Russel Metals

First Quarter
March 31, 2012

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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, 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 of financial condition 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.

May 3, 2012

B. R. Hedges
President and
Chief Executive Officer

M. E. Britton
Vice President and
Chief Financial Officer

RUSSEL METALS INC.
MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS FOR THE THREE MONTHS ENDED MARCH 31, 2012

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 Condensed Consolidated Financial Statements for the three months ended March 31, 2012 including the notes thereto, and the Management's Discussion and Analysis and the audited Consolidated Financial Statements for the year ended December 31, 2011, including the notes thereto. In the opinion of management, such interim condensed 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 May 3, 2012.

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.

Our basic earnings per share were $0.55 for the quarters ended March 31, 2012 and 2011.

All three operating segments had volume increases compared to the first quarter of 2011. These volume increases were offset by reduced gross margins due to steady prices in 2012 compared to rising steel prices in 2011 when inventory holding gains occur. Increased drilling activity for oil improved the operating results of our energy tubular products segment.

RESULTS OF OPERATIONS

The following table provides revenues, 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 and operating profits as a percentage of revenues are also shown. The table shows the segments as they are reported to management and are consistent with the segment reporting in the condensed consolidated financial statements.

	Quarters Ended March 31		
(millions, except percentages)	**2012**	2011	2012 change as a % of 2011
Segment Revenues			
Metals service centers	**$ 428.0**	$ 363.8	18%
Energy tubular products	**274.8**	224.0	23%
Steel distributors	**99.4**	69.8	42%
Other	**0.7**	0.1	
	$ 802.9	$ 657.7	22%
Segment Operating Profits			
Metals service centers	**$ 32.1**	$ 36.3	(12%)
Energy tubular products	**18.9**	17.8	6%
Steel distributors	**9.7**	8.8	10%
Corporate expenses	**(6.9)**	(7.0)	1%
Other	**(0.7)**	(1.7)	
Operating profits	**$ 53.1**	$ 54.2	(1%)
Segment Gross Margin as a % of Revenues			
Metals service centers	**21.1%**	25.0%	
Energy tubular products	**13.7%**	15.1%	
Steel distributors	**15.4%**	19.5%	
Total operations	**17.9%**	21.0%	
Segment Operating Profits as a % of Revenues			
Metals service centers	**7.5%**	10.0%	
Energy tubular products	**6.9%**	7.9%	
Steel distributors	**9.8%**	12.6%	
Total operations	**6.6%**	8.2%	

METALS SERVICE CENTERS

a) Description of operations

We provide processing and distribution services to a broad base of approximately 33,000 end users through a network of 49 Canadian locations and 12 U.S. locations. Our metals service centers carry a broad line of products in a wide range of sizes, shapes and specifications, including carbon hot rolled and cold finished steel, pipe and tubular products, stainless steel and aluminum. We purchase these products primarily from steel producers in North America and process and package them in accordance with end user specifications. We service all major geographic regions of Canada and the Southeastern and Midwestern regions in the United States. Within Canada, our service centers operate under the names Russel Metals, Métaux Russel, A.J. Forsyth, Acier Leroux, Acier Loubier, Acier Richler, B&T Steel, Leroux Steel, Mégantic Métal, Russel Metals Specialty Products, Métaux Russel Produits Spécialisés, McCabe Steel and York-Ennis. Our U.S. service centers operate under the names Russel Metals Williams Bahcall, JMS Russel Metals, Norton Metals and Baldwin International.

b) Factors affecting results

The following is a general discussion of the significant factors affecting our metals service centers results. More specific information on how these factors impacted the first quarter of 2012 and 2011 is found in the section that follows.

Steel prices fluctuate significantly throughout the steel cycle. Steel prices were stable throughout the first quarter of 2012. Steel prices are influenced by overall demand, trade sanctions, iron ore prices, scrap steel prices 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 for our product is significantly affected by economic cycles. Revenues and operating profits fluctuate 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.

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 diverse customer base of approximately 18,000 customers mean that our results tend to mirror the performance of the regional economies of Canada. Our U.S. operations, which have approximately 15,000 customers, are impacted by the local economic conditions in the regions that they serve.

The slight decline of the Canadian dollar in the first quarter of 2012 versus the same period in 2011 had no material impact on revenues and profits for our U.S. operations translated to Canadian dollars. Revenues and profits of our U.S. operations reported for the three months ended March 31, 2012 were converted at $1.0012 per US$1 compared to $0.9860 per US$1 for the same period of 2011. The exchange rate at March 31, 2012 used to translate the balance sheet was $0.9991 per US$1 versus $1.0170 per US$1 at December 31, 2011.

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 prices.

c) Metals service centers segment results -- Three Months Ended March 31, 2012 Compared to March 31, 2011

Revenues for the three months ended March 31, 2012, increased 18% to $428 million compared to the same period in 2011. Tons shipped in the metals service centers segment in the first quarter of 2012 were approximately 14% higher than the first quarter of 2011 and 16% higher than the fourth quarter of 2011. The average selling price of metal for the three months ended March 31, 2012 was approximately 4% higher than the average selling price for the three months ended March 31, 2011 and was consistent with the fourth quarter of 2011.

Gross margin dollars for the first quarter of 2012 were comparable to the first quarter of 2011; however, 2012 was achieved on higher volumes and lower gross margins. Gross margin as a percentage of revenues decreased to 21.1% for the three months ended March 31, 2012 compared to 25.0% in the first quarter of 2011. Rising steel prices in the first quarter of 2011 resulted in higher gross margins than we experience when prices are more stable. Gross margin increased over our fourth quarter 2011 gross margin of 20.1% when prices were declining.

Operating expenses in the first quarter of 2012 were higher by $3 million or 6% than in the first quarter of 2011, mainly related to volume driven compensation and freight costs. Operating expenses as a percentage of revenues improved to 13.6% from 15.0% in the first quarter of 2011.

Metals service centers operating profit for the three months ended March 31, 2012 of $32 million compares to $36 million for the same period in 2011. The decrease mainly relates to higher expenses due to increased volumes.

ENERGY TUBULAR PRODUCTS

a) Description of operations

These operations distribute oil country tubular goods (OCTG), line pipe, tubes, valves and fittings, primarily to the energy industry in Western Canada and the United States. Our business units are clustered in Alberta in Canada and Colorado and Texas in the U.S. A large portion of our inventories are located in third party warehouses ready for distribution to customers throughout North America. In addition, we operate from five Canadian and two U.S. facilities. We purchase our products either from the pipe division of North American steel mills, independent manufacturers of pipe and pipe accessories, international steel mills or other distributors. 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 first quarter of 2012 and 2011 is found in the section that follows.

The price of natural gas and oil can impact rig count and drilling activities, particularly in Western Canada. Rig activity affects demand for our products. The price of oil remained high during 2011 and the first quarter of 2012 resulting in improved rig activity. Drilling rig counts, an indicator of demand for pipe product, were at higher levels in both Canada and the U.S. in the first quarter of 2012 as compared to first quarter of 2011. Natural gas prices were at low levels and thus drilling activity related to gas remained below historical levels, particularly in Canada. Fracking technology enables producers to economically drill in the oil and gas-rich shale fields, which has offset the drop in conventional gas drilling.

Prices for metal are 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 the 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 March 31, 2012 Compared to March 31, 2011

Energy tubular products segment revenues increased 23% to $275 million for the first quarter of 2012 compared to the same period in 2011. Our Canadian operations servicing the oil sands and our U.S. operations had increased revenues mainly related to increased tons shipped. Our Canadian operations servicing oil drilling activity had a small decline in revenues related to both tons and prices.

Gross margin as a percentage of revenues for the three months ended March 31, 2012 was 13.7% compared to 15.1% for the same period in 2011 due to competitive pressure on prices and more large volume orders.

Operating expenses were $3 million higher in the first quarter of 2012 compared to the first quarter of 2011, mainly due to higher variable compensation and freight costs. Operating expenses as a percentage of revenues were 6.9% versus 7.2% in the first quarter of 2011.

This segment generated an operating profit of $19 million for the three months ended March 31, 2012, compared to $18 million for the same period in 2011. Operating profits were up mainly due to higher volumes.

STEEL DISTRIBUTORS

a) Description of operations

Our steel distributors act as master distributors selling steel in large volumes to other steel service centers and equipment manufacturers mainly on an "as is" basis. Our U.S. operation 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 first quarter of 2012 and 2011 is found in the section that follows.

Steel prices are 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.

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 March 31, 2012 Compared to March 31, 2011*

Steel distributors revenues increased 42% to $99 million for the three months ended March 31, 2012 compared to the three months ended March 31, 2011 due to greater demand. Increased shipments to the service center industry and large OEM's resulted in increased demand from our steel distributor operations in both Canada and the U.S.

Gross margin as a percentage of revenues was 15.4% for the three months ended March 31, 2012 compared to 19.5% for the three months ended March 31, 2011. The 2011 gross margins were higher due to rising steel prices that have not occurred in 2012. The gross margin dollars are higher due to volume increases offsetting gross margin decline.

Operating expenses were $1 million higher for the first quarter of 2012 compared to the first quarter of 2011, mainly related to higher variable compensation.

Operating profit for the three months ended March 31, 2012 was $10 million, compared to $9 million for the, three months ended March 31, 2011. The improved 2012 results reflect higher volumes.

Corporate Expenses -- Three Months Ended March 31, 2012 Compared to March 31, 2011

Corporate expenses were $7 million for the three months ended March 31, 2012 and March 31, 2011. Corporate expenses for the first quarter of both years were higher compared to our annual cost mainly related to increases in the value of deferred and restricted stock units.

Consolidated Results -- Three Months Ended March 31, 2012 Compared to March 31, 2011

Operating profits were $53 million for the first quarter of 2012 versus $54 million for the first quarter of 2011. Improved volumes in 2012 were offset by higher cost of sales and operating expenses.

INTEREST EXPENSE AND INCOME

Net interest expense was $6 million for the three months ended March 31, 2012 compared to $7 million for the three months ended March 31, 2011. The reduction in net interest expense related to lower interest on our U.S. Senior Notes as we had repurchased US$28 million of these notes in 2011.

INCOME TAXES

We recorded a provision for income taxes of $13 million for the first quarter of 2012. Our effective income tax rate for the three months ended March 31, 2012 was 29%. We estimate our normalized effective income tax rate for 2012 to be similar to the year to date rate.

NET EARNINGS

Net earnings for the first quarters of 2012 and 2011 were $33 million. Basic earnings per share for the first quarters of 2012 and 2011 were $0.55 per share. Higher volumes were offset by increased cost of sales and operating expenses.

SHARES OUTSTANDING AND DIVIDENDS

The weighted average number of common shares outstanding for first quarter of 2012 was 60,080,755 compared to 59,992,140 for the first quarter of 2011. As at March 31, 2012 and May 3, 2012, we had 60,102,823 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 first quarter of 2012 as compared to $17 million or $0.275 per share in the first quarter of 2011.

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

See subsequent events related to the issue of new Canadian Senior Notes and subsequent redemption of the U.S. Senior Notes. The new indenture governing the Canadian Senior Notes provides restrictions for quarterly dividends in excess of $0.35 per share. We do not believe these restrictions will impact our ability to pay dividends in the foreseeable future.

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 and adjusted EBITDA:

(millions)	Quarters Ended March 31 2012	2011
Net earnings for the period	**$ 33.1**	$ 33.0
Provision for income taxes	**13.3**	14.3
Interest expense, net	**6.3**	6.5
Earnings before interest and income taxes (EBIT)	**52.7**	53.8
Depreciation and amortization	**5.7**	6.0
Earnings before interest, income taxes, depreciation and amortization (EBITDA)	**$ 58.4**	$ 59.8

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 $12 million for the first quarter of 2012 compared to $4 million in the first quarter of 2011. Depreciation expense of $6 million for the first quarter of 2012 was consistent with the first quarter of 2011. In the first quarter of 2012, we acquired a piece of land in Edmonton, Alberta for $6 million to allow us to expand our storage of pipe for large projects in the oil sands.

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; however, due to lower expenditures over the last couple of years we anticipate higher expenditures in 2012.

