



WIRE & WIRE PRODUCTS

ESTABLISHED IN 1964



2013 ANNUAL REPORT

Since 1964, Tree Island Steel Ltd. has been making products from steel wire for a diverse range of customers for industrial, construction, agricultural, and specialty applications.

Our products include galvanized wire, bright wire, a broad array of fasteners, including packaged, collated and bulk nails, stucco reinforcing products, concrete reinforcing mesh, fencing, and other fabricated wire products. We market these products under the Tree Island, Halsteel, K-Lath, Industrial Alloys, TI Wire, and Tough Strand Brand names. We also operate a China-based company that assists with international sourcing of products.

Listed on the Toronto Stock Exchange (“TSX”), our shares trade under the symbol TSL.

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TO OUR SHAREHOLDERS

Letter to Shareholders

In 2013, we maintained our focus and attention on further strengthening our overall business. We kept a close eye on costs, operational efficiencies, and augmented our sales team. We leveraged our profitable growth platform to generate sales with improved margins delivering value to our shareholders. Profitable growth remains the theme of our company – every strategy, every initiative we embark upon, is and will be tested against this theme. As a result, on a year-over-year basis, our key operating metrics demonstrated material improvement. We restored pricing discipline in our markets while selectively picking our spots where it made economic sense to grow sales and profits. A number of our key end markets showed strength and demand, paving the path for continuing improvements in the year ahead.

For the year ended December 31, 2013, we reported revenue of \$153.4 million, compared to \$146.2 million during the same period in 2012 and sales volumes of 113,401 tons, compared to 102,408 tons in 2012. During this period, gross profit improved from \$13.0 million to \$17.3 million. Gross profit per ton also increased from \$127 per ton to \$153 per ton. The improvement in gross profit, together with our ongoing focus on cost management, resulted in a 101.7% improvement in EBITDA; \$7.2 million versus \$3.6 million in the same period last year.

Tree Island's fourth quarter 2013 results demonstrated significant strength and improvement on a year-over-year basis. Revenue surged by 24.7% to \$35.7 million from \$28.7 million in the fourth quarter of 2012, while gross profit increased by 186.8% to \$3.8 million, or 10.5% of revenue. As a result, EBITDA increased by 188.3% to \$1.0 when compared to the fourth quarter of 2012. Sales momentum, driven by robust demand in certain key end-markets in the US during the fourth quarter, continues into the current year, providing us with an optimistic view for 2014.

A year ago, our commitment to shareholders was to *maintain focus on operating the business profitably with tight controls on costs, managing working capital and maximizing capacity utilization to drive profitable growth in an improved economic environment* – we proudly achieved these objectives in 2013. Our mission continues to be to further the growth and profitability of Tree Island. We took measures early in the new-year to solidify the consolidated statement of financial position by announcing the early redemption of the Company's 10% second lien convertible debentures. This will result in a significant reduction in interest expense going forward and provide flexibility for growth opportunities. We look forward to sharing our continued success with you during the course of 2014. We would like to thank our employees for continuing to build Tree Island's reputation for product quality and service leadership, to our customers, suppliers and investors, we extend our sincerest appreciation for working with us.

Sincerely,

Amar S. Doman
Chairman of the Board of Directors

Dale R. MacLean
Director, President and Chief Executive Officer

MANAGEMENT'S DISCUSSION AND ANALYSIS

December 31, 2013 and 2012

The following is a discussion of the financial condition and results of operations of Tree Island Steel Ltd. ("Tree Island Steel" or the "Company") and its wholly owned operating subsidiary Tree Island Industries Limited ("TII") (together with Tree Island Steel, referred to as "Tree Island"). This discussion is current to March 11, 2014 and should be read in conjunction with the consolidated financial statements for the year ended December 31, 2013. Tree Island Steel's consolidated financial statements are prepared in accordance with International Financial Reporting Standards ("IFRS") applicable to the preparation of financial statements and are reported in Canadian dollars. Additional information relating to Tree Island Steel, including the audited consolidated financial statements and Annual Information Form ("AIF") for the year ended December 31, 2013, can be found at www.sedar.com or on Tree Island Steel's website at www.treeisland.com.

1. FORWARD-LOOKