First Quarter Report for the period ended March 31, 2007

1900 Minnesota Court, Suite 210, Mississauga, ON, L5N 3C9
Tel.: (905) 816-5178 Fax: (905) 819-7409 www.russelmetals.com E-mail: info@russelmetals.com

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RUSSEL METALS INC.
REPORT TO SHAREHOLDERS
FOR THE THREE MONTHS ENDED MARCH 31, 2007

For several years we have stressed that the volatility in our cyclical industry could be minimized by the steel producers exercising price discipline. The first quarter of 2007 tested the collective discipline of the industry. For the second time in the past three years, steel producers have limited the downward slide in pricing by bringing supply in line with demand. Their actions have paid off with an upturn in pricing at the start of the second quarter. Our first quarter of 2007, however, reflects the pricing softness in the industry, as our net earnings were $28.7 million or $0.46 per common share on revenues of $684 million. By comparison, our net earnings for the same quarter of 2006 were $37.3 million or $0.71 per common share on $741 million of revenues.

Our revenues strengthened 15% in the first quarter of 2007 compared to the fourth quarter 2006 but were down 8% compared to the first quarter of 2006 due to lower volumes. Gross margins were down in all three segments compared with the previous quarter and the same quarter last year. The margins in metals service centers and steel distributors segments improved later in the quarter, which reflects steel price increases announced by the mills.

Our energy tubular products segment experienced margin pressure due to the slowing of drilling activity and high industry inventory positions. We are entering the second quarter, which historically has declined due to seasonal weakness and the drilling rig count in Alberta is presently below 2006 levels.

Reducing inventory levels and improving inventory turns was a management priority in the first quarter. Our steel distributors segment reduced its inventory levels by $39 million in the first quarter and its turns improved to 4.5, up significantly from turns of 2.2 in the fourth quarter of 2006. Our metals service centers inventory turns improved to 3.9 in the quarter due to stronger shipment volumes, however inventory levels increased by $14 million. Energy tubular products experienced a slight improvement in inventory turns to 2.7 due to higher shipments coupled with a small inventory increase. The reduction of energy tubular products inventories remains a priority. We do not expect a significant reduction in inventory prior to the fourth quarter due to the usual seasonal slowdown in the second and third quarters. Overall our inventory turns improved from 2.9 during the fourth quarter of 2006 to 3.6 during the first quarter of 2007.

We generated $30 million of free cash flow in the first quarter of 2007 and our working capital increased by $9 million to support higher first quarter 2007 revenue levels compared with the fourth quarter of 2006.

Our strong free cash flow, has led us to increase our quarterly dividend from $0.40 to $0.45 per common share payable June 15, 2007 to shareholders of record on May 18, 2007. This is our sixth straight year of dividend increases.

Steel prices have cycled up and down twice since the resurgence of the sector in 2004. We have become more comfortable that the steel producers are showing leadership and discipline in managing their production to better match the demand realities of the market place. Our confidence in the future is reflected in the increase of our dividend to $1.80 per annum or $0.45 per quarter. We strongly believe that any desirable acquisition to fuel growth can be financed with our existing capital structure.

There has been a frenzy of merger and acquisition activity in the steel industry since 2004. We believe that there are very few companies within our sector that could be acquired at valuations that will yield an acceptable risk adjusted return to our shareholders over the course of an economic cycle.

Outlook

The margin improvements in the metals service centers and steel distributors segments that we experienced in March are expected to continue into the second quarter, assuming steel mill pricing remains stable. Demand levels firmed up at the end of the first quarter but we have less visibility of the activity levels of the North American economy for the balance of the year. The energy tubular products segment has seen weakness in exploration activities and drilling activity needs to improve to produce significantly stronger results. At present, we are seeing no indication of increased drilling in Canada however we expect results from our line-pipe business in the U.S. and our project business in Canada to help compensate in part for the reduction in drilling.

E.M. Siegel, Jr.
President and Chief Executive Officer

Dated May 3, 2007

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 March 31, 2007, have been prepared by management and approved by the Audit Committee and the Board of Directors of the Company.

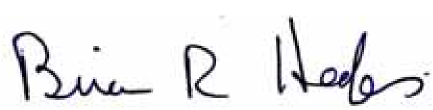
These interim consolidated financial statements were prepared in accordance with Canadian generally accepted accounting principles and, where appropriate, reflect management's best estimates and judgements. Management is responsible for the accuracy, integrity and objectivity of the interim consolidated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

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

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

Dated May 3, 2007

E. M. Siegel, Jr.
President and Chief Executive Officer



B. R. Hedges
Executive Vice President and
Chief Financial Officer

RUSSEL METALS INC.
CONSOLIDATED BALANCE SHEETS
(UNAUDITED)

(millions)	**March 31, 2007**	December 31, 2006
ASSETS		
Current		
Cash and cash equivalents	**$ 207.1**	$ 209.9
Accounts receivable	**385.2**	329.0
Inventories	**639.9**	664.0
Prepaid expenses and other assets	**6.6**	7.4
Income taxes	**1.5**	2.1
	1,240.3	1,212.4
Property, Plant and Equipment	**187.5**	189.5
Deferred Financing Charges	**0.6**	6.8
Future Income Tax Assets	**0.5**	0.4
Other Assets	**3.8**	3.9
Goodwill	**9.2**	9.2
	$ 1,441.9	$ 1,422.2
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current		
Accounts payable and accrued liabilities	**$ 316.8**	$ 283.9
Income taxes payable	**6.5**	15.0
	323.3	298.9
Other Accrued Liabilities	**-**	15.4
Derivatives	**28.8**	-
Long-Term Debt	**196.5**	203.9
Pensions and Benefits	**1.1**	2.6
Future Income Tax Liabilities	**2.7**	6.8
	552.4	527.6
Shareholders' Equity (Note 8)	**889.5**	894.6
	$ 1,441.9	$ 1,422.2

