less their residual values to operations over their estimated useful lives.

IFRS - The standards provide that the components of assets with different useful lives are depreciated separately. Depreciation is provided on a straight-line basis at rates that charge the original cost less the residual value of such components to operations over their estimated useful lives. Useful lives and residual values are evaluated at least annually.

v. FOREIGN CURRENCY TRANSLATION

The Company has applied the one-time exemption to set the foreign currency cumulative translation adjustment ("CTA") to zero as of January 1, 2010. The CTA balance as of January 1, 2010 was recognized as an adjustment to opening retained earnings. The application of the exemption had no impact on shareholders' equity.

vi. INCOME TAXES

Income Tax Effect on Reconciling Differences between Canadian GAAP and IFRS

Differences for income taxes include the effect of recording, where applicable, the income tax effect of the differences between Canadian GAAP and IFRS.

Presentation Reclassifications

vii. STATEMENTS OF EARNINGS RECLASSIFICATION

Due to our selection of the nature presentation of expenses in our statement of earnings under IFRS, certain operating and other expenses have been segregated and presented on a separate line.

The following has been re-classified:

Canadian GAAP

Rental income is offset against lease expense and presented under operating expense on the statement of earnings.

IFRS

Rental income is recognized and presented as revenue on the statement of earnings.