LIQUIDITY

At March 31, 2012, we had cash of $160 million compared to $271 million at December 31, 2011, a decrease of $110 million in the quarter. Our operations generated $41 million before working capital changes in the first quarter of 2012. In the first quarter of 2012, we utilized $119 million in working capital to support our growth as well as to pay 2011 bonus accruals and income taxes. In addition, we utilized $12 million for capital expenditures and $18 million for dividends to shareholders.

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 additional bad debts and increased days outstanding for accounts receivable, which may affect the timing of collections. Total assets were $1.5 billion at March 31, 2012 and December 31, 2011. At March 31, 2012, current assets excluding cash represented 83% of our total assets excluding cash, versus 81% at December 31, 2011.

Cash used in operating activities was $78 million for the three months ended March 31, 2012 compared to $20 million for the three months ended March 31, 2011. During the first quarter of 2012, we had a $119 million increase in working capital compared to $60 million for the same period in 2011. This use of cash for working capital as revenues increase is consistent with our business model.

Cash utilized for inventory was $50 million in the first quarter of 2012, mainly related to increased tons in all three segments. Inventories represented 45% of our total assets at March 31, 2012 and 42% at December 31, 2011.

Inventory by Segment	**Mar. 31 2012**	Dec. 31 2011	Mar. 31 2011
Metals service centers	**$ 300**	$ 270	$ 238
Energy tubular products	**308**	304	257
Steel distributors	**84**	72	54
Total operations	**$ 692**	$ 646	$ 549

	Quarters Ended				
Inventory Turns by Segment	**Mar. 31 2012**	Dec. 31 2011	Sept. 30 2011	June 30 2011	Mar. 31 2011
Metals service centers	**4.5**	4.4	4.7	4.8	4.6
Energy tubular products	**3.1**	2.6	2.6	1.6	3.0
Steel distributors	**4.0**	4.8	3.2	3.2	4.2
Total operations	**3.8**	3.6	3.5	3.1	3.8

At March 31, 2012, our metals service centers had more tons of inventory to service the increased volumes, compared to December 31, 2011 and March 31, 2011.

Our energy tubular products operations had inventory at the end of first quarter of 2012 slightly higher than December 31, 2011; however, higher revenues resulted in increased inventory turns compared to December 31, 2011.

Our steel distributors segment had increased inventory to service higher volumes.

As a result of higher revenues, accounts receivable utilized cash of $71 million in the first quarter of 2012. Accounts receivable represented 29% of our total assets at March 31, 2012 compared to 25% of our total assets at December 31, 2011.

During the first quarter of 2012, we made income tax payments of $26 million compared to payments of $18 million for the three months ended March 31, 2011.

The balances disclosed in our condensed 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

	Quarters Ended March 31	
(millions)	**2012**	2011
Cash from operating activities before non-cash working capital	**$ 41.1**	$ 40.0
Purchase of fixed assets	**(11.9)**	(4.4)
	$ 29.2	$ 35.6

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)	**Mar. 31, 2012**	Dec. 31, 2011
Long-Term Debt		
6.375% US$138.9 million Senior Notes due March 1, 2014	**$ 138**	$ 140
7.75% $175 million convertible debentures due September 30, 2016	**155**	154
Finance lease obligations, maturing 2014 to 2017	**3**	4
	296	298
Current portion	**(1)**	(1)
	$ 295	$ 297

The convertible debentures have been split between debt and equity. The amount allocated to equity represented the valuation of the holders' option to convert the convertible debentures into common shares and the fair value adjustments on the cash conversion feature treated as a derivative prior to the amendment of the Trust Indenture in December 2010. A portion of the debt is allocated to equity is charged through interest expense over the life of the debentures.

Cash and Bank Credit Facilities

As at March 31, 2012 (millions)	Russel Metals Facility	U.S. Subsidiary Facility	Total
Bank loans	$ -	$ -	$ -
Cash net of outstanding cheques	150	10	160
Net cash	150	10	160
Letters of credit	(41)	(1)	(42)
	$ 109	$ 9	$ 118
Facilities			
Borrowings and letters of credit	$ 202	$ 25	$ 227
Letters of credit facility	50	20	70
Facilities availability	$ 252	$ 45	$ 297
Available line based on borrowing base	$ 252	$ 45	$ 297

We have a credit 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 March 31, 2012, we were entitled to borrow and issue letters of credit totaling $252 million under this facility. At March 31, 2012 and December 31, 2011, we had no borrowings. At March 31, 2012, we had letters of credit of $41 million compared to $44 million at December 31, 2011.

The maximum borrowings including letters of credit under the U.S. subsidiary's facility are US$45 million. At March 31, 2012, this subsidiary had no borrowings and had letters of credit of US$1 million. At December 31, 2011, this subsidiary had no borrowings and had letters of credit of US$6 million.

With our cash, cash equivalents and our bank facilities we have access to approximately $387 million of cash based on our March 31, 2012 balances. The use of our bank facilities has been predominantly to fund working capital requirements and trade letters of credit for inventory purchases. These lines may be used to support increases in working capital when volumes and steel prices increase.

CONTRACTUAL OBLIGATIONS

As at March 31, 2012, we were contractually obligated to make payments under our long-term debt agreements, finance lease obligations and operating leases that come due in the future. The following table sets forth such payments.

Contractual Obligations	Payments due in				
(millions)	**2012**	**2013 and 2014**	**2015 and 2016**	**2017 and thereafter**	**Total**
Debt	$ -	$ 138.8	$ 175.0	$ -	$ 313.8
Long-term debt interest	17.0	37.7	23.8	-	78.5
Finance lease obligations	1.2	2.0	0.4	-	3.6
Operating leases	9.7	16.4	6.7	6.1	38.9
Total	$ 27.9	$ 194.9	$ 205.9	$ 6.1	$ 434.8

We have disclosed our obligations related to environmental litigations, regulatory actions and remediation in our Annual Information Form. These obligations relate to previously divested or discontinued operations and do not relate to the metals distribution business.

We have multiple defined benefit pension plans in Canada, as disclosed in Note 13 of our 2011 consolidated financial statements. During the first quarter of 2012, we contributed $1 million to these plans. We expect to contribute approximately $3 million during the remainder of the year.

