



Russel Metals

**Second Quarter
June 30, 2010**

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REPORT TO SHAREHOLDERS

Our second quarter results continued to reflect the improvement in the North American markets with all three of our operating segments experiencing stronger results. Our earnings per share for the second quarter was \$0.31 an increase from earnings per share of \$0.28 in the first quarter of 2010 and adjusted earnings of \$0.10 per share in the second quarter of 2009. Our earnings before interest and taxes improved to \$35 million from \$28 million in the first quarter. The North American steel mills continued to increase capacity and increase prices due to the higher steel raw material costs. Near the end of the quarter, however, this upward momentum stalled as steel prices peaked and prices have subsequently declined for third quarter delivery.

Revenues in our metals service centers increased 12% over the first quarter. This quarter over quarter increase was a result of both demand and pricing with a 4% increase in tons sold and a 6% increase in selling price per ton. Gross margins remained consistent with the first quarter at 23%; however the increased revenues resulted in an improvement to gross margin dollars and segment operating income.

Revenues in our energy tubular products segment decreased 34% over the first quarter as our down-hole operations in Calgary experienced lower sales due to the seasonal spring slowdown. Revenues in the 2010 second quarter approximated revenues in the 2009 second quarter. Gross margins in the second quarter of 2010 improved to 17.1% compared to 11.8% in the first quarter. This increase was due to rising prices and a reversal of inventory reserves taken in 2009 due to stronger market prices.

Revenues in our steel distributors increased 23% over the first quarter to \$61 million. These operations have seen an increase in activity in steel trading as large OEM and service center customers have started to balance purchases with sales levels unlike 2009 where purchases were significantly below shipments and customers reduced their on hand inventories. Margins have increased from 15.2% to 18.6% and the EBIT to sales ratio improved to 11% from 9% in the previous quarter.

Our cash position remains strong with cash of \$284 million at June 30, 2010. During the quarter, we utilized cash to purchase US\$ 8 million of our U.S. Notes on the open market which resulted in a nominal gain. For the six months ended June 30, 2010, we utilized cash of \$61 million for accounts receivable in support of increased sales and \$19 million for the purchase of inventory due to increased volumes and higher prices.

The Board of Directors has approved a quarterly dividend of \$0.25 per common share payable September 15, 2010 for shareholders of record as of August 30, 2010.

OUTLOOK

We will be challenged to maintain the positive momentum experienced in the second quarter, particularly in our service center operations in the summer months but anticipate an improvement in the fall. We continue to look at potential acquisitions, green fields and operational savings.



B.R. Hedges
President and Chief Executive Officer

August 11, 2010

MANAGEMENT'S REPORT TO THE SHAREHOLDERS

The accompanying interim consolidated financial statements, management's discussion and analysis and report to shareholders for the quarter ended June 30, 2010, have been prepared by management and approved by the Audit Committee and the Board of Directors of the Company.

These interim consolidated financial statements were prepared in accordance with Canadian generally accepted accounting principles and, where appropriate, reflect management's best estimates and judgements. Management is responsible for the accuracy, integrity and objectivity of the interim consolidated financial statements and management's discussion and analysis within reasonable limits of materiality and for the consistency of financial data included in the report to shareholders with that contained in the interim consolidated financial statements.

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

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

August 11, 2010



B. R. Hedges
President and Chief Executive Officer



M. E. Britton
Vice President and Chief Financial Officer

CONSOLIDATED BALANCE SHEETS (UNAUDITED)

<i>(millions)</i>	June 30 2010	December 31 2009
ASSETS		
Current		
Cash and cash equivalents	\$ 283.8	\$ 359.6
Accounts receivable	279.9	217.8
Inventories (Note 4)	538.3	517.9
Prepaid expenses and other assets	5.1	4.9
Income taxes	46.7	53.0
	1,153.8	1,153.2
Property, Plant and Equipment	224.1	231.9
Future Income Tax Assets	5.5	5.9
Pensions and Benefits	7.9	8.0
Other Assets (Note 5)	3.9	8.3
Goodwill and Intangibles	28.3	28.4
	\$ 1,423.5	\$ 1,435.7
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current		
Accounts payable and accrued liabilities	\$ 268.3	\$ 252.3
Income taxes payable	1.4	1.4
Current portion long-term debt	1.3	1.3
	271.0	255.0
Derivatives	-	30.9
Long-Term Debt	335.7	340.8
Pensions and Benefits	6.0	5.9
Future Income Tax Liabilities	10.0	9.9
	622.7	642.5
Shareholders' Equity (Note 12)		
Common shares	478.9	478.9
Retained earnings	320.7	315.3
Contributed surplus	12.5	11.4
Accumulated other comprehensive income (loss)	(22.9)	(24.0)
Equity component of convertible debenture	11.6	11.6
	800.8	793.2
	\$ 1,423.5	\$ 1,435.7

ON BEHALF OF THE BOARD,



A. Benedetti
Director



L. Lachapelle
Director

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

CONSOLIDATED STATEMENTS OF EARNINGS (LOSS) (UNAUDITED)

<i>(millions, except per share data)</i>	Quarters ended June 30		Six months ended June 30	
	2010	2009	2010	2009
Revenues	\$ 506.1	\$ 462.5	\$ 1,032.0	\$ 1,104.8
Cost of sales	398.9	440.7	829.9	1,087.3
Gross margin	107.2	21.8	202.1	17.5
Operating expenses	72.4	66.0	141.0	142.6
Earnings (loss) before the following	34.8	(44.2)	61.1	(125.1)
Other income (expense) (Note 6)	(0.2)	4.3	1.3	4.3
Interest expense, net (Note 7)	(6.5)	(4.4)	(13.2)	(9.2)
Earnings (loss) before income taxes	28.1	(44.3)	49.2	(130.0)
(Provision for) recovery of income taxes	(9.4)	19.7	(14.0)	50.4
Net earnings (loss) for the period	\$ 18.7	\$ (24.6)	\$ 35.2	\$ (79.6)
Basic earnings (loss) per common share	\$ 0.31	\$ (0.41)	\$ 0.59	\$ (1.33)
Diluted earnings (loss) per common share	\$ 0.31	\$ (0.41)	\$ 0.59	\$ (1.33)

CONSOLIDATED STATEMENTS OF RETAINED EARNINGS (UNAUDITED)

<i>(millions)</i>	Quarters ended June 30		Six months ended June 30	
	2010	2009	2010	2009
Retained earnings, beginning of the period	\$ 316.9	\$ 397.1	\$ 315.3	\$ 467.0
Net earnings (loss) for the period	18.7	(24.6)	35.2	(79.6)
Dividends on common shares	(14.9)	(14.9)	(29.8)	(29.8)
Retained earnings, end of the period	\$ 320.7	\$ 357.6	\$ 320.7	\$ 357.6

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

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS) (UNAUDITED)

(millions)	Quarters		Six months	
	Ended June 30 2010	2009	Ended June 30 2010	2009
Net earnings (loss) for the period	\$ 18.7	\$ (24.6)	\$ 35.2	\$ (79.6)
Other comprehensive income (loss) (Note 14)				
Unrealized foreign exchange gains (losses) on translation of self-sustaining U.S. operations	15.0	(34.9)	4.8	(21.3)
Unrealized gains (losses) on items designated as net investment hedges	(6.4)	5.3	(0.8)	3.4
Unrealized gains (losses) on items designated as cash flow hedges	-	3.0	(2.5)	5.2
Losses (gains) on derivatives designated as cash flow hedges transferred to net income in the current period	0.3	(1.7)	(0.4)	(4.7)
Other comprehensive income (loss)	8.9	(28.3)	1.1	(17.4)
Comprehensive income (loss)	\$ 27.6	\$ (52.9)	\$ 36.3	\$ (97.0)

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

(millions)	Quarters		Six months	
	Ended June 30 2010	2009	Ended June 30 2010	2009
Accumulated net unrealized foreign currency translation gains and losses				
Balance, beginning of period	\$ (40.2)	\$ 50.5	\$ (30.0)	\$ 36.9
Unrealized foreign exchange gains (losses) on translation of self-sustaining U.S. operations	15.0	(34.9)	4.8	(21.3)
Balance, end of period	(25.2)	15.6	(25.2)	15.6
Accumulated net unrealized gains (losses) on cash flow and net investment hedges				
Balance, beginning of period	8.4	(9.3)	6.0	(12.0)
Transitional adjustment	-	-	-	5.4
Unrealized gains (losses) on items designated as net investment hedges	(6.4)	5.3	(0.8)	3.4
Unrealized gains (losses) on items designated as cash flow hedges	-	3.0	(2.5)	5.2
Losses (gains) on derivatives designated as cash flow hedges transferred to net income in the current period	0.3	(1.7)	(0.4)	(4.7)
Balance, end of period	2.3	(2.7)	2.3	(2.7)
Accumulated other comprehensive income (loss)	\$ (22.9)	\$ 12.9	\$ (22.9)	\$ 12.9

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

CONSOLIDATED CASH FLOW STATEMENTS *(UNAUDITED)*

<i>(millions)</i>	Quarters ended June 30		Six months ended June 30	
	2010	2009	2010	2009
Operating activities				
Net earnings (loss) for the period	\$ 18.7	\$ (24.6)	\$ 35.2	\$ (79.6)
Depreciation and amortization	6.2	6.5	12.5	13.0
Future income taxes	1.2	1.9	3.0	4.0
Gain on investment and sale of long-lived assets	-	(4.3)	(1.5)	(4.5)
Stock-based compensation	0.7	0.5	1.1	0.9
Difference between pension expense and amount funded (Note 10)	-	(0.2)	0.2	(0.3)
Other	0.9	0.1	1.3	0.4
Cash from (used in) operating activities before non-cash working capital	27.7	(20.1)	51.8	(66.1)
Changes in non-cash working capital items				
Accounts receivable	14.9	77.0	(60.8)	182.2
Inventories	(65.4)	155.3	(18.7)	264.8
Accounts payable and accrued liabilities	6.9	(115.4)	15.1	(172.2)
Current income taxes	4.7	(16.2)	11.2	(84.9)
Other	(0.7)	0.8	(0.2)	1.9
Change in non-cash working capital	(39.6)	101.5	(53.4)	191.8
Cash (used in) from operating activities	(11.9)	81.4	(1.6)	125.7
Financing activities				
Increase (decrease) in bank borrowings	-	7.0	-	(17.9)
Dividends on common shares	(14.9)	(14.9)	(29.8)	(29.8)
Repayment of long-term debt	(8.1)	(0.3)	(8.5)	(0.7)
Deferred financing	(0.7)	(2.3)	(0.7)	(2.3)
Swap termination	-	-	(35.2)	-
Cash used in financing activities	(23.7)	(10.5)	(74.2)	(50.7)
Investing activities				
Purchase of property, plant and equipment	(2.1)	(2.9)	(3.4)	(6.7)
Proceeds on sale of property, plant and equipment	0.3	5.0	0.3	5.6
Proceeds on sale of investment (Note 5)	6.0	-	6.0	-
Cash from (used in) investing activities	4.2	2.1	2.9	(1.1)
Effect of exchange rates on cash and cash equivalents	4.1	(6.4)	(2.9)	(5.1)
(Decrease) increase in cash and cash equivalents	(27.3)	66.6	(75.8)	68.8
Cash and cash equivalents, beginning of the period	311.1	47.1	359.6	44.9
Cash and cash equivalents, end of the period	\$ 283.8	\$ 113.7	\$ 283.8	\$ 113.7

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2010 (UNAUDITED)

1. These interim consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles; however, they do not include all of the disclosure requirements for annual consolidated financial statements. These interim consolidated financial statements follow the same accounting policies disclosed in Note 1 to the 2009 annual consolidated financial statements. These interim consolidated financial statements should be read in conjunction with the 2009 annual consolidated financial statements including notes thereto. These interim consolidated financial statements contain all adjustments necessary for a fair presentation of the results for the periods reported.

2. FUTURE ACCOUNTING CHANGES

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

3. ECONOMIC CYCLE

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

4. INVENTORIES

Inventories are recorded at the lower of cost and net realizable value. Cost is determined on an average cost basis. For the quarter ended June 30, 2010, inventories of \$398.9 million (2009: \$440.7 million) were expensed through cost of sales and for the six months ended inventories of \$828.9 million (2009: \$1,087.3 million) were expensed through cost of sales. During the quarter ended June 30, 2010, \$1.9 million of net realizable value write-downs recorded in 2009 were reversed due to price increases on certain products in our energy tubular products segment (six months ended: \$1.9 million).

5. OTHER ASSETS

The Company held an investment in non-bank Canadian asset-backed commercial paper (ABCP) which was included in other assets at December 31, 2009. During the quarter ended June 30, 2010, the Company completed the sale of this investment for net proceeds of \$6.0 million. A gain on the investment of \$1.5 million was recorded in 2010.

6. OTHER INCOME (EXPENSE)

<i>(millions)</i>	Quarters ended June 30		Six months ended June 30	
	2010	2009	2010	2009
Gain on investment (Note 5)	\$ -	\$ -	\$ 1.5	\$ -
Gain on sale of long-lived asset	-	4.3	-	4.3
Ineffectiveness on cash flow hedges	-	-	0.4	-
Other	(0.2)	-	(0.6)	-
	\$ (0.2)	\$ 4.3	\$ 1.3	\$ 4.3

7. INTEREST EXPENSE, NET

<i>(millions)</i>	Quarters ended June 30		Six months ended June 30	
	2010	2009	2010	2009
Interest on long-term debt	\$ 6.9	\$ 4.1	\$ 13.8	\$ 8.2
Other interest (income) expense, net	(0.4)	0.3	(0.6)	1.0
	\$ 6.5	\$ 4.4	\$ 13.2	\$ 9.2

Interest paid in the quarter ended June 30, 2010 was \$0.7 million (2009: \$0.5 million) and in the six months ended was \$13.5 million (2009: \$9.0 million).

8. STOCK-BASED COMPENSATION

During the quarter ended June 30, 2010, the Company issued 289,411 stock options at an exercise price of \$19.84. The assumptions used in the Black-Scholes option pricing model are consistent with those disclosed in Note 14 of the 2009 consolidated financial statements. The fair value per option granted was \$5.31. The following is a continuity of the Company's stock options outstanding:

	Number of Options		Weighted Average Exercise Price	
	2010	2009	2010	2009
Balance, January 1	2,702,084	2,745,926	\$ 24.52	\$ 26.46
Forfeited	(10,450)	(325,000)	24.91	33.81
Balance, March 31	2,691,634	2,420,926	\$ 24.71	\$ 25.47
Granted	289,411	-	19.84	-
Exercised	(150)	(2,000)	16.58	9.15
Forfeited	(2,600)	(8,000)	24.36	29.13
Balance, June 30	2,978,295	2,410,926	\$ 24.06	\$ 25.47
Exercisable	2,044,083	1,520,721	\$ 24.34	\$ 23.81

9. SEGMENTED INFORMATION

<i>(millions)</i>	Quarters ended June 30		Six months ended June 30	
	2010	2009	2010	2009
Segment Revenues				
Metals service centers	\$ 312.2	\$ 274.3	\$ 592.2	\$ 599.7
Energy tubular products	129.2	130.1	323.8	361.1
Steel distributors	61.3	56.0	111.2	140.8
	502.7	460.4	1,027.2	1,101.6
Other	3.4	2.1	4.8	3.2
	\$ 506.1	\$ 462.5	\$ 1,032.0	\$ 1,104.8
Segment Operating Profit (Loss)				
Metals service centers	\$ 19.5	\$ 2.3	\$ 34.6	\$ (33.1)
Energy tubular products	10.7	(48.7)	21.9	(43.8)
Steel distributors	6.7	5.2	11.1	(41.5)
	36.9	(41.2)	67.6	(118.4)
Corporate expenses	(3.6)	(3.4)	(7.5)	(6.4)
Other	1.5	0.4	1.0	(0.3)
	\$ 34.8	\$ (44.2)	\$ 61.1	\$ (125.1)

<i>(millions)</i>	June 30 2010	December 31 2009
Identifiable assets		
Metals service centers	\$ 601.6	\$ 515.7
Energy tubular products	348.3	375.0
Steel distributors	106.3	87.7
Identifiable assets by segment	1,056.2	978.4
Assets not included in segments		
Cash	283.8	359.6
Income tax assets	52.2	58.9
Pension and benefits and other assets	11.8	16.3
Corporate and other operating assets	19.5	22.5
Total assets	\$ 1,423.5	\$ 1,435.7

10. PENSION AND BENEFITS

For the quarter ended June 30, 2010 the total benefit cost from the defined benefit pension plans relating to employee future benefits was \$1.0 million (2009: \$0.6 million) and for the six months ended June 30, 2010 the cost was \$2.0 million (2009: \$1.2 million).

11. FINANCIAL INSTRUMENTS

a) On January 22, 2010, the Company terminated its US\$100 million cross currency swaps. The Company paid \$35.2 million to its swap counterparties to terminate the swaps which represented the fair value of the swaps. Concurrent with the termination of the swaps, the Company designated its entire US\$175 million Senior Notes as a hedge of its net investment in foreign subsidiaries. During the quarter ended June 30, 2010, the Company repurchased US\$7.8 million Senior Notes and the Company designated the remaining US\$167.2 million Senior Notes, as a hedge of its net investment in foreign subsidiaries. During the quarter ended June 30, 2010, \$0.4 million (six months ended: \$0.8 million) was reclassified from accumulated other comprehensive income (loss) to net earnings related to the swap.

As at June 30, 2010, the Company was contractually obligated to make payments under its long-term debt agreement and operating lease obligations that come due during the following periods:

<i>(millions)</i>	Long-Term Debt Maturities	Long-Term Debt Interest	Operating Lease Obligations	Total
2010 from June 30, 2010	\$ -	\$ 12.6	\$ 6.5	\$ 19.1
2011	-	25.2	10.9	36.1
2012	-	25.1	9.2	34.3
2013	-	25.0	7.0	32.0
2014	177.3	18.4	5.0	200.7
2015 and beyond	175.0	23.9	6.9	205.8
Total	\$ 352.3	\$ 130.2	\$ 45.5	\$ 528.0

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

As at June 30, 2010, the Company was contractually obligated to make payments under capital leases as follows:

(millions)

2010 from June 30, 2010	\$ 0.9
2011	1.6
2012	1.5
2013	1.5
2014	0.7
2015 and beyond	0.2
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Total minimum lease payments	6.4
Interest at rates varying between 4.6% and 17.3%	(0.9)
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Net minimum lease payments	5.5
Less: current portion	(1.3)
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Long-term portion	\$ 4.2

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

(millions)	June 30, 2010			December 31, 2009		
	Level One	Level Two	Level Three	Level One	Level Two	Level Three
Financial assets and liabilities						
Cash and cash equivalents	\$ 283.8	\$ -	\$ -	\$ 359.6	\$ -	\$ -
Asset-backed commercial paper	-	-	-	-	-	4.5
Swaps	-	-	-	-	(34.7)	-
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Total	\$ 283.8	\$ -	\$ -	\$ 359.6	\$ (34.7)	\$ 4.5

During the quarter ended June 30 2010, the Company completed the sale of its non-bank Canadian ABCP for net proceeds of \$6.0 million. During the quarter ended March 31, 2010, the Company terminated its swaps.

b) Credit risk

The Company, in the normal course of business, is exposed to credit risk relating to accounts receivable from its customers. This risk is mitigated by the fact that its customer base is geographically diverse and in different industries. At June 30, 2010, trade accounts receivable greater than 90 days represented less than 2.5% of trade accounts receivable. The Company is also exposed to credit risk from the potential default by any of its counterparties on its foreign exchange forward contracts and short-term investments. The Company mitigates this risk by utilizing multiple counterparties.

c) Interest rate risk

The Company is not exposed to significant interest rate risk. The Company's long-term debt is at fixed rates. The Company's bank borrowings, net of cash and cash equivalents, are used to finance working capital, which is short-term in nature, at floating interest rates.

d) Foreign exchange risk

The Company uses foreign exchange contracts with maturities of less than a year to manage foreign exchange risk on certain future committed cash outflows. At June 30, 2010, the Company had outstanding forward foreign exchange contracts, whose fair value approximates their contract value, in the amount of US\$4.5 million, maturing in 2010 (2009: US\$1.0 million).

In order to mitigate its foreign exchange exposure, the Company has designated US\$167.2 million Senior Notes as a hedge of its net investment in foreign subsidiaries.

12. SHAREHOLDERS' EQUITY

As at June 30, 2010, 59,698,840 common shares in the amount of \$478.9 million, were issued and outstanding.

	Quarters ended June 30		Six months ended June 30	
	2010	2009	2010	2009
Weighted average shares outstanding				
Basic	59,698,764	59,696,213	59,698,727	59,695,754
Dilution impact of stock options	111,674	49,634	97,059	55,414
Diluted weighted average shares outstanding	59,810,438	59,745,847	59,795,786	59,751,168

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

The continuity of contributed surplus is as follows:

(millions)	2010	2009
Balance, January 1	\$ 11.4	\$ 9.4
Stock-based compensation expense	1.1	0.9
Balance June 30	\$ 12.5	\$ 10.3

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

13. CREDIT FACILITY

On June 24, 2010, the Company extended its credit agreement with a syndicate of banks to expire on June 24, 2012. The renewed agreement provides the same credit availability as the previous facility and provides for a reduction in interest and other fees. In addition, on July 28, 2010 the Company renewed its US subsidiary credit facility and increased the maximum availability under this facility to US\$45 million.

14. OTHER COMPREHENSIVE INCOME (LOSS)

Unrealized gains (losses) on items designated as net investment hedges are net of income taxes of \$1.3 million and \$0.1 million (2009: \$(0.6) million and \$(0.4) million) for the three and six months ended June 30, 2010, respectively.

Unrealized gains (losses) on items designated as cash flow hedges are net of income taxes of \$nil and \$1.2 million (2009: \$(3.5) million and \$(2.1) million) for the three and six months ended June 30, 2010, respectively.

Gains and losses on derivatives designated as cash flow hedges transferred to net income in the current period are net of income taxes of \$(0.1) million and \$0.3 million (2009: \$3.0 million and \$1.9 million) for the three and six months ended June 30, 2010, respectively.

15. SUPPLEMENTAL CASH FLOW INFORMATION

Income tax paid in the quarter ended June 30, 2010 was \$2.3 million (2009: \$1.5 million) and the six months ended June 30, 2010 was \$5.0 million (2009: \$36.7 million).