ON BEHALF OF THE BOARD,

C.R. Fiora
Director

A. Benedetti
Director

RUSSEL METALS INC.
CONSOLIDATED STATEMENTS OF EARNINGS
(UNAUDITED)

(millions, except per share data)	**Quarters ended March 31, 2007**	2006
Revenues	**$ 683.7**	$ 740.7
Cost of sales and operating expenses	**637.7**	679.5
Earnings before the following	**46.0**	61.2
Interest expense, net (Note 4)	**(1.8)**	(3.2)
Earnings before income taxes	**44.2**	58.0
Provision for income taxes	**(15.5)**	(20.7)
Net earnings for the period	**$ 28.7**	$ 37.3
Basic earnings per common share	**$ 0.46**	$ 0.71
Diluted earnings per common share	**$ 0.46**	$ 0.70

RUSSEL METALS INC.
CONSOLIDATED STATEMENTS OF RETAINED EARNINGS
(UNAUDITED)

(millions)	**Quarters ended March 31, 2007**	2006
Retained earnings, beginning of the period, as previously reported	**$ 411.1**	$ 341.8
Transitional adjustment - financial instruments (Note 2)	**(0.5)**	-
Retained earnings, beginning of the period, as restated	**410.6**	341.8
Net earnings for the period	**28.7**	37.3
Dividends on common shares	**(25.0)**	(17.8)
Retained earnings, end of the period	**$ 414.3**	$ 361.3

RUSSEL METALS INC.
CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
(UNAUDITED)

(millions)		**Quarter ended March 31, 2007**
Net earnings for the period	**$**	**28.7**
Other comprehensive income		
Unrealized foreign exchange gains and losses on translating financial statements of self sustaining foreign operations		**(2.3)**
Gains and losses on items designated as net investment hedges, net of tax of $0.1		**0.8**
Gains and losses on derivatives designated as cash flow hedges, net of tax of $0.4		**0.9**
Other comprehensive income		**(0.6)**
Comprehensive income	**$**	**28.1**

RUSSEL METALS INC.
CONSOLIDATED CASH FLOW STATEMENTS
(UNAUDITED)

(millions)	**Quarters ended March 31, 2007**	2006
Operating activities		
Earnings from continuing operations	**$ 28.7**	$ 37.3
Depreciation and amortization	**4.9**	4.8
Future income taxes	**0.4**	1.1
Loss (gain) on sale of fixed assets and assets held for sale	**(0.7)**	-
Stock-based compensation	**0.8**	0.9
Pension expense (funding) (Note 7)	**(1.6)**	(6.9)
Other	**0.2**	-
Cash from operating activities before working capital	**32.7**	37.2
Changes in non-cash working capital items		
Accounts receivable	**(57.0)**	(52.3)
Inventories	**22.3**	(45.2)
Accounts payable and accrued liabilities	**33.0**	15.6
Current income taxes	**(8.6)**	3.8
Other	**0.9**	0.7
Change in non-cash working capital	**(9.4)**	(77.4)
Cash from (used in) operating activities	**23.3**	(40.2)
Financing activities		
Increase (decrease) in bank borrowing	**-**	(2.1)
Issue of common shares - public issue	**-**	271.4
Issue of common shares - options exercised	**0.8**	4.8
Dividends on common shares	**(25.0)**	(17.8)
Cash (used in) from financing activities	**(24.2)**	256.3
Investing activities		
Purchase of fixed assets	**(3.7)**	(6.6)
Proceeds on sale of fixed assets	**1.3**	0.1
Other	**0.7**	(1.0)
Cash used in investing activities	**(1.7)**	(7.5)
Effect of exchange rates on cash	**(0.2)**	(0.2)
(Decrease) increase in cash and cash equivalents	**(2.8)**	208.4
Cash and cash equivalents, beginning of the period	**209.9**	47.1
Cash and cash equivalents, end of the period	**$ 207.1**	$ 255.5

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
MARCH 31, 2007
(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 2006 annual consolidated financial statements except as disclosed in Note 2. These interim consolidated financial statements should be read in conjunction with the 2006 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. Change in Accounting Policies

On January 1, 2007, the Company adopted four new accounting standards: CICA Handbook section 1530, Comprehensive Income; CICA Handbook section 3855, Financial Instruments – Recognition and Measurement; CICA Handbook section 3865, Hedges; and CICA Handbook section 3251, Equity. These new standards require the Company to classify all financial instruments resulting in certain financial instruments being valued at fair value on the balance sheet. As permitted by the standard, the Company chose January 1, 2003 as the transition date for the search for embedded derivatives. The impact of this change in accounting policy is presented as a transitional adjustment in opening retained earnings and opening accumulated other comprehensive income as appropriate. In compliance with the standard, prior periods are not restated, except for the cumulative translation adjustment which has been reclassified to accumulated other comprehensive income.

a) *Comprehensive Income*

This standard provides guidance on the presentation of comprehensive income which is defined as the change in equity during a period from transactions and other events from non-owner sources. Comprehensive income is comprised of net earnings and other comprehensive income (OCI). OCI includes certain gains and losses that are recognized outside of net earnings. The major components of the Company's OCI are the cumulative translation adjustment and the effective portion of cash flow hedges including the fixed for fixed cross currency swaps which are designated as a cash flow hedge of US$100 million of our U.S. Note. Our consolidated financial statements include a new Statement of Comprehensive Income. The accumulated OCI, which includes the Company's cumulative translation adjustment, is presented as a new category of Shareholders' Equity in our Consolidated Balance Sheets and in accordance with the Equity standard, the Company has disclosed its components (Note 8).

b) *Financial Instruments – Recognition and Measurement*

This standard provides guidance for recognizing and measuring financial assets, financial liabilities and non-financial derivatives which are classified as held-for-trading, available-for-sale, held-to-maturity, loans and receivables or other liabilities. Financial assets and financial liabilities classified as held-for-trading are measured at fair value with gains and losses recognized in net income. Financial assets classified as held-to-maturity, loans and receivables and financial liabilities not classified as held-for-sale are measured at amortized cost using the effective interest method.

Derivative instruments, including embedded derivatives, are recorded on the balance sheet at fair value as Other Assets, Accrued Liabilities or Derivatives. Changes in fair value are recognized in net income except for derivatives designated as cash flow hedges, the related fair value change is recognized in OCI. Fair values were determined using quoted market values for similar instruments or other third party information.

Available-for-sale financial assets are measured at fair value. Unrealized gains and losses on available-for-sale financial assets and derivatives designated as cash flow hedges are recorded through OCI.

The standard provides an accounting policy choice on the treatment of transactions costs. The Company's accounting policy is to capitalize transaction costs to the carrying amount of the associated debt and to amortize them to net interest expense using the effective interest method.

c) *Hedges*

This standard replaces existing hedge accounting guidance in CICA Handbook section 1650, Foreign Currency Translation, and accounting guideline AcG-13, Hedging Relationships, and provides requirements for the designation, documentation, accounting and disclosure of qualifying hedge relationships. The Company's cash flow hedges on the first US$100 million of its US$175 million US Note are recorded at fair value on the balance sheet with gains and losses recorded through OCI until realized. The adoption of the hedging standard has not had a material effect on the Company's results of operations or cash flows; however, the effective portion of the cash flow hedges is recorded as a component of OCI.

d) *Transitional Adjustment*

The transitional adjustments relating to financial instruments, including embedded derivatives, are recorded in opening retained earnings as at January 1, 2007. These adjustments include (i) financial instruments classified as held-for-trading that were not previously recorded at fair value, and (ii) deferred gains and losses on discontinued hedging relationships that do not qualify for hedge accounting under the new standards.

Adjustments arising as a result of re-measuring hedging instruments designated as cash flow hedges are recognized in the opening balance of accumulated OCI.

Transitional adjustments are as follows:

(millions)	January 1, 2007
Financial instruments classified as held-for-trading, net of tax of $0.6	$ (1.0)
Deferred gain on discontinued hedging relations, net of tax of $0.3	0.5
Transitional adjustment - retained earnings	$ (0.5)
Fair value of cash flow hedges, net of tax of $4.4	$ (9.3)
Transitional adjustment - accumulated other comprehensive income	$ (9.3)

The fair value of the cash flow hedges are recorded as derivatives on the consolidated balance sheet and the other accrued liabilities are also reclassified to derivatives on transition.

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. Interest Expense, net

(millions)	Quarters ended March 31, **2007**	2006
Interest on long-term debt	**$ 3.9**	$ 3.7
Other interest income	**(2.1)**	(0.5)
Total interest	**$ 1.8**	$ 3.2

Interest paid in the quarter ended March 31, 2007 was $7.6 million (2006: $7.5 million).

5. Stock-based Compensation

During the quarter ended March 31, 2007, the Company did not issue stock options (2006: 663,334). The following is a continuity of the Company's stock options outstanding:

	Number of Options		**Weighted Average Exercise Price**	
	2007	2006	**2007**	2006
Balance, January 1	**2,014,033**	1,869,466	**$ 18.09**	$ 11.12
Granted	**-**	663,334	**-**	25.75
Exercised	**(81,700)**	(546,000)	**9.83**	8.46
Forfeited	**(2,600)**	-	**18.11**	-
Balance, March 31	**1,929,733**	1,986,800	**$ 18.44**	$ 9.79
Exercisable	**689,600**	279,733	**$ 16.68**	$ 16.45

6. Segmented Information

(millions)	Quarters ended March 31, **2007**	2006
Segment Revenues		
Metals service centers	**$ 362.6**	$ 388.6
Energy tubular products	**179.0**	186.2
Steel distributors	**140.3**	164.5
	681.9	739.3
Other	**1.8**	1.4
	$ 683.7	$ 740.7
Segment Operating Profits		
Metals service centers	**$ 24.8**	$ 31.7
Energy tubular products	**14.8**	18.4
Steel distributors	**11.5**	18.1
	51.1	68.2
Other	**(0.4)**	(1.4)
Corporate expenses	**(4.7)**	(5.6)
	$ 46.0	$ 61.2

(millions)	**March 31, 2007**	December 31, 2006
Identifiable assets		
Metals service centers	**$ 659.4**	$ 618.7
Energy tubular products	**172.5**	359.3
Steel distributors	**374.4**	195.3
Identifiable assets by segment	**1,206.3**	1,173.3
Assets not included in segments		
Cash and cash equivalents	**207.1**	209.9
Income tax assets	**2.0**	2.5
Deferred financing charges	**0.6**	6.8
Other assets	**3.0**	3.2
Corporate and other operating assets	**22.9**	26.5
Total assets	**$ 1,441.9**	$ 1,422.2

7. Pension and Benefits

In the first quarter of 2007, the Company contributed $2.1 million to its pension plans which included $2 million for prior service costs. The first quarter 2006 contribution represented the minimum required annual contributions and $4.1 million for prior service costs. For the quarter ended March 31, 2007 the total benefit cost from the defined benefit pension plans relating to employee future benefits was $0.5 million (2006: $0.7 million).

8. Shareholders' Equity

The components of shareholders' equity are as follows:

(millions)	**March 31, 2007**	December 31, 2006
Common shares	**$ 492.2**	$ 491.2
Contributed surplus	**4.1**	3.5
Retained earnings	**414.3**	411.1
	910.6	905.8
Accumulated other comprehensive income		
Transitional adjustment	**(9.3)**	-
Unrealized foreign currency translation gains and losses	**(13.5)**	(11.2)
Gains and losses on cash flow and net investment hedges	**1.7**	-
	(21.1)	(11.2)
	$ 889.5	$ 894.6

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

	Number of Shares	Amount (millions)
Balance December 31, 2006	62,366,842	$ 491.2
Stock options exercised	81,700	1.0
Balance March 31, 2007	62,448,542	$ 492.2

	Quarters ended March 31,	
	2007	2006
Average shares outstanding		
Basic	62,397,789	52,528,777
Diluted	62,938,611	53,151,653

9. Supplemental Cash Flow Information

Income tax paid in the quarter ended March 31, 2007 was $23.3 million (2006: $16.0 million).

RUSSEL METALS INC.
MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS FOR THE THREE MONTHS ENDED MARCH 31, 2007

This Management's Discussion and Analysis of Financial Condition and Results of Operations should be read together with the Interim Consolidated Financial Statements of Russel Metals Inc. for the three months ended March 31, 2007 and 2006, including the notes thereto, and the Management's Discussion and Analysis and the audited Consolidated Financial Statements for the year ended December 31, 2006, including the notes thereto, contained in our fiscal 2006 Annual Report. In the opinion of management, such interim consolidated financial statements contain all adjustments necessary for a fair presentation of the results for such periods. The results of operations for the periods shown are not necessarily indicative of what our results will be for the full year. Statements contained in this document that relate to our beliefs or expectations as to certain future events are not statements of historical fact and are forward-looking statements. We caution readers that there are important factors, risks and uncertainties, including but not limited to economic, competitive and governmental factors affecting our operations, markets, products, services and prices that could cause our actual results, performance or achievements to be materially different from those forecasted or anticipated by us in such forward-looking statements. All dollar references in this report are in Canadian dollars unless otherwise stated.

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

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

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

Overview

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

Our basic earnings per share of $0.46 for the three months ended March 31, 2007 are lower than those reported for the three months ended March 31, 2006 of $0.71. Our demand levels picked up in the first quarter of 2007 from the fourth quarter of 2006, but were not as strong as in the first quarter of 2006. Price increases announced by the mills in the quarter resulted in overall margins improving during the first quarter of 2007.

Results of Operations

The following table provides operating profits before interest and taxes. 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 segmented reporting in the consolidated financial statements.

	Quarters Ended March 31,		
(in millions, except percentages)	**2007**	2006	2007 Change as a % of 2006
Segment Revenues			
Metals service centers	**$ 362.6**	$ 388.6	(6.7%)
Energy tubular products	**179.0**	186.2	(3.9%)
Steel distributors	**140.3**	164.5	(14.7%)
Other	**1.8**	1.4	
	$ 683.7	$ 740.7	(7.7%)
Segment Operating Profits			
Metals service centers	**$ 24.8**	$ 31.7	(21.8%)
Energy tubular products	**14.8**	18.4	(19.6%)
Steel distributors	**11.5**	18.1	(36.5%)
Corporate expenses	**(4.7)**	(5.6)	16.1%
Other	**(0.4)**	(1.4)	
Operating profits	**$ 46.0**	$ 61.2	(24.8%)
Segment Gross Margin as a % of Revenues			
Metals service centers	**23.9%**	24.8%	
Energy tubular products	**14.5%**	14.8%	
Steel distributors	**12.7%**	16.3%	
Total operations	**19.2%**	20.3%	
Segment Operating Profits as a % of Revenues			
Metals service centers	**6.8%**	8.2%	
Energy tubular products	**8.3%**	9.9%	
Steel distributors	**8.2%**	11.0%	
Total operations	**6.7%**	8.3%	

Metals service centers

a) Description of operations

We provide processing and distribution services to a broad base of more than 19,000 end users through a network of 52 Canadian locations and 4 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 Midwest region 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, McCabe Steel and York-Ennis. Our U.S. service center operations are conducted under the names Russel Metals Williams Bahcall and Baldwin International. Our Williams Bahcall operations focus primarily on the distribution of general line carbon products through three facilities located in Wisconsin. Baldwin International distributes specialty alloy products from its facility in Ohio.

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 2007 and 2006 is found in the section that follows.

Steel pricing fluctuates significantly throughout the business cycle. Steel prices are influenced by overall demand, trade sanctions, scrap steel pricing and product availability. Supply side management, practiced by steel producers in North America, and international supply and demand which impacts steel imports affect product availability. Trade sanctions are initiated either by steel mills or government agencies in North America and, less directly, worldwide. Steel prices continue to be volatile; however, they remain at levels above historical norms at all points in the cycle.

Demand is significantly affected by economic cycles with revenues and operating profit fluctuating with the level of general business activity in the markets serviced. We are most impacted by the manufacturing (excluding automotive), resource and construction segments of the Canadian economy. Demand has been relatively stable over the last several years with some softening in the fourth quarter of 2006. Although tons shipped for the first quarter of 2007 are above the fourth quarter of 2006 they are 11% below the first quarter of 2006.

Canadian service centers, which represent the majority of our metals service centers operations, are particularly affected by regional general economic conditions. We have operations in all regions of Canada and believe that we have a national market share above 25%. This large market share and our diverse customer base of approximately 19,000 customers, suggest that our results should mirror the performance of the regional economies of Canada excluding the automotive sector in which we are not a significant participant.

c) Metals service centers segment results -- Three Months Ended March 31, 2007 Compared to Three Months Ended March 31, 2006

Revenues for the three months ended March 31, 2007 decreased by $26.0 million, or 6.7%. The average selling price of steel for the three months ended March 31, 2007 was approximately 5% higher compared to the selling price for the three months ended March 31, 2006. The average selling price of metal for the first quarter of 2007 is similar to the fourth quarter of 2006; however, the first quarter of 2007 experienced selling price increases related to the increased cost of material and the average selling price was improving in the quarter.

Overall tons shipped for the three months ended March 31, 2007 were approximately 11% lower than those shipped in the same period in 2006. Tons shipped declined in all regions except Quebec and Atlantic Canada where they were slightly above first quarter 2006.

Gross margin as a percentage of revenues at 23.9% for the three months ended March 31, 2007 has declined compared to the three months ended March 31, 2006 of 24.8%. Our average selling price was higher than that of the first quarter 2006; however, higher inventory costs resulted in lower gross margins.

We believe that the Canadian dollar strength in the second half of 2006 adversely impacted our customers in Ontario who sell finished products to the U.S. and consequently we had reduced volumes in Ontario. The change in the Canadian dollar versus the U.S. dollar has not been a significant factor in the metals service centers in relation to inventory costs as inventory is purchased for our Canadian operations from Canadian or U.S. suppliers based on the landed cost at the specific location in Canada.

Operating expenses in our metals service centers segment decreased by $2.5 million, or 3.9%, for the first quarter of 2007 compared to the same period in 2006. This was primarily due to lower compensation expense and lower bad debt expense. Our compensation plans are based on pay for performance and our compensation expenses declined in concert with the lower profits in our operations. A one-time bad debt charge was recorded in the first quarter of 2006 related to a specific customer and not indicative of a general deterioration of accounts receivable.

Metals service centers operating profits for the three months ended March 31, 2007 of $24.8 million were $6.9 million lower than the same period in 2006, mainly related to lower volumes and gross margins.

Energy Tubular Products

a) Description of operations

These operations distribute oil country tubular goods (OCTG), line pipe, tubes, valves and fittings, primarily to the energy industry in Western Canada and the Western United States, from 5 Canadian and 2 U.S. locations. We purchase these products either from the pipe processing arms of North American steel mills, independent manufacturers of pipe and pipe accessories or international steel mills. Our energy tubular products segment operates under the names Comco Pipe and Supply Company, Fedmet Tubulars, Triumph Tubular & Supply, Pioneer Pipe and Spartan Steel.

b) Factors affecting results

The following is a general discussion of the factors affecting our energy tubular products segment operations. More specific information on how these factors impacted the first quarter of 2007 and 2006 is found in the section that follows.

Oil and gas prices, which is one of the factors that can impact oil rig count and subsequent drilling activities particularly in Western Canada, has the ability to significantly affect demand for our product. Oil and gas prices dropped during 2006, with gas prices declining most significantly. Oil and gas prices remained relatively flat throughout the first quarter of 2007.

Oil and gas drilling in Western Canada usually peaks during the period from October to March; thus revenues and operating profits have historically been higher during these two quarters. In 2006, activity declined in the fourth quarter such that fourth quarter revenues and operating profits approximated those of the third quarter of 2006. Revenues for the first quarter of 2007 were higher than the fourth quarter of 2006, but remain below the first quarter of 2006, which was a record quarter. Gross margins in the first quarter of 2007 were impacted by lower demand and higher tubing prices.

Our Canadian operations are affected by the U.S. dollar exchange rate since some products are sourced outside Canada and are priced in U.S. dollars. While pricing has impacted our earnings more significantly, the appreciation of the Canadian dollar has also contributed by reducing our average cost of metal.

Pricing is influenced by overall demand, trade sanctions and product availability. Trade sanctions are initiated either by steel mills or government agencies in North America. Trade sanctions have not been a factor for pipe products during the reported periods.

c) Energy tubular products segment results --
Three Months Ended March 31, 2007
Compared to Three Months Ended March 31, 2006

Revenues decreased 3.9% to $179.0 million in the three months ended March 31, 2007 compared to the three months ended March 31, 2006. First quarter of 2006 was our highest revenue and operating profit reported in a quarter. The decrease in revenues in 2007 is related to lower volumes sold to the oil and gas drilling industry in Western Canada partially offset by higher volumes in our U.S. operations and our Canadian operations that service the oil sands of northern Alberta. Lower oil and gas pricing, warmer weather and the high cost of manpower all contributed to lower rig activity in the first quarter of 2007 impacting demand for our products in Western Canada.

Gross margin as a percentage of revenues was 14.5% for the three months ended March 31, 2007, a decrease from 14.8% for the three months ended March 31, 2006. The lower margin mainly relates to the increased cost of goods sold resulting from higher tubing pricing.

Operating expenses were higher by $2.0 million for the three months ended March 31, 2007 compared to the three months ended March 31, 2006 due to higher delivery costs related to our U.S. operations and higher employee costs in our operations with higher volumes.

Operating profits decreased by $3.6 million to $14.8 million for the first quarter of 2007, compared to the same period in 2006. This decrease in operating profits was caused by lower volumes and higher expenses.

Steel distributors

a) Description of operations

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

The main steel products sourced by this segment are structural beam, plate, coils, pipe and tubing. The operations in this sector are Wirth Steel and Sunbelt Group. Arrow Steel, a division of Sunbelt Group, processes coils.

b) Factors affecting results

The following is a general discussion of the factors affecting our steel distributors. More specific information on how these factors impacted the first quarter of 2007 and 2006 is found in the section that follows.

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

Demand for steel that is sourced off shore fluctuates significantly, mainly driven by price and product availability in North America. During the last twelve months, demand has been high due to North American shortages of certain products. 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.

Movement in the U.S. dollar has had some effect on our Canadian steel distributor operations since inventory is purchased mainly in U.S. dollars. Steel is predominantly transacted in U.S. dollars and the Canadian mills adjust the price accordingly. The effect of the strengthening Canadian dollar was fully offset by rising metal prices.

c) **Steel distributors segment results -- Three Months Ended March 31, 2007 Compared to March 31, 2006**

Steel distributors revenues decreased 14.7% to $140.3 million for the three months ended March 31, 2007 compared to the three months ended March 31, 2006. Lower volumes accounted for most of the decrease in revenues. Volumes were lower due to decreased demand for steel particularly in the U.S. operations caused by excess inventory in the service center industry. Revenues for the first quarter of 2007 are up significantly from the last quarter of 2006.

Gross margin as a percentage of revenues at 12.7% for the three months ended March 31, 2007 declined from 16.3% for the three months ended March 31, 2006. Strong demand for our products in 2006 resulted in higher metal pricing in the first quarter of 2006 compared to the first quarter of 2007.

Operating expenses were $2.4 million lower for the first quarter of 2007 compared to the first quarter of 2006, mainly due to variable compensation related to lower profitability.

Operating profits for the three months ended March 31, 2007 were $11.5 million, which is $6.6 million lower than the three months ended March 31, 2006, mainly related to lower volumes and gross margins.

Other -- Three Months Ended March 31, 2007 Compared to Three Months Ended March 31, 2006

Other revenues and income represents the results of our bulk commodities handling terminal in Thunder Bay, Ontario. Revenues and operating profits for 2007 have improved due to higher volumes handled and the absence of severance costs related to downsizing recorded in the first quarter of 2006.

Corporate Expenses -- Three Months Ended March 31, 2007 Compared to Three Months Ended March 31, 2006

Corporate expenses decreased $0.9 million primarily due to lower costs for corporate incentive plans based on lower earning levels and lower stock-based compensation expense as share options were not issued in the first quarter of 2007. The issue of share options during the second quarter of 2007 will increase our expenses in that quarter.

Consolidated Results -- Three Months Ended March 31, 2007 Compared to Three Months Ended March 31, 2006

Operating profits from operations were $46.0 million, which is $15.2 million lower in the three months ended March 31, 2007, compared to the three months ended March 31, 2006. Lower volumes and gross margins in all three metals sectors is the largest contributor to the decline in profits.

Interest Expense

The following table shows the components of our interest expense.

(in millions)	Quarters Ended March 31 **2007**	2006
Interest on long-term debt		
6.375% Senior Notes	**$ 3.9**	$ 3.7
Other interest (net)	**(2.1)**	(0.5)
Total interest	**$ 1.8**	$ 3.2

Consolidated interest expense for the three months ended March 31, 2007 decreased by $1.4 million to $1.8 million compared to the three months ended March 31, 2006. We have had cash on hand and correspondingly interest income since March 2006, when we issued 11 million common shares.

Income Taxes

Our provision for income taxes for the first quarter of 2007 was $15.5 million, which was $5.2 million lower than the first quarter of 2006, related to lower earnings. For the three months ended March 31, 2007, our income tax rate was 35.1%, which approximates our normalized effective income tax rate.

Net Earnings

Net earnings for the first quarter of 2007 were $28.7 million compared to $37.3 million for the first quarter of 2006. Basic earnings per common share for the first quarter of 2007 were $0.46 compared to $0.71 for the first quarter of 2006. Our lower net earnings in 2007 were due to lower volumes in all three metals segments.

Shares Outstanding and Dividends

The weighted average number of common shares outstanding for the first quarter of 2007 was 62,397,789 compared to 52,528,777 for the first quarter of 2006. The increase relates to our public offering of 11 million common shares in March 2006 and the exercise of employee stock options. As at March 31, 2007 and May 3, 2007, we had 62,448,542 common shares outstanding.

We returned a portion of our earnings to our shareholders by paying common share dividends of $25.0 million in the first quarter of 2007 compared to $17.8 million in the first quarter of 2006. The increase relates to additional shares outstanding and the increased dividend rate. The cash dividend paid was $0.40 per share for the first quarter of 2007 and $0.35 per share for the first quarter of 2006.

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 approximately $427 million available for restricted payments.

EBITDA

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

(in millions)	Quarters Ended March 31, 2007	2006	Twelve Months Ended March 31, 2007	2006
Net earnings	**$ 28.7**	$ 37.3	**$ 150.0**	$ 128.4
Provision for income taxes	**15.5**	20.7	**79.6**	61.1
Interest expense, net	**1.8**	3.2	**5.4**	15.8
Earnings before interest and income taxes (EBIT)	**46.0**	61.2	**235.0**	205.3
Depreciation and amortization	**4.9**	4.8	**20.1**	19.3
Earnings before interest, income taxes, depreciation and amortization (EBITDA)	**$ 50.9**	$ 66.0	**$ 255.1**	$ 224.6

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 $3.7 million for the first quarter of 2007 compared to $6.6 million in the first quarter of 2006. Lower capital expenditures in the first quarter of 2007 is due to the timing of projects. We are currently expanding some of our locations and adding laser burning equipment to certain of our metals service center operations and thus anticipate capital expenditures in 2007 higher than our depreciation expense.

Capital expenditures mainly relate to the replacement of capital items, the purchase of additional processing equipment across a broad base of our operations and upgrades to our existing facilities and computer systems. Our expectation is for capital expenditures to be at levels higher than depreciation expense over a period of years due to the construction of larger facilities in growing markets and the expansion of product lines and processing capabilities.

Depreciation expense was $4.7 million for the three months ended March 31, 2007 and $4.4 million for the three months ended March 31, 2006.

Liquidity

We stress working capital management to ensure that working capital is minimized and leverage reduced over the economic cycle. The metals distribution business experiences significant swings in cash flow in order to fund working capital. Inventory and accounts receivable represent a large percentage of our total assets employed and vary throughout each cycle. At March 31, 2007, current assets represented 86% of our total assets versus 85% at December 31, 2006. Total assets were $1.4 billion at December 31, 2006 and at March 31, 2007.

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.

Overall inventory turns improved due to a decrease in inventory and higher cost of sales in the first quarter of 2007 compared to the fourth quarter of 2006. The decrease in inventory generated cash of $22.3 million. Although sales volumes remain strong, we intend to reduce inventory levels in our energy tubular products segment over the next several quarters. Our goal is to ensure that we keep our inventory levels as low as possible while still satisfying the needs of our customers in order to minimize inventory valuation risk.

Inventory turns are calculated using our cost of sales for the quarter annualized, divided by our inventory position at the end of the quarter.

	Quarter Ended				
Inventory Turns	**Mar. 31 2007**	**Dec. 31 2006**	**Sept. 30 2006**	**June 30 2006**	Mar. 31 2006
Metals service centers	**3.9**	**3.8**	**3.7**	**4.6**	4.8
Energy tubular products	**2.7**	**2.3**	**2.7**	**2.5**	4.5
Steel distributors	**4.5**	**2.2**	**4.1**	**4.7**	4.7
Total operations	**3.6**	**2.9**	**3.4**	**3.9**	4.7

Metals service centers inventory turns improved slightly during the first quarter of 2007 due to higher volumes of shipments compared to the fourth quarter of 2006. Our metals service centers increased inventories by $14.4 million during the first quarter of 2007. We expect our metals service centers operations to turn over their inventory at higher rates than the industry average. Based on information published by the Metals Service Center Institute in its monthly Metals Activity Report, average inventory turns for U.S. based steel companies for the three months ended March 31, 2007 was 3.5 turns and the average for Canadian based companies was 3.2 turns.

The energy tubular products segment had significantly more inventory at March 31, 2007 compared to March 31, 2006. These inventories were to support anticipated sales in the first quarter of 2007 which did not materialize. Our energy tubular products segment increase partially relates to the timing of receipt for purchases of material from offshore. More import material had been purchased in 2006 and the first quarter of 2007 due to availability and pricing.

Our steel distributors segment reduced their inventories by $39.4 million during the first quarter of 2007, which improved inventory turns.

The other major components of working capital are accounts receivable and accounts payable. Accounts receivable as at March 31, 2007, increased $57.0 million since December 31, 2006, as a result of higher revenues compared to the fourth quarter of 2006. Accounts payable increased $33.0 million in the three months ended March 31, 2007, which mainly relates to higher trade payables.

During the three months ended March 31, 2007, we made income tax payments of $23.3 million.

During the three months ended March 31, 2007, we utilized cash of $3.7 million on capital expenditures and $25.0 million on common share dividends. During the three months ended March 31, 2006, we utilized cash of $6.6 million on capital expenditures and $17.8 million on common share dividends.

Free Cash Flow

(in millions)	**Quarters Ended March 31,** **2007**	2006
Cash from operating activities before working capital	**$ 32.7**	$ 37.2
Purchase of fixed assets	**(3.7)**	(6.6)
Proceeds on sale of fixed assets	**1.3**	0.1
	$ 30.3	$ 30.7

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

Cash, Debt and Credit Facilities

At March 31, 2007, we had cash and cash equivalents, net of outstanding cheques, of $207.1 million. In March 2006, we issued 11 million common shares resulting in excess cash which has been invested in short-term investments until a suitable acquisition or other use of cash occurs. An acquisition is not currently imminent.

The application of the new accounting standards related to Financial Instruments and Hedges (see section on Changes in Accounting Policies) requires all derivatives to be recorded at their fair values and the deferred costs to be netted against the applicable liability. The following table details the changes related to long-term debt.

(in millions)	**Fair Value as at March 31, 2007**	Balance as at December 31, 2006
Long-Term Debt		
6.375% US$175 million Senior Notes due March 1, 2014	**$ 201.8**	$ 203.9
Amortized costs related to debt issuance ($5.9 million included in Deferred Financing Charges at December 31, 2006)	**5.3**	-
	$ 196.5	$ 203.9
Obligations under Cross Currency Swaps		
Foreign exchange difference on US$100 million (recorded as Other Accrued Liabilities at December 31, 2006)	**$ 16.5**	$ 15.4
Additional fair value of cash flows to terminate swap (not recorded on balance sheet in 2006)	**12.3**	-
	$ 28.8	$ 15.4

Changes in the fair value of the debt and the swap are recorded in other comprehensive income net of income taxes.

Cash and Bank Credit Facilities

As at March 31, 2007 (in millions)	Russel Metals Facility	U.S. Subsidiary Facility	Total
Bank loans	$ -	$ -	$ -
Cash net of outstanding cheques	197.5	9.6	207.1
Cash	197.5	9.6	207.1
Facilities availability	200.0	57.6	257.6
Letters of credit	86.4	23.2	109.6
Undrawn facilities	113.6	34.4	148.0
Total cash and undrawn facilities	$ 311.1	$ 44.0	$ 355.1

We have a facility, with a syndicate of Canadian and U.S. banks, for a revolving loan of $200 million, including letters of credit, which expires on October 29, 2009. We may extend this facility annually with the consent of the syndicate. We are entitled to borrow, 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 $200 million. We are currently entitled to borrow $200 million, including letters of credit under this facility. At March 31, 2007, we had no borrowings and had letters of credit of $86.4 million. At March 31, 2006, we had no borrowings and had letters of credit of $53.7 million under this facility.

In addition, a U.S. subsidiary has its own one-year bank credit facility. The maximum borrowing under this facility at March 31, 2007 is US$50 million. At March 31, 2007, this subsidiary had no borrowings and had letters of credit of US$20.1 million. At March 31, 2006, this subsidiary had no borrowings and had letters of credit of US$30.7 million.

Cash generated from operating activities before working capital changes was $32.7 million for the three months ended March 31, 2007 and was $37.2 million for the three months ended March 31, 2006.

Based on cash and our bank facilities, we have access to approximately $355.1 million of cash availability based on our March 31, 2007 balances. In the past, we have made several acquisitions and we believe we can continue to grow by acquisition. We believe we have the ability to fund future acquisitions through the utilization or expansion of our existing bank facilities. We believe we have the ability to significantly increase the bank facility, if required.

Contractual Obligations

As at March 31, 2007, we were contractually obligated to make payments under our long-term debt agreement, cross currency swap agreements and operating lease obligations that come due during the following periods. The long-term debt interest and lease obligations represent annual amounts to December 31 of the noted year.

(in millions)	Long-Term Debt Maturities	Cross Currency Swaps	Long-Term Debt Interest	Lease Obligations	Total
2007	$ -	$ -	$ 15.2	$ 10.8	$ 26.0
2008	-	-	15.2	9.0	24.2
2009	-	-	15.2	8.5	23.7
2010	-	-	15.2	7.8	23.0
2011	-	-	15.2	6.1	21.3
2012 and beyond	201.8	16.5	32.9	11.9	263.1
Total	$ 201.8	$ 16.5	$ 108.9	$ 54.1	$ 381.3

Our fixed interest cross currency swaps obligate us to purchase US$100 million at $1.3180 for each US$1.00. Based on the March 31, 2007 exchange rate, we would incur an obligation of $16.5 million in addition to our long-term debt obligation of $201.8 million. The long-term debt interest in the table includes the impact of our swaps. Actual long-term debt interest has been estimated based on current exchange rates for the portion not hedged. The fair value of our swaps includes an additional obligation of $12.3 million, which represents the fair value of payments for the remaining life of the debt if we were to extinguish the swaps at March 31, 2007.

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 obligation table.

We have multiple defined benefit pension plans in Canada, as disclosed in Note 14 to our 2006 annual consolidated financial statements. In the first quarter of 2007, we contributed approximately $2.1 million to these plans. We expect additional contributions of approximately $3.4 million during the remainder of the year

Accounting Policies and Estimates

a) Change in Accounting Policies in 2007

Effective January 1, 2007, as required by Canadian accounting standards, we adopted three new accounting standards - Financial Instruments - Recognition and Measurement, Hedges and Comprehensive Income. The principal impacts of the standards are:

(i) Other comprehensive income is a new component of shareholders' equity and a new statement entitled Statement of Comprehensive Income has been added to our consolidated financial statements.

(ii) Financial assets and liabilities are classified as available for sale, held to maturity, trading, other liabilities or loans and receivables.

(iii) Items classified as held-for-trading are measured at fair value with gains and losses recognized in net income. Assets classified as available-for-sale are measured at fair value with gains and losses recognized in other comprehensive income until the item is sold. Other loans and receivables and other liabilities are measured at amortized cost using the effective interest method.

(iv) Derivative instruments including hedges are recorded on the balance sheet at fair value.

(v) This new hedging standard replaces our current policy and the swaps which hedge our US$100 million of our Senior Notes are recorded at fair value on the balance sheet with any gains or losses recorded in other comprehensive income until the hedged items are recognized in the consolidated statement of income.

Our available for sale assets would include short-term investments. We currently do not have any assets classified as held to maturity. Our trading assets include bank accounts, forward exchange contracts and embedded derivatives in inventory purchases. Our accounts receivable are classified under loans and receivables and accounts payables and long-term debt are classified as other financial liabilities.

The impact on our financial statements is that changes in foreign exchange related to open purchase orders and forward exchange contracts have been reported in income for the first quarter of 2007. As metal is transacted mainly in U.S dollars worldwide, the majority of the entries relate to U.S.-Canadian dollar movements. These derivatives have been fair valued at March 31, 2007 and January 1, 2007 and changes are reported in income for the first quarter of 2007. The net impact of these items in the first quarter of 2007 was minimal. Any transitional adjustment related to the January 1, 2007 fair value of like items has been included in retained earnings.

In addition, our long-term debt and the related swaps are recorded at fair value on the balance sheet. See details under Cash, Debt and Credit Facilities.

b) 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 obsolescence, useful lives of fixed assets, asset retirement obligations, income taxes, restructuring costs, pensions and other post-retirement benefits, fair values, guarantees, environmental obligations, contingencies and litigation. 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 inventory.

Accounts Receivable

We maintain an allowance for doubtful accounts for estimated losses resulting from the inability of our customers to make required payments. Assessments are based on aging of receivables, legal issues (bankruptcy status), past collection experience, current financials or credit agency reports and the experience of our credit personnel. Accounts receivable, which we determine to be uncollectible, are reserved in the period in which the determination is made. If the financial condition of our customers were to deteriorate, resulting in an impairment of their ability to make payments, additional allowances may be required. During the first quarter of 2006, we experienced increased bad debts in central Canada resulting in a higher than normal bad debt expense. Our bad debt experience returned to normal levels for the remainder of 2006 and the first quarter of 2007.

Inventories

We review our inventory for obsolescence, slow moving product and to ensure that the cost of inventory is not in excess of its estimated market value. Inventory reserves or write-downs are recorded when cost exceeds the market value and when product is determined slow moving or obsolete. Significant reductions in market value could result in additional write-downs. The inventory reserve level at March 31, 2007 is consistent with the level at December 31, 2006.

Other areas involving significant estimates and judgements include:

Income Taxes

We believe that we have adequately provided for income taxes based on all of the information that is currently available. The calculation of income taxes in many cases requires significant judgement in interpreting tax rules and regulations, which are constantly changing. Our tax filings are also subject to audits, which could materially change the amount of current and future income tax assets and liabilities. Any change would be recorded as a charge or reduction in income tax expense.

Employee Benefit Plans

We perform a valuation, at least every three years, for each plan to determine the actuarial present value of the accrued pension and other retirement benefits. The valuation uses management's assumptions for the discount rate, expected long-term rate of return on plan assets, rate of compensation increase, health-care cost trend and expected average remaining years of service of employees.

While we believe that these assumptions are reasonable, differences in actual results or changes in assumptions could materially affect employee benefit obligations and future net benefit plans 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.

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 Executive Vice President and Chief Financial Officer have caused management and other employees to design and document our internal controls over financial reporting. No material weaknesses in the design effectiveness were identified during the documentation of these internal controls.

No changes were made in our disclosure controls or our internal control over financial reporting during the first quarter of 2007 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.

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

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

Risk

The timing and extent of future price changes from the steel producers and their impact on us can not be predicted with any certainty due to the inherent cyclical nature of the steel industry.

Outlook

The margin improvements in the metals service centers and steel distributors segments that we experienced in March are expected to continue into the second quarter, assuming steel mill pricing remains stable. Demand levels firmed up at the end of the first quarter but we have less visibility of the activity levels of the North American economy for the balance of the year. The energy tubular products segment has seen weakness in exploration activities and drilling activity needs to improve to produce significantly stronger results. At present, we are seeing no indication of increased drilling in Canada however we expect results from our line-pipe business in the U.S. and our project business in Canada to help compensate in part for the reduction in drilling.

May 3, 2007