OFF-BALANCE SHEET ARRANGEMENTS

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

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

An allowance for doubtful accounts is maintained 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 March 31, 2012 approximates our reserve at December 31, 2011; however, our accounts receivable balance is significantly higher. Bad debt expense for the first quarter of 2012 as a percentage of revenue approximates that of 2011.

Inventories
We review our inventories to ensure that the cost of inventories 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 March 31, 2012 is consistent with the level at December 31, 2011.

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 benefits. The valuation uses management's assumptions for the discount rate, expected long-term rate of return on plan assets, rate of compensation increase, rate of increase in government benefits 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 $87 million in plan assets at March 31, 2012, which is an increase of approximately $2 million from December 31, 2011. Due to a change in the discount rate used from 4.5% for 2011 to 4.25% for March 31, 2012, which reflects the current interest rate environment, our accrued benefit obligations increased by $5 million to $124 million at March 31, 2012 as compared to $119 million at December 31, 2011.

CONTROLS AND PROCEDURES

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

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

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

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

No changes were made in our disclosure controls or our internal control over financial reporting during the first quarter of 2012 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. 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 metals businesses that have strong market niches or provide mass to our existing operations. Any new acquisitions could be either major stand-alone operations or ones that complement our existing operations. We continue to review opportunities for acquisitions.

We believe that the length of the steel-based economic cycle will continue to be short, 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 our 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 metal 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 returning to pre-2009 levels in all regions other than Ontario and Wisconsin. We will continue to make structural changes where necessary based on demand levels. Our Annual Information Form includes a summary of other risks.

OUTLOOK

For the second quarter revenues are expected to fall versus the first quarter of 2012, due to the seasonal impact on the energy tubular products segment. The robust year over year growth in revenues for service centers and steel distributors experienced in the first quarter of 2012 is expected to slow; however, both segments are expected to be above the second quarter of 2011. We anticipate steel prices to be stable, consistent with the first quarter of 2012.

SUBSEQUENT EVENTS

On April 19, 2012, we issued $300 million of 6% Unsecured Senior Notes for net proceeds of $293 million. The Senior Notes mature on April 19, 2022.

On April 25, 2012, the trustee of the US$139 million Senior Notes provided notice that the debentures will be redeemed on May 25, 2012 at par plus accrued and unpaid interest to the date of redemption.

On May 1, 2012, we closed the acquisition of the operations and business assets of Siemens Laserworks for $28 million. Siemens Laserworks is a value-added laser processing metals service center.

CONDENSED CONSOLIDATED STATEMENTS OF EARNINGS *(UNAUDITED)*

(in millions of Canadian dollars, except per share data)	Quarters ended March 31 **2012**	2011
Revenues	**$ 802.9**	$ 657.7
Cost of materials	**659.0**	519.3
Employee expenses (Note 12)	**57.9**	54.6
Other operating expenses (Note 12)	**32.9**	29.6
Earnings before interest, finance and provision for income taxes	**53.1**	54.2
Interest expense (Note 13)	**6.7**	7.1
Interest income (Note 13)	**(0.4)**	(0.6)
Other finance expense (Note 13)	**0.4**	0.4
Earnings before provision for income taxes	**46.4**	47.3
Provision for income taxes	**13.3**	14.3
Net earnings for the period	**$ 33.1**	$ 33.0
Basic earnings per common share (Note 11)	**$ 0.55**	$ 0.55
Diluted earnings per common share (Note 11)	**$ 0.53**	$ 0.53

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME *(UNAUDITED)*

(in millions of Canadian dollars)	Quarters ended March 31 **2012**	2011
Net earnings for the period	**$ 33.1**	$ 33.0
Other comprehensive income (loss), net of tax (Note 19)		
Unrealized foreign exchange losses on translation of foreign operations	**(6.7)**	(8.0)
Unrealized gains on items designated as net investment hedges	**2.1**	3.3
Losses on derivatives designated as cash flow hedges transferred to net earnings in the current period	**0.3**	0.3
Actuarial losses on pension and similar obligations	**(2.2)**	-
Other comprehensive loss	**(6.5)**	(4.4)
Total comprehensive income	**$ 26.6**	$ 28.6

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)	**March 31 2012**	December 31 2011
ASSETS		
Current		
Cash and cash equivalents (Note 2)	**$ 160.3**	$ 270.7
Accounts receivable	**451.6**	382.4
Inventories (Note 3)	**692.1**	645.6
Prepaid expenses	**4.4**	4.6
Income taxes receivable	**1.4**	0.5
	1,309.8	1,303.8
Property, Plant and Equipment (Note 4)	**206.9**	201.3
Deferred Income Tax Assets	**5.0**	5.3
Other Assets	**3.1**	3.3
Goodwill and Intangibles (Note 5)	**24.3**	24.7
	$ 1,549.1	$ 1,538.4
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current		
Accounts payable and accrued liabilities	**$ 374.7**	$ 362.8
Income taxes payable	**4.6**	17.4
Current portion long-term debt (Note 7)	**1.3**	1.3
	380.6	381.5
Long-Term Debt (Note 7)	**294.6**	296.5
Pensions and Benefits (Note 8)	**36.1**	33.3
Deferred Income Tax Liabilities	**0.6**	0.4
Provisions (Note 15)	**5.3**	5.4
Other Non-Current Liabilities (Note 15)	**2.9**	1.9
	720.1	719.0
Shareholders' Equity (Note 9)		
Common shares	**486.0**	485.4
Retained earnings	**321.8**	306.7
Contributed surplus	**16.1**	15.7
Accumulated other comprehensive loss	**(23.6)**	(17.1)
Equity component of convertible debenture	**28.7**	28.7
	829.0	819.4
	$ 1,549.1	$ 1,538.4