RUSSEL METALS INC.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS FOR THE SIX MONTHS ENDED JUNE 30, 2010

This Management's Discussion and Analysis of Financial Condition and Results of Operations of Russel Metals Inc. and its subsidiaries provides information to assist readers of, and should be read in conjunction with, the Interim Consolidated Financial Statements for the six months ended June 30, 2010, including the notes thereto, and the Management's Discussion and Analysis and the audited Consolidated Financial Statements for the year ended December 31, 2009, including the notes thereto. In the opinion of management, the Interim Consolidated Financial statements contain all adjustments necessary for a fair presentation of the results for such periods. The results of operations for the periods shown are not necessarily indicative of what our results will be for the full year. Our annual and interim financial statements have been prepared in accordance with Canadian generally accepted accounting principles (GAAP) and are reported in Canadian dollars. All dollar references in this report are in Canadian dollars unless otherwise stated.

Additional information related to Russel Metals Inc., including our Annual Information Form, may be obtained from SEDAR at www.sedar.com or on our website at www.russelmetals.com.

Unless otherwise stated, the discussion and analysis contained herein are as of August 11, 2010.

FORWARD-LOOKING STATEMENTS

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

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.

The second quarter of 2010 built on the positive momentum from March 2010, which resulted in basic earnings per share of \$0.31, compared to a basic loss per share of \$0.41 for the second quarter of 2009. Our earnings per share for the second quarter of 2009, adjusted for inventory write-downs and a gain of sale of a property were approximately \$0.10. Volumes have started to improve but are at historically low levels. Steel prices were rising during the second quarter of 2010; however, in June 2010 price reductions were announced by the mills for third quarter shipments.

Operating income improved compared to the first quarter of 2010 largely due to strong gross margins on higher average selling prices in all three segments.

Our basic earnings per share were \$0.59 for the six months ended June 30, 2010 compared to a basic loss per share of \$1.33 for the same period in 2009. Excluding inventory write-downs and a gain on sale of a property, our adjusted earnings were \$0.20 per share for the six months ended June 30, 2009.

RESULTS OF OPERATIONS

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

<i>(millions, except percentages)</i>	Quarters Ended June 30			Six Months Ended June 30		
	2010	2009	% Change	2010	2009	% Change
<i>Segment Revenues</i>						
Metals service centers	\$ 312.2	\$ 274.3	14%	\$ 592.2	\$ 599.7	(1%)
Energy tubular products	129.2	130.1	(1%)	323.8	361.1	(10%)
Steel distributors	61.3	56.0	9%	111.2	140.8	(21%)
Other	3.4	2.1		4.8	3.2	
	\$ 506.1	\$ 462.5	9%	\$ 1,032.0	\$ 1,104.8	(7%)
<i>Segment Operating Profits (Loss)</i>						
<i>Excluding Inventory Write-down (Reversal)</i>						
Metals service centers	\$ 19.5	\$ 3.9	400%	\$ 34.6	\$ (2.7)	1381%
Energy tubular products	8.8	5.9	49%	20.0	27.1	(26%)
Steel distributors	6.7	5.2	29%	11.1	7.9	41%
Corporate expenses	(3.6)	(3.4)	(6%)	(7.5)	(6.4)	(17%)
Other	1.5	0.4		1.0	(0.3)	
Operating profits	\$ 32.9	\$ 12.0	174%	\$ 59.2	\$ 25.6	131%
<i>Inventory Write-down (Reversal)</i>						
Metals service centers	\$ -	\$ 1.6		\$ -	\$ 30.4	
Energy tubular products	(1.9)	54.6		(1.9)	70.9	
Steel distributors	-	-		-	49.4	
	\$ (1.9)	\$ 56.2		\$ (1.9)	\$ 150.7	
<i>Segment Operating Profits (Loss)</i>						
Metals service centers	\$ 19.5	\$ 2.3	748%	\$ 34.6	\$ (33.1)	205%
Energy tubular products	10.7	(48.7)	122%	21.9	(43.8)	150%
Steel distributors	6.7	5.2	29%	11.1	(41.5)	127%
Corporate expenses	(3.6)	(3.4)	(6%)	(7.5)	(6.4)	17%
Other	1.5	0.4		1.0	(0.3)	
Operating profits (Loss)	\$ 34.8	\$ (44.2)	179%	\$ 61.1	\$ (125.1)	149%
<i>Segment Gross Margin as a % of Revenues</i>						
<i>Excluding Inventory Write-down (Reversal)</i>						
Metals service centers	22.5%	18.6%		22.5%	15.8%	
Energy tubular products	15.6%	12.1%		13.3%	14.6%	
Steel distributors	18.6%	16.8%		17.1%	12.3%	
Total operations	20.8%	16.9%		19.4%	15.2%	
<i>Segment Operating Profits (Loss) as a % of Revenues</i>						
<i>Excluding Inventory Write-down (Reversal)</i>						
Metals service centers	6.2%	1.4%		5.8%	(0.5%)	
Energy tubular products	6.8%	4.5%		6.2%	7.5%	
Steel distributors	10.9%	9.3%		10.0%	5.6%	
Total operations	6.5%	2.6%		5.7%	2.3%	

METALS SERVICE CENTERS

a) *Description of operations*

We provide processing and distribution services to a broad base of approximately 30,000 end users through a network of 50 Canadian locations and 12 U.S. locations. Our metals service centers carry a broad line of products in a wide range of sizes, shapes and specifications, including carbon hot rolled and cold finished steel, pipe and tubular products, stainless steel and aluminum. We purchase these products primarily from steel producers in North America and process and package them in accordance with end user specifications. We service all major geographic regions of Canada and the Southeastern and Midwestern regions in the United States. Within Canada, our service centers operate under the names Russel Metals, Métaux Russel, A.J. Forsyth, Acier Leroux, Acier Loubier, Acier Richler, B&T Steel, Leroux Steel, Mégantic Métal, Russel Metals Specialty Products, Métaux Russel Produits Spécialisés, McCabe Steel and York-Ennis. Our U.S. service centers operate under the names Russel Metals Williams Bahcall, JMS Russel Metals, Norton Metals and Baldwin International.

b) *Factors affecting results*

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

Steel pricing fluctuates significantly throughout the steel cycle with the last peak being in mid-2008 followed by a decline to mid-2009 with prices less than 50% of the 2008 peak. This steel price decline as well as a decline in demand for steel caused by the financial and economic crisis, negatively impacted our results in 2009. Steel prices increased during the first half of 2010; however, due to a lack of demand, price reductions have occurred in the third quarter of 2010. Steel prices are influenced by overall demand, trade sanctions, iron ore pricing, scrap steel pricing and product availability. Supply side management, practiced by steel producers in North America, and international supply and demand, which impacts steel imports, affect product availability. Trade sanctions are initiated either by steel mills or by government agencies in North America and to a much lesser extent worldwide.

Demand is significantly affected by economic cycles with revenues and operating profit fluctuating with the level of general business activity in the markets serviced. We are most impacted by the manufacturing, resource and construction segments of the Canadian economy. Tons shipped for the first half of 2010 were approximately 14% higher than the first half of 2009. Tons shipped for the first half of 2010 represent 79% of 2008 average levels.

Canadian service centers, which represent the majority of our metals service center operations, have operations in all regions of Canada and are particularly affected by regional general economic conditions. Our large market share and our diverse customer base of approximately 15,000 customers suggests that our results should fluctuate with the performance of the regional economies of Canada.

Our U.S. operations have approximately 15,000 customers. The addition of the JMS Russel Metals operations in 2007 and the Norton Metals operations in 2008 increased our presence in the U.S.

The change in the Canadian dollar in the first half of 2010 versus the same period in 2009 has decreased revenues and profits for our U.S. operations translated to Canadian dollars. Revenues and profits of our U.S. operations reported for the six months ended June 30, 2010 were converted at \$1.0343 per US\$1 compared to \$1.2062 per US\$1 for the same period of 2009.

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 June 30, 2010 Compared to June 30, 2009*

Revenues for the three months ended June 30, 2010, increased 14% to \$312 million compared to the same period in 2009. Tons shipped in metals service centers in the second quarter of 2010 were approximately 14% higher than the second quarter of 2009. Tons shipped in the quarter were 4% higher than the first quarter of 2010; however, they have been consistent on a daily basis since March 2010. The average selling price of metal for the three months ended June 30, 2010 was approximately 2% lower than the average selling price for the three months ended June 30, 2009. Average selling price in the second quarter of 2010 was 6% higher than the first quarter of 2010.

Gross margin as a percentage of revenues was 22.5% for the three months ended June 30, 2010, consistent with the first quarter of 2010. Our average cost of inventory increased in the quarter, due to higher steel prices from the mills. Gross margin dollars increased compared to the first quarter of 2010, due to a similar margin percentage on higher selling prices.

Operating expenses for the second quarter of 2010 were approximately 8% higher than in the second quarter of 2009, mainly related to higher compensation and freight costs due to increased volumes.

Metals service centers operating profit for the three months ended June 30, 2010 of \$20 million compares to an operating profit of \$4 million, before inventory write-downs, for the same period in 2009, mainly related to higher volumes and selling prices. Operating profit for the second quarter of 2010 improved by \$4 million compared to the first quarter of 2010, driven by higher selling prices.

d) *Metals service centers segment results -- Six Months Ended June 30, 2010 Compared to June 30, 2009*

Revenues for the six months ended June 30, 2010, were \$592 million and approximate revenues for the six months ended June 30, 2009. Increased tons in 2010 were offset by lower selling prices.

Tons shipped in the six months ended June 30, 2010, were approximately 14% higher than for the same period of 2009. Average selling price for the six months ended June 30, 2010 was approximately 14% lower than for the six months ended to June 30, 2009 due to higher selling prices in the first quarter of 2009.

Gross margin as a percentage of revenues, was 22.5% for the six months ended June 30, 2010 compared to 15.8%, excluding inventory write-downs, for the same period in 2009. The increase reflects the improved economic conditions and lower priced inventories.

Operating expenses for the six months ended June 30, 2010 increased 1%.

Metals service centers operating profit for the six months ended June 30, 2010 improved to \$35 million compared to a loss for the same period in the prior year. Improved economic conditions, gross margins, and volume 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, Canada and Colorado in the U.S. A large portion of our inventories are located in third party warehouses ready for distribution to customers in any region of North America. In addition, we operate from five Canadian and two U.S. facilities. We purchase our products either from the pipe processing arms of North American steel mills, independent manufacturers of pipe and pipe accessories or international steel mills. Our energy tubular products segment operates under the names Comco Pipe and Supply Company, Fedmet Tubulars, Triumph Tubular & Supply, Pioneer Pipe and Spartan Steel.

b) Factors affecting results

The following is a general discussion of the significant factors affecting our energy tubular products segment results. More specific information on how these factors impacted the second quarter of 2010 and 2009 is found in the sections that follow.

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

Pricing of metal is influenced by overall demand, trade sanctions and product availability. Trade sanctions are initiated either by steel mills or by government agencies in North America. Both Canadian and U.S. governments have imposed duties on certain Chinese pipe. These trade actions tend to reduce imports of these products as higher prices are paid at the time of import.

Our Canadian operations were affected by the U.S. dollar exchange rate since some products are sourced outside of Canada and are priced in U.S. dollars. Movement in the Canadian dollar impacts the cost of inventory and cost of sales.

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

c) Energy tubular products segment results -- Three Months Ended June 30, 2010 Compared to June 30, 2009

Our operations that service line pipe and drilling customers had a revenue increase of 30% for the second quarter of 2010 versus the same quarter last year. These positive results were offset by a decline in our operations servicing the oil sands. Our overall segment revenue was consistent with the same period in 2009.

Gross margin as a percentage of revenue for the three months ended June 30, 2010 was 15.6% compared to 12.1% for the same period in 2009, excluding inventory write-downs and reversals. Improved demand and pricing had a positive impact on 2010 gross margin. Due to improved pricing of pipe product at our U.S. operations in the second quarter of 2010, we reversed \$2 million of inventory reserves recorded in 2009.

Operating expenses were \$2 million higher in the second quarter of 2010 compared to the second quarter of 2009, mainly due to compensation costs.

This segment generated an operating profit of \$9 million for the three months ended June 30, 2010 compared to \$6 million for the same period in 2009, excluding inventory write-downs and reversals.

d) Energy tubular products segment results -- Six Months Ended June 30, 2010 Compared to June 30, 2009

For the six months ended June 30, 2010, our operations that service line pipe and drilling customers had a revenue increase of 29% due to volume increases partially offset by lower selling prices and lower foreign exchange rates for revenue of our U.S. operations. Our operations servicing the oil sands had a revenue decline of 57% in the first half of 2009 due to capital projects which were completed and new projects being delayed, resulting in a 10% decline in revenue for the energy tubular products segment.

Gross margin as a percentage of revenue, was 13.3% for the six months ended June 30, 2010 compared to 14.6% for the same period in 2009, excluding inventory write-downs and reversals. The lower margins were driven by higher priced inventory and more competitive selling prices during the first quarter of 2010, due to excess inventory in the industry and weak demand. Pricing improved during the second quarter of 2010 although activity remained seasonally slow.

Operating expenses, excluding the change in the U.S. dollar exchange rate, were 4% lower for the six months ended June 30, 2010 compared to the six months ended June 30, 2009.

Operating profits were \$20 million for the six months ended June 30, 2010 compared to \$27 million for the same period in 2009, excluding inventory write-downs and reversals. Strong results in the first quarter of 2009 were not repeated in 2010, impacting year-to-date results even though the second quarter of 2010 was positive compared to 2009.

STEEL DISTRIBUTORS

a) *Description of operations*

Our steel distributors act as master distributors selling steel in large volumes to other steel service centers and equipment manufacturers mainly on an "as is" basis. Our U.S. operation processes some coil for its customer base at its cut-to-length facility in Houston, Texas. Our steel distributors source their steel both domestically and off shore. The international sourcing provides our other business segments with valuable insight regarding international pricing trends and their potential impact on steel markets in North America.

The main steel products sourced by this segment are structural beam, plate, coils, pipe and tubing; however, product volumes vary based on the economy and trade actions in North America. Our operations in this sector are Wirth Steel and Sunbelt Group. Arrow Steel, a division of Sunbelt Group, processes coils.

b) *Factors affecting results*

The following is a general discussion of the significant factors affecting our steel distributors. More specific information on how these factors impacted the second quarter of 2010 and 2009 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 were affected by the U.S. dollar exchange rate since some products are sourced outside of Canada and are priced in U.S. dollars. Movements in the Canadian dollar can result in some products that we have purchased being subsequently available in the marketplace at a lower cost.

The results of our Canadian operations are impacted by the Financial Instruments accounting standard which considers transactions between a buyer and a seller in a currency that is not the functional currency of either party to be a foreign currency derivative. This creates timing differences recorded as a foreign exchange gain or loss in operating expenses as our Canadian operations purchase inventory in currencies that result in embedded derivatives. Volatility in exchange rates causes the foreign currency gain or loss to vary significantly from reporting period to reporting period. These gains or losses recorded in operating expenses will reverse in future periods.

Demand for steel that is sourced off shore fluctuates significantly and is mainly driven by price and product availability in North America. Our steel distributors have a significant number of customers who buy from them on a periodic basis, which can result in large fluctuations in revenues reported from period to period.

c) *Steel distributors segment results -- Three Months Ended June 30, 2010 Compared to June 30, 2009*

Steel distributors revenues, excluding changes related to the change in foreign exchange, increased 20% for the three months ended June 30, 2010 compared to the three months ended June 30, 2009 due to more demand of product sourced for specific customers as destocking has moderated and selling prices are increasing.

Gross margin as a percentage of revenues, was 18.6% for the three months ended June 30, 2010 compared to 16.8% for the three months ended June 30, 2009 and 15.2% for the three months ended March 31, 2010. Rising steel prices positively impacted the gross margin obtained on inventory in the second quarter of 2010.

Operating expenses were \$1 million higher for the second quarter of 2010 compared to the second quarter of 2009, mainly related to variable compensation costs.

Operating profit for the three months ended June 30, 2010 was \$7 million, compared to \$5 million for the three months ended June 30, 2009. The 2010 results reflect higher volumes at higher selling prices resulting in higher gross margins.

**d) *Steel distributors segment results -- Six Months Ended
June 30, 2010 Compared to June 30, 2009***

Revenues for the six months ended June 30, 2010, adjusted for exchange rate changes, were 13% lower than the six months ended June 30, 2009 mainly due to lower volumes in the first quarter of 2010. Activity in the second quarter of 2010 increased; however, it was still impacted by uncertainty of steel prices and short lead times from North American mills, which tends to result in our customers sourcing supply in North America only.

Gross margin dollars increased due to higher gross margins on lower volumes year-to-date.

Operating expenses in the six months ended June 30, 2010 compared to the same period in 2009 were \$1 million lower, mainly due to lower foreign exchange losses than were reported in 2009.

Operating profit for the six months ended June 30, 2010 was \$11 million compared to \$8 million for the six months ended June 30, 2009, excluding inventory write-downs.

***Corporate Expenses -- Three and Six Months Ended
June 30, 2010 Compared to June 30, 2009***

Corporate expenses were consistent for the three months ended June 30, 2010, versus the same period in 2009.

Corporate expenses increased by \$1 million for the six months ended June 30, 2010 compared to the same period in 2009. The increase mainly related to accruals for increases in value of deferred and restricted stock units, an issue of stock options in the second quarter of 2010 and higher fees related to our credit facility.

***Other -- Three and Six Months Ended
June 30, 2010 Compared to June 30, 2009***

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

***Consolidated Results -- Three and Six Months Ended
June 30, 2010 Compared to June 30, 2009***

Operating profits from operations were \$33 million for the three months ended June 30, 2010, compared to \$12 million for the three months ended June 30, 2009. Operating profits were \$59 million for the six months ended June 30, 2010 compared to \$26 million for the same period in 2009. Improved volumes and increasing steel prices in 2010 compared to declining steel prices in 2009 was the most significant factor impacting the improved results. The above results exclude inventory write-downs and reversals.

INTEREST EXPENSE

Consolidated interest expense for the three months ended June 30, 2010 was \$7 million compared to \$4 million for the three months ended June 30, 2009. The increase was primarily due to additional long-term debt interest expense relating to the convertible debentures issued in October 2009 partially offset by the impact of a lower exchange rate on the interest related to our U.S. Senior Notes. In addition, we had a \$1 million decrease in interest expense on short-term bank debt as we were not borrowing under our bank facilities in the second quarter of 2010.

INCOME TAXES

We recorded a provision for income taxes of \$9 million for the second quarter of 2010. Our income tax rate for the three months ended June 30, 2010 was 33.4% and 28.5% for the six months ended June 30, 2010. Our estimated effective income tax rate is 33%. The difference for the six months is mainly a result of the gain on asset-backed commercial paper, which was not subject to tax, the recognition of income tax benefits on previously unrecorded capital losses related to foreign exchange gains on our U.S. Senior Notes and other non-deductible items.

NET EARNINGS (LOSS)

Net earnings for the second quarter of 2010 were \$19 million compared to a net loss of \$25 million for the second quarter of 2009. Basic earnings per share for the second quarter of 2010 was \$0.31 compared to a \$0.41 loss per share for the second quarter of 2009. Basic earnings per share for the six months ended June 30, 2010 was \$0.59 compared to a basic loss per share of \$1.33 for the six months ended June 30, 2009.

SHARES OUTSTANDING AND DIVIDENDS

The weighted average number of common shares outstanding for the second quarter of 2010 was 59,698,764 compared to 59,696,213 for the second quarter of 2009. The weighted average number of common shares outstanding for the six months ended June 30, 2010 was 59,698,727 compared to 59,695,754 for the six months ended June 30, 2009. As at June 30, 2010 and August 11, 2010, we had 59,698,840 common shares outstanding.

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

Our U.S. Senior Notes indenture provides that any dividend payment in excess of \$0.08 per common share per quarter is considered a restricted payment. We currently have a basket of approximately \$252 million available for restricted payments. The basket is adjusted for 50% of net earnings or losses on a quarterly basis unless accumulated losses since March 2004 exceed earnings, in which case 100% of losses are deducted. Share buybacks deplete the basket and proceeds for shares issued increase the basket.

In June 2010, we extended our syndicated bank facility to mature in June 2012. The amendment has reduced the fees and modified the fixed charge coverage ratio to exclude dividends from the calculation. Our ability to pay 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 our levels of accounts receivable and inventories, has traditionally been in excess of borrowings and four times the current dividend.

EBITDA

The following table shows the reconciliation of net earnings (loss) to EBITDA and adjusted EBITDA:

<i>(millions)</i>	Quarters		Twelve Months	
	2010	2009	2010	2009
Net earnings (loss) for the period	\$ 18.7	\$ (24.6)	\$ 22.8	\$ 40.9
Provision for (recovery of) income taxes	9.4	(19.7)	6.0	7.1
Interest expense, net	6.5	4.4	24.2	15.4
Earnings (loss) before interest and income taxes (EBIT)	34.6	(39.9)	53.0	63.4
Inventory write-downs (reversals), net	(1.9)	56.2	6.1	150.7
Asset impairment	-	-	35.4	-
Adjusted EBIT	\$ 32.7	\$ 16.3	\$ 94.5	\$ 214.1
Depreciation and amortization	\$ 6.2	\$ 6.5	\$ 25.2	\$ 25.0
Earnings (loss) before interest, income taxes, depreciation and amortization (EBITDA)	\$ 40.8	\$ (33.4)	\$ 78.2	\$ 88.4
Adjusted EBITDA	\$ 38.9	\$ 22.8	\$ 119.7	\$ 239.1

We believe that EBITDA may be useful in assessing our operating performance and as an indicator of our ability to service or incur indebtedness, make capital expenditures and finance working capital requirements. The items excluded in determining EBITDA are significant in assessing our operating results and liquidity. Therefore, EBITDA should not be considered in isolation or as an alternative to cash from operating activities or other combined income or cash flow data prepared in accordance with GAAP.

CAPITAL EXPENDITURES

Capital expenditures were \$3 million for the six months ended June 30, 2010 compared to \$7 million in same period of 2009. Depreciation expense was \$12 million for the six months ended June 30, 2010 and 2009.

Capital expenditures mainly relate to the replacement of capital items, the purchase of additional processing equipment across a broad base of our operations and upgrades to our existing facilities and computer systems. Our expectation is for capital expenditures to approximate depreciation expense over the long term. The current low capital expenditure levels are associated with lower volumes resulting in excess capacity on our current equipment and less need for new equipment.

LIQUIDITY

At June 30, 2010, we had cash of \$284 million compared to \$360 million at December 31, 2009.

We consumed net cash of \$27 million in the quarter and \$76 million for the six months ended June 30, 2010. Our net cash position decreased primarily due to a payment of \$35 million to terminate the swaps on our U.S. Senior Notes, \$30 million for dividend payments and \$8 million for the repurchase of U.S. 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 current economic climate and thus it is possible to experience increased days outstanding for accounts receivable and additional bad debts, which may affect the timing of collections. Total assets were \$1.4 billion at June 30, 2010 and December 31, 2009. At June 30, 2010, current assets excluding cash represented 76% of our total assets excluding cash, versus 74% at December 31, 2009.

Cash used in operating activities was \$2 million for the six months ended June 30, 2010 compared to cash generated of \$126 million for the six months ended June 30, 2009. During the six months ended June 30, 2010, we had a \$53 million decrease in cash for working capital compared to a \$192 million increase in 2009. This use of cash for working capital as earnings increase is consistent with our expectations.

Cash utilized for inventory was \$65 million in the second quarter of 2010, mainly related to increased tons in all three segments.

<i>Inventory by Segment</i>	June 30 2010	Mar. 31 2010	Dec. 31 2009	June 30 2009
Metals service centers	\$ 206	\$ 191	\$ 170	\$ 178
Energy tubular products	257	234	286	374
Steel distributors	75	42	62	92
Total operations	\$ 538	\$ 467	\$ 518	\$ 644

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

<i>Inventory Turns</i>	Quarters Ended				
	June 30 2010	Mar. 31 2010	Dec. 31 2009	Sept. 30 2009	June 30 2009
Metals service centers	4.7	4.5	4.4	4.9	5.0
Energy tubular products	1.7	2.9	1.9	1.2	1.2
Steel distributors	2.7	4.1	2.6	2.6	2.0
Total operations	3.0	3.7	2.8	2.5	2.4

Our metals service centers have more tons of inventory priced at a higher average price. Inventory has been increased to align with increased sales as volumes increased in 2010 compared to 2009. Based on information published by the Metals Service Center Institute in its monthly Metals Activity Report, average inventory turns based on tons for the three months ended June 30, 2010 for U.S. service centers and for Canadian service centers were 5.2 and 4.3 turns, respectively.

Our energy tubular products operations increased inventory in the second quarter of 2010 in anticipation of third quarter sales. Higher inventory and reduced revenues in the quarter decreased inventory turns.

Our steel distributors segment has increased inventory in the second quarter of 2010, due to increasing steel demand and pricing, which decreased turns.

Increased revenues, a result of higher volumes and selling prices, utilized cash of \$61 million for accounts receivable for the six months ended June 30, 2010. We remain cautious concerning our customers ability to access funding to operate their businesses over this current business cycle. Accounts receivable represent 20% of our total assets at June 30, 2010.

During the six months ended June 30, 2010, we made income tax payments of \$5 million compared to payments of \$37 million for the six months ended June 30, 2009. Our current income tax asset of \$47 million mainly represents refunds receivable for losses to be carried back against prior years' taxable income. In July 2010, we received \$41 million related to this receivable.

During the six months ended June 30, 2010, we utilized cash of \$3 million for capital expenditures and \$30 million for common share dividends. During the six months ended June 30, 2009, we utilized cash of \$7 million for capital expenditures and \$30 million for common share dividends.

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

FREE CASH FLOW

<i>(millions)</i>	Quarters		Six Months	
	Ended June 30 2010	2009	Ended June 30 2010	2009
Cash from (used in) operating activities before working capital	\$ 27.7	\$ (20.1)	\$ 51.8	\$ (66.1)
Purchase of fixed assets	(2.1)	(2.9)	(3.4)	(6.7)
	25.6	(23.0)	48.4	(72.8)
Non-cash inventory write-down (reversals), net	(1.9)	56.2	(1.9)	150.7
	\$ 23.7	\$ 33.2	\$ 46.5	\$ 77.9

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

CASH, DEBT AND CREDIT FACILITIES

Debt

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

The \$175 million convertible debenture has been split between debt and equity. The amount allocated to equity was \$12 million. The equity portion represents the valuation of the holders' option to convert the convertible debentures into common shares. The equity portion and debt issue costs are charged to interest expense.

During the second quarter of 2010, we purchased US\$8 million of our U.S. Senior Notes. The face value outstanding at June 30, 2010 was US\$167 million.

Cash and Bank Credit Facilities

<i>As at June 30, 2010 (millions)</i>	Russel Metals Facility	U.S. Subsidiary Facility	Total
Bank loans	\$ -	\$ -	\$ -
Cash net of outstanding cheques	278	6	284
Net cash	278	6	284
Letters of credit	(23)	(6)	(29)
	\$ 255	\$ -	\$ 255
Facilities			
Borrowings and letters of credit	\$ 202	\$ 13	\$ 215
Letters of credit facility	50	19	69
Facilities availability	\$ 252	\$ 32	\$ 284
Available line based on borrowing base	\$ 252	\$ 32	\$ 284

During the second quarter of 2010, the Russel Metals facility with a syndicate of Canadian and U.S. banks was extended to June 24, 2012. In July 2010, the U.S. subsidiary facility was renewed and increased to US\$45 million with an expiry of July 2011.

These facilities are available on a revolving basis, based on specified percentages of our eligible accounts receivable and inventories. At June 30, 2010, we had no borrowings and had letters of credit of \$23 million under the Russel Metals facility compared to \$44 million of borrowings and letters of credit of \$14 million at June 30, 2009. At June 30, 2010, the U.S. subsidiary had no borrowings and had letters of credit of US\$6 million compared to no borrowings and letters of credit of US\$3 million at June 30, 2009.

Based on cash, cash equivalents and our bank facilities, we have access to approximately \$499 million of cash based on our June 30, 2010 balances. The use of our bank facilities has been predominantly to fund working capital requirements and trade letters of credit for inventory purchases. As steel prices and demand declined, cash generated from accounts receivable and inventory was utilized to reduce bank borrowings. These lines will be used to support increases in working capital when volumes and steel prices increase.

CONTRACTUAL OBLIGATIONS

As at June 30, 2010, we were contractually obligated to make payments under our long-term debt agreements, capital leases, and operating lease obligations that come due in the future. See the notes to the financial statements for future obligations by year.

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

OFF-BALANCE SHEET ARRANGEMENTS

Our off-balance sheet arrangements consist of the letters of credit disclosed in the bank credit facilities table and operating lease obligations disclosed in the financial instruments note to the financial statements.

We have multiple defined benefit pension plans in Canada, as disclosed in Note 18 to our 2009 annual consolidated financial statements. For the six month ended June 30, 2010, we contributed \$2 million to these plans. We expect to contribute approximately \$2 million during the remainder of the year.

ACCOUNTING AND REPORTING CHANGES

We will adopt the International Financial Reporting Standards (IFRS) effective January 1, 2011, which requires us to restate our January 1, 2010 opening balance sheet under IFRS and provide comparative 2010 IFRS financial statements. We have completed our review of the identification of differences between Canadian GAAP and IFRS that affect our financial statements and are in the process of preparing the required quantitative analysis and draft disclosures. We established a team of our unit controllers who assessed the changes required and the effect of high impact standards on their units. Our team of financial analysts has assessed the impact of those standards under corporate finance responsibility. We have determined that the following areas will have the highest impact on our accounting policies. This list, however, should not be regarded as a complete list of all the changes that could result from a transition to IFRS. In addition, until the transition date, we will not be able to precisely quantify all the impacts of the conversion to IFRS. We believe that the impact of IFRS changes other than the fair value accounting in item g) will not be material. Changes in our stock price which fluctuates may cause this derivative to impact earnings each quarter.