ON BEHALF OF THE BOARD,

A. Laberge
Director

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 March 31** **2012**	2011
Operating activities		
Net earnings for the period	**$ 33.1**	$ 33.0
Depreciation and amortization	**5.7**	6.0
Deferred income taxes	**0.6**	(0.5)
Gain on sale of property, plant and equipment	**-**	(0.1)
Stock-based compensation	**0.5**	0.9
Difference between pension expense and amount funded	**(0.2)**	(0.6)
Debt accretion, amortization and other	**1.4**	1.3
Cash from operating activities before non-cash working capital	**41.1**	40.0
Changes in non-cash working capital items		
Accounts receivable	**(71.0)**	(81.5)
Inventories	**(49.7)**	(8.2)
Accounts payable and accrued liabilities	**13.5**	35.3
Income tax receivable/payable	**(11.5)**	(3.3)
Other	**0.1**	(2.0)
Change in non-cash working capital	**(118.6)**	(59.7)
Cash used in operating activities	**(77.5)**	(19.7)
Financing activities		
Issue of common shares	**0.5**	0.9
Dividends on common shares	**(18.0)**	(16.5)
Repayment of long-term debt	**(0.3)**	(0.3)
Cash used in financing activities	**(17.8)**	(15.9)
Investing activities		
Purchase of property, plant and equipment	**(11.9)**	(4.4)
Proceeds on sale of property, plant and equipment	**-**	0.7
Cash used in investing activities	**(11.9)**	(3.7)
Effect of exchange rates on cash and cash equivalents	**(3.2)**	1.7
Decrease in cash and cash equivalents	**(110.4)**	(37.6)
Cash and cash equivalents, beginning of the period	**270.7**	323.7
Cash and cash equivalents, end of the period	**$ 160.3**	$ 286.1

Supplemental cash flow information:		
Income taxes paid	**$ 26.4**	$ 18.3
Interest paid (net)	**$ 5.0**	$ 12.2

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	Retained Earnings	Contributed Surplus	Accumulated Other Comprehensive Loss	Equity Component of Convertible Debentures	Total
Balance, December 31, 2011	$ 485.4	$ 306.7	$ 15.7	$ (17.1)	$ 28.7	$ 819.4
Payment of dividends	-	(18.0)	-	-	-	(18.0)
Net earnings for the period	-	33.1	-	-	-	33.1
Other comprehensive loss for the period	-	-	-	(6.5)	-	(6.5)
Recognition of stock-based compensation	-		0.4	-	-	0.4
Stock options exercised	0.6	-	-	-	-	0.6
Balance, March 31, 2012	**$ 486.0**	**$ 321.8**	**$ 16.1**	**$ (23.6)**	**$ 28.7**	**$ 829.0**

(in millions of Canadian dollars)	Common Shares	Retained Earnings	Contributed Surplus	Accumulated Other Comprehensive Loss	Equity Component of Convertible Debentures	Total
Balance, December 31, 2010	$ 483.7	$ 257.5	$ 13.9	$ (11.0)	$ 28.7	$ 772.8
Payment of dividends	-	(16.5)	-	-	-	(16.5)
Net earnings for the period	-	33.0	-	-	-	33.0
Other comprehensive loss for the period	-	-	-	(4.4)	-	(4.4)
Recognition of stock-based compensation	-	-	0.7	-	-	0.7
Stock options exercised	1.2	-	-	-	-	1.2
Balance, March 31, 2011	$ 484.9	$ 274.0	$ 14.6	$ (15.4)	$ 28.7	$ 786.8

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 May 3, 2012.

b) Statement of compliance and basis of presentation

These condensed consolidated financial statements, including comparatives, have been prepared using the same accounting policies and methods as those used in the Company's consolidated financial statements for the year ended December 31, 2011. These condensed consolidated financial statements are in compliance with International Accounting Standard 34, Interim Financial Reporting ("IAS 34"). Accordingly, 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 judgment in applying the Company's accounting policies. The areas involving a higher degree of judgment 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 consolidated financial statements for the year ended December 31, 2011. These interim financial statements should be read in conjunction with the Company's consolidated financial statements for the year ended December 31, 2011.

These financial statements were prepared on a going concern basis 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. CASH AND CASH EQUIVALENTS

(millions)	**March 31 2012**	December 31 2011
Cash on deposit	**$ 135.3**	$ 217.8
Short-term investments	**25.0**	52.9
	$ 160.3	$ 270.7

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

3. INVENTORIES

Inventories are recorded at the lower of cost and net realizable value. Cost is determined on an average cost basis. The Company did not have any additional inventory impairment charges or reversals of previous inventory impairment charges during the quarters ended March 31, 2012 and 2011.

4. PROPERTY, PLANT AND EQUIPMENT

Cost *(millions)*	Land and Buildings	Machinery and Equipment	Leasehold Improvements	Total
Balance, December 31, 2011	$ 188.6	$ 268.0	$ 27.0	$ 483.6
Additions	6.7	5.1	0.1	11.9
Disposals	-	(0.2)	-	(0.2)
Effect of movements in exchange rates	(0.7)	(0.7)	-	(1.4)
Balance, March 31, 2012	**$ 194.6**	**$ 272.2**	**$ 27.1**	**$ 493.9**

Depreciation and impairment *(millions)*	Land and Buildings	Machinery and Equipment	Leasehold Improvements	Total
Balance, December 31, 2011	$ 73.9	$ 188.8	$ 19.6	$ 282.3
Depreciation and amortization	1.6	3.7	0.1	5.4
Disposals	-	(0.1)	-	(0.1)
Effect of movements in exchange rates	(0.2)	(0.4)	-	(0.6)
Balance, March 31, 2012	**$ 75.3**	**$ 192.0**	**$ 19.7**	**$ 287.0**

Net book value *(millions)*	
December 31, 2011	$ 201.3
March 31, 2012	**$ 206.9**

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

Land included in land and buildings was $30.0 million (December 31, 2011: $24.0 million).

For the quarter ended March 31, 2012, depreciation of $1.5 million was included in cost of material (2011: $1.5 million) and depreciation of $3.9 million (2011: $4.0 million) was included in other operating expenses.

5. GOODWILL AND INTANGIBLES

a) The continuity of goodwill is as follows:

(millions)	
Balance, December 31, 2011	$ 18.4
Foreign exchange	(0.2)
Balance, March 31, 2012	**$ 18.2**

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

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

Cost *(millions)*	
Balance, December 31, 2011	$ 10.1
Foreign exchange	(0.1)
Balance, March 31, 2012	**$ 10.0**

Accumulated amortization
(millions)

Balance, December 31, 2011	$ (3.8)
Amortization	(0.1)
Balance, March 31, 2012	**$ (3.9)**

Carrying amount

December 31, 2011	$ 6.3
March 31, 2012	**$ 6.1**

The carrying amount of intangible assets as at March 31, 2012 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.

6. REVOLVING CREDIT FACILITIES

The Company maintains a 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 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 March 31, 2012 and December 31, 2011, the Company had no borrowings and letters of credit of $41.0 million and $44.2 million respectively under this facility. The Company was in compliance with the financial covenants at March 31, 2012.

One of the Company's U.S. subsidiaries has a credit facility of US$45 million. At March 31, 2012 and December 31, 2011, this subsidiary had no borrowings and letters of credit of US$1.3 million and US$6.3 million respectively under this facility.

7. LONG-TERM DEBT

(millions)	**March 31 2012**	December 31 2011
7.75% $175 million convertible debentures due September 30, 2016	**$ 155.2**	$ 154.3
6.375% US$138.9 million Senior Notes due March 1, 2014 (2011: US$138.9 million)	**137.5**	139.8
Finance lease obligations (Note 17)	**3.2**	3.7
Less: current portion	**(1.3)**	(1.3)
Total long-term debt	**$ 294.6**	$ 296.5

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.

The convertible debenture has been split between debt and equity. The amount allocated to equity is $28.7 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 were treated as a derivative prior to amendment of the Trust Indenture in December 2010.

b) On February 20, 2004, the Company issued US$175 million Senior Notes due March 1, 2014, bearing interest at 6.375%. During 2010 and 2011, the Company repurchased US$36.1 million of its Senior Notes. The Company has designated the remaining US$138.9 million Senior Notes as a hedge of its net investment in foreign subsidiaries.

The US$138.9 million Senior Notes are redeemable, in whole or in part, at the option of the Company at 100%. 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 March 31, 2012.

8. PENSION AND BENEFITS

As at March 31, 2012, the Company determined its accrued benefit obligations related to the employee future benefit plans using a discount rate of 4.25% (December 31, 2011: 4.5%) and also determined the fair value of the defined benefit pension plans assets as at the balance sheet date. This resulted in an actuarial loss on employee future benefit plans of $3.0 million for the three month period ended March 31, 2012 (2011: $nil).

9. SHAREHOLDERS' EQUITY

a) At March 31, 2012 and 2011, 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, December 31, 2011	60,071,698	$ 485.4
Stock options exercised	31,125	0.6
Balance, March 31, 2012	**60,102,823**	**$ 486.0**

The continuity of contributed surplus is as follows:

(millions)	
Balance, December 31, 2011	$ 15.7
Stock-based compensation expense	0.5
Exercise of options	(0.1)
Balance, March 31, 2012	**$ 16.1**

Dividends paid or declared are as follows:

	Quarter ended March 31	
	2012	2011
Dividends paid (millions)	**$ 18.0**	$ 16.5
Dividends paid per share	**$ 0.30**	$ 0.275
Quarterly dividend per share declared on May 3, 2012 (May 12, 2011)	**$ 0.35**	$ 0.275

10. 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. The following is a continuity of options outstanding:

	Number of Options		Weighted Average Exercise Price	
	March 31 2012	December 31 2011	**March 31 2012**	December 31 2011
Balance, beginning of period	**2,857,939**	2,684,662	**$ 25.44**	$ 25.08
Granted	**382,189**	307,127	**26.18**	25.70
Exercised	**(31,125)**	(93,525)	**16.69**	15.19
Expired or forfeited	**(1,750)**	(40,325)	**26.18**	27.07
Balance, end of the period	**3,207,253**	2,857,939	**$ 25.62**	$ 25.44
Exercisable	**2,360,638**	2,169,719	**$ 26.37**	$ 26.23

The outstanding options had an exercise price range as follows:

(number of options)	**March 31 2012**	December 31 2011
$ 25.75 - $ 33.81	**2,272,565**	1,892,126
$ 15.86 - $ 25.74	**789,888**	808,913
$ 9.16 - $ 15.85	**97,200**	109,300
$ 5.20 - $ 9.15	**47,600**	47,600
Options outstanding	**3,207,253**	2,857,939

The Black-Scholes option-pricing model assumptions used to compute compensation expense under the fair value-based method are as follows:

	March 31 2012	December 31 2011
Dividend yield	**5%**	5%
Expected volatility	**41%**	41%
Expected life	**5 yrs**	5 yrs
Risk free rate of return	**3.5%**	4%
Weighted average fair value of options granted	**$ 6.78**	$ 6.83

The expected volatility is based on historical volatility over the last five years.

Deferred Share Units (DSU)

At March 31, 2012, there were 88,406 DSUs outstanding (December 31, 2011: 84,470). The liability and fair value of DSUs was $2.4 million at March 31, 2012 (December 31, 2011: $1.9 million). Dividends declared on common shares accrue to the units in the DSU plan in the form of additional DSUs.

Restricted Share Units (RSU)

At March 31, 2012, there were 66,886 RSUs issued and outstanding (December 31, 2011: 240,738). During the quarter ended March 31, 2012, 228,991 (March 31, 2011: $nil) RSUs matured and were paid. The RSU liability at March 31, 2012 was $0.5 million (December 31, 2011: $5.3 million). The fair value of RSUs was $1.8 million at March 31, 2012 (December 31, 2011: $5.4 million). Dividends declared on common shares accrue to the units in the RSU plan in the form of additional RSU's.

11. EARNINGS PER SHARE

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

(millions)	Quarters ended March 31 **2012**	2011
Net income used in calculation of basic earnings per share	**$ 33.1**	$ 33.0
Interest and accretion expense, net of income taxes	**2.7**	2.6
Net income used in calculation of diluted earnings per share	**$ 35.8**	$ 35.6

(number of shares)	Quarters ended March 31 **2012**	2011
Weighted average shares outstanding	**60,080,755**	59,992,140
Dilution impact of stock options	**146,561**	58,798
Dilution impact of convertible debentures	**6,796,117**	6,796,117
Diluted weighted average shares outstanding	**67,023,433**	66,847,055

12. EXPENSES

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

(millions)	Quarters ended March 31 **2012**	2011
Employee Expenses		
Wages and salaries	**$ 48.1**	$ 45.7
Other employee related costs	**9.8**	8.9
	$ 57.9	$ 54.6
Other Operating Expenses		
Plant and other expenses	**$ 14.0**	$ 14.2
Delivery expenses	**13.1**	9.9
Repairs and maintenance	**2.5**	2.3
Selling expenses	**2.1**	2.6
Professional fees	**1.1**	1.2
Gains on sale of property, plant and equipment	**-**	(0.1)
Foreign exchange losses (gains)	**0.1**	(0.5)
	$ 32.9	$ 29.6

13. FINANCE EXPENSE

Finance expense (income) is comprised of the following:

(millions)	Quarters ended March 31 2012	2011
Interest at 6.375% on U.S. Senior Notes	**$ 2.4**	$ 2.8
Interest at 7.75% on convertible debentures	**4.2**	4.2
Other interest expense	**0.1**	0.1
Interest expense	**6.7**	7.1
Interest income	**(0.4)**	(0.6)
Other finance expense	**0.4**	0.4
Finance expense, net	**$ 6.7**	$ 6.9

Interest expense on long-term debt is composed of the interest calculated on the face value of long-term debt, amortization of 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 March 31, 2012 was $1.0 million (2011: $1.0 million).

14. INCOME TAXES

The consolidated effective tax rates for the quarters ended March 31, 2012 and 2011 were 28.7% and 30.2% respectively.

15. PROVISIONS AND OTHER NON-CURRENT LIABILITIES

(millions)	March 31 2012	December 31 2011
Provisions - decommissioning liabilities	**$ 5.3**	$ 5.4
Other non-current liabilities - deferred compensation and employee incentives	**$ 2.9**	$ 1.9

Deferred compensation includes the RSU and the DSU liabilities.

16. 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 March 31, 2012, the inter-segment sales from steel distributors to metals service centers were $9.3 million (2011: $6.8 million). These sales, which are at market rates, are eliminated in the following table.

a) Results by business segment:

(millions)	Quarters ended March 31 **2012**	2011
Segment Revenues		
Metals service centers	**$ 428.0**	$ 363.8
Energy tubular products	**274.8**	224.0
Steel distributors	**99.4**	69.8
	802.2	657.6
Other	**0.7**	0.1
	$ 802.9	$ 657.7
Segment Operating Profits		
Metals service centers	**$ 32.1**	$ 36.3
Energy tubular products	**18.9**	17.8
Steel distributors	**9.7**	8.8
	60.7	62.9
Corporate expenses	**(6.9)**	(7.0)
Other expense	**(0.7)**	(1.7)
Earnings before finance expense and provision for income taxes	**53.1**	54.2
Finance expense, net	**(6.7)**	(6.9)
Provision for income taxes	**(13.3)**	(14.3)
Net earnings	**$ 33.1**	$ 33.0
Capital Expenditures		
Metals service centers	**$ 4.1**	$ 4.3
Energy tubular products	**6.2**	0.1
Steel distributors	**1.5**	-
Other	**0.1**	-
	$ 11.9	$ 4.4
Depreciation Expense		
Metals service centers	**$ 4.7**	$ 4.8
Energy tubular products	**0.4**	0.4
Steel distributors	**0.1**	0.1
Other	**0.2**	0.2
	$ 5.4	$ 5.5

(millions)	March 31 **2012**	December 31 2011
Current Identifiable Assets		
Metals service centers	**$ 533.0**	$ 462.5
Energy tubular products	**477.2**	448.9
Steel distributors	**138.1**	120.3
	1,148.3	1,031.7
Non-Current Identifiable Assets		
Metals service centers	**199.4**	201.3
Energy tubular products	**12.4**	6.6
Steel distributors	**2.4**	1.0
Identifiable assets by segments	**1,362.5**	1,240.6
Assets not included in segments		
Cash and cash equivalents	**160.3**	270.7
Income tax assets	**6.4**	5.8
Other assets	**3.1**	3.3
Corporate and other operating assets	**16.8**	18.0
Total assets	**$ 1,549.1**	$ 1,538.4
Liabilities		
Metals service centers	**$ 221.5**	$ 199.2
Energy tubular products	**129.5**	136.0
Steel distributors	**12.0**	8.5
Liabilities by segments	**363.0**	343.7
Liabilities not included in segments		
Income taxes payable and deferred income tax liabilities	**5.2**	17.8
Long-term debt	**295.9**	297.8
Pensions and benefits	**36.1**	33.3
Corporate and other liabilities	**19.9**	26.4
Total liabilities	**$ 720.1**	$ 719.0

b) Results by geographic segment:

(millions)	Quarters ended March 31 **2012**	2011
Segment Revenues		
Canada	**$ 545.9**	$ 472.9
United States	**256.3**	184.7
	$ 802.2	$ 657.6
Segment Operating Profits		
Canada	**$ 44.1**	$ 45.6
United States	**16.6**	17.3
	$ 60.7	$ 62.9

(millions)	**March 31 2012**	December 31 2011
Identifiable Assets		
Canada	**$ 963.8**	$ 904.8
United States	**398.7**	335.8
	$ 1,362.5	$ 1,240.6

17. FINANCIAL INSTRUMENTS

a) Financial assets and liabilities

Financial assets and liabilities are as follows:

March 31, 2012 *(millions)*	**Assets/(Liabilities) At Fair Value Through Profit and Loss**	**Loans and Receivables**	**Other Financial Liabilities**	**Total**
Cash and cash equivalents	**$ -**	**$ 160.3**	**$ -**	**$ 160.3**
Accounts receivable	**-**	**451.6**	**-**	**451.6**
Other assets	**-**	**0.7**	**-**	**0.7**
Accounts payable and accrued liabilities	**-**	**-**	**(374.7)**	**(374.7)**
Current portion of long-term debt	**-**	**-**	**(1.3)**	**(1.3)**
Long-term debt	**-**	**-**	**(294.6)**	**(294.6)**
Total	**$ -**	**$ 612.6**	**$ (670.6)**	**$ (58.0)**

December 31, 2011 *(millions)*	Assets/(Liabilities) At Fair Value Through Profit and Loss	Loans and Receivables	Other Financial Liabilities	Total
Cash and cash equivalents	$ -	$ 270.7	$ -	$ 270.7
Accounts receivable	-	382.4	-	382.4
Other assets	-	0.8	-	0.8
Accounts payable and accrued liabilities	-	-	(362.8)	(362.8)
Current portion long-term debt	-	-	(1.3)	(1.3)
Long-term debt	-	-	(296.5)	(296.5)
Total	$ -	$ 653.9	$ (660.6)	$ (6.7)

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

	Quarters ended March 31			
	2012		2011	
(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	**$ (0.5)**	**$ -**	$ 0.3	$ -
Forward contracts	**0.1**	**-**	(0.5)	-
Hedging instruments				
Cross currency interest rate swaps - cash flow hedges	**0.3**	**-**	0.3	-
US Senior notes - net investment hedges	**-**	**2.1**	-	3.3

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 condensed consolidated 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".

Fair Value

The Company records its debt at amortized cost using the effective interest method. The fair value of long-term debt as at March 31, 2012 and December 31, 2011 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:

March 31, 2012	**Primary Debt Instruments**	
(millions)	**Carrying amount**	**Fair value**
7.75% $175 million convertible debentures due September 30, 2016	**$ 155.2**	**$ 210.9**
6.375% US$138.9 million Senior Notes due March 1, 2014	**137.5**	**139.5**
Finance lease obligations	**3.2**	**3.2**
Total	**$ 295.9**	**$ 353.6**
Current portion	**$ 1.3**	
Long-term portion	**$ 294.6**	

December 31, 2011	Primary Debt Instruments	
(millions)	Carrying amount	Fair value
7.75% $175 million convertible debentures due September 30, 2016	$ 154.3	$ 195.1
6.375% US$138.9 million Senior Notes due March 1, 2014	139.8	141.6
Finance lease obligations	3.7	3.7
Total	$ 297.8	$ 340.4
Current portion	$ 1.3	
Long-term portion	$ 296.5	

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 accounts 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 March 31, 2012, nearly all cash and cash equivalents held were issued by institutions that were rated R1 High by DBRS;
- Counterparties to derivative contracts are members of the syndicated credit facility (Note 6);
- 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 March 31, 2012 and December 31 2011, other than the allowance for doubtful accounts. As at March 31, 2012, trade accounts receivable greater than 90 days represented less than 3% of trade accounts receivable (December 31, 2011: 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 one year to manage foreign exchange risk on certain future committed cash outflows. As at March 31, 2012, the Company had outstanding forward foreign exchange contracts in the amounts of US$36.1 million, maturing in 2012 (December 31, 2011: US$27.5 million). A 1% change in foreign exchange rates would not result in a significant increase or decrease in accounts payable or net earnings.

In order to mitigate its foreign exchange exposure, the Company has designated its entire US$138.9 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 March 31, 2012, 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
2012	$ -	$ 17.0	$ 9.7	$ 26.7
2013	-	22.6	9.6	32.2
2014 (Note 20)	138.8	15.1	6.8	160.7
2015	-	13.6	3.7	17.3
2016	175.0	10.2	3.0	188.2
2017 and beyond	-	-	6.1	6.1
Total	$ 313.8	$ 78.5	$ 38.9	$ 431.2

As at March 31, 2012, the Company was contractually obligated to make payments under finance leases as follows:

(millions)

2012	$	1.2
2013		1.4
2014		0.6
2015		0.3
2016		0.1
Total minimum lease payments		3.6
Interest at rates varying between 1.2% and 14.9%		(0.4)
Net minimum lease payments		3.2
Less: current portion		(1.3)
Long-term portion	$	1.9

At March 31, 2012, the Company was contractually obligated to repay its letters of credit under both its bank facilities at maturity (Note 6).

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 credit facilities.

18. 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 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 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$4.5 million for its Norton acquisition, based upon achievement of performance measures contractually agreed to at the time of purchase. The Company did not accrue an additional obligation during the quarters ended March 31, 2012 and 2011. The obligation paid during quarter ended March 31, 2012 was $0.5 million (2011: $nil). As of March 31, 2012, the Company's accrued contingent obligation was $1.0 million (December 31, 2011: $1.6 million).

19. OTHER COMPREHENSIVE INCOME (LOSS)

Income taxes on other comprehensive income (loss) are as follows:

(millions)	Quarters ended March 31 **2012**	2011
Income tax on unrealized losses on items designated as net investment hedges	**$ (0.3)**	$ (0.5)
Income tax on losses on derivatives designated as cash flow hedges transferred to net earnings in the current period	**(0.1)**	(0.1)
Income tax on actuarial losses on pension and similar obligations	**0.8**	-
	$ 0.4	$ (0.6)

20. SUBSEQUENT EVENTS

a) *Debt Issuance*

On April 19, 2012, the Company issued $300 million 6% Senior Unsecured Notes due on April 19, 2022, for total net proceeds of $293 million. Interest on these senior notes is due semi-annually on April 19 and October 19, of each year. From the fifth anniversary of issue date through the maturity date, the Company has an option to redeem the notes, in whole or in part, at the applicable redemption price set forth in the governing trust indenture together with unpaid accrued interest.

b) *Redemption of 6.375% U.S Senior Unsecured Notes*

On April 25, 2012, the Company announced that an irrevocable notice of redemption was sent to the holders of its 6.375% U.S. Senior Notes due on March 1, 2014. The Senior Notes will be redeemed on May 25, 2012 at a price equal to the principal amount thereof plus accrued and unpaid interest to the date of redemption. The after-tax effect of the redemption on net earnings will be approximately $3.2 million relating to the write-off of deferred financing and hedging costs.

c) *Acquisition of Siemens Laserworks*

On May 1, 2012, the Company completed the purchase of the operating assets of Siemens Laserworks, a laser processing operation that will be part of the metals service center segment, for $27.5 million.