- a) *IFRS 1 First Time Adoption* -- All policy decisions with respect to applicable IFRS 1 choices were reviewed, documented and approved by senior management. Transition to IFRS disclosure, excluding final quantitative analysis, has been drafted and presented to senior management for approval.
- b) *IAS 1 Presentation of Financial Statements* -- IAS 1 presentation requirements have been reviewed and conversion issues identified. Draft disclosures have been prepared and presented to senior management for review and approval.
- c) *IFRS 2 Share-Based Payments* -- Under IFRS each tranche in an award with graded vesting is considered a separate grant with a different vesting date and fair value whereas under Canadian GAAP share-based awards are amortized on a straight-lined basis over the vesting period. As a result, upon transition to IFRS, this change in expense recognition will result in a charge to opening retained earnings and a consequent reduction in stock-based compensation expense for 2010 to 2013 for those awards issued prior to transition. In addition, cash-settled share-based awards will be measured using a fair value model and subject to the graded vesting recognition. The analysis of share-based payments, including disclosure and quantitative analysis, has been completed and is currently subject to management review and audit.
- d) *IAS 12 Income Taxes* -- A review of IAS 12 has been completed and a gap analysis documented and approved by senior management. All current transitional and first quarter 2010 entries have been reviewed and IFRS tax entries prepared. Draft disclosure requirements are currently being reviewed and prepared.
- e) *IAS 16 Property, Plant and Equipment* -- Under IFRS, where part of an item of property, plant and equipment, a component, has a cost that is significant to the item as a whole and a significantly different useful life, it must be depreciated separately. We have completed the componentization of property, plant and equipment as required by the standard and created the separate sub-ledgers to be used for the dual reporting requirements. The transitional adjustment to IFRS has been quantified and is currently subject to management review and audit.
- f) *IAS 19 Employee Benefits* -- We have elected to recognize all unamortized actuarial gains and losses as an adjustment to retained earnings on transition. Subsequent to transition, actuarial gains and losses will be recognized directly to other comprehensive income at the end of each reporting period. The preliminary quantitative analysis and disclosures have been drafted but are subject to the preparation of actuarial valuations of our defined benefit pension plans and are subject to management review and audit.
- g) *IAS 32, IAS 39, IFRS 7 Financial Instruments* -- The conversion feature in our convertible debentures is a derivative under IFRS since we have the right under 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 is recorded at fair value on transition to IFRS. The preliminary quantitative analysis and draft disclosures of this derivative and other financial instruments has been prepared and is subject to management review and audit.

- h) *IAS 36 Impairment of Assets* -- Under IFRS the assessment for impairment is performed at the cash generating unit level. We have identified our cash generating units under IFRS and have finalized our evaluation of impairment upon transition, subject to management review and audit, resulting in no additional impairment losses on transition to IFRS.
- i) *IAS 37 Provisions, Contingent Liabilities and Contingent Assets* -- IFRS requires an evaluation of legal and constructive obligations arising out of liabilities including environmental. We have prepared preliminary quantitative analysis and draft disclosure of these liabilities, which is subject to management review and audit.

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

a) *Financial Statement Presentation*

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

b) *Training and Communication*

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

c) *Information Technology*

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

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

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

ACCOUNTING ESTIMATES

The preparation of our financial statements requires management to make estimates and judgements that affect the reported amounts. On an ongoing basis, we evaluate our estimates, including those related to bad debts, inventory net realizable value and obsolescence, useful lives of fixed assets, asset retirement obligations, fair values, income taxes, pensions and benefits obligations, component allocation of convertible debentures, guarantees, environmental obligations, contingencies, litigation and assigned values on net assets acquired. We base our estimates on historical experience and on various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgements about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

Our most significant assets are accounts receivable and inventories.

Accounts Receivable

We maintain an allowance for doubtful accounts for estimated losses resulting from the inability of our customers to make required payments. Assessments are based on aging of receivables, legal issues (bankruptcy status), past collection experience, current financials or credit agency reports and the experience of our credit personnel. Accounts receivable that we determine to be uncollectible are reserved in the period in which the determination is made. If the financial condition of our customers were to deteriorate, resulting in an impairment of their ability to make payments, additional allowances may be required. Our reserve for bad debts at June 30, 2010 approximates that of December 31, 2009.

Inventories

We review our inventory to ensure that the cost of inventory is not in excess of its estimated net realizable value and for obsolete and slow moving product. Inventory reserves or write-downs are recorded when cost exceeds the estimated selling price less cost to sell and when product is determined slow moving or obsolete. Significant reductions in estimated selling price have resulted in write-downs. The inventory reserve level at June 30, 2010 decreased compared to the level at December 31, 2009 due to the sale of inventory, which was previously written-down during the first half of 2009, and increasing steel prices. During the three months ended June 30, 2010, we decreased cost of sales by \$2 million related to reversals of inventory write-downs taken in 2009.

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 \$79 million in plan assets at June 30, 2010, which is consistent with the value at December 31, 2009.

CONTROLS AND PROCEDURES

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

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

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

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

No changes were made in our disclosure controls or our internal control over financial reporting during the second quarter of 2010 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

VISION AND STRATEGY

The metals distribution business is a segment of a mature, cyclical industry. The use of service centers and steel distributors by both manufacturers and end users of steel continues to grow. This is evidenced by the growth in the percentage of total steel shipments from steel producers to service centers. As the distribution segment's share of steel industry shipments continues to grow, service centers such as ours can grow their business over the course of a cycle.

We strive to deal with the cyclical nature of the business by operating with the lowest possible net assets throughout the course of a cycle. In order to achieve this, management emphasizes profitability rather than revenue growth. This intensive asset management reduces borrowings and therefore interest expense in declining periods in the economic cycle. This in turn creates higher, more stable returns on net assets over the course of the cycle. Our conservative management approach creates relatively stronger trough earnings but could cause potential peak earnings to be somewhat muted. Management strongly believes that it is more prudent to be profitable throughout a cycle, without the spikes in earnings caused by less emphasis on asset management, and have average earnings over the full range of the cycle in the top deciles of the industry.

Growth from selective acquisitions is also a core strategy. We focus on investment opportunities in businesses that have strong market niches or provide mass to our existing operations. We believe that our acquisition in 2008 added to our platform for growth in the Southeastern and Midwestern regions of the United States. We believe that 2010 should provide opportunities for acquisitions.

In both the energy tubular products and steel distributors segments, all of the business units have significant operations in the market niche that they service. Consistent with our acquisition philosophy, any new acquisitions in these areas would likely be either major stand-alone operations or those that complement our existing operations.

In the future, we believe that the length of the steel-based economic cycle will continue to shorten and a management structure and philosophy that allows the fastest reaction to changes that affect the industry will be the most successful. We will continue to invest in business systems to enable faster reaction times to changing business conditions. In addition, management believes the high level of service and flexibility provided by service centers will enable this distribution channel to capture an increasing percentage of total steel revenues to end users, allowing for increased growth within the sector.

RISK

The current financial crisis has created uncertainty in the business communities we service. The uncertainty had caused steel pricing and demand to significantly decrease throughout 2009. We have seen slow improvements in 2010. The timing and extent of future price changes from steel producers and their impact on us cannot be predicted with any certainty due to the inherent cyclical nature of the steel industry. Demand for our product remains at low levels and we cannot predict when or if it will return to pre-2009 levels.

OUTLOOK

We will be challenged to maintain the positive momentum experienced in the second quarter, particularly in our service center operations in the summer months but anticipate an improvement in the fall. We continue to look at potential acquisitions, green fields and operational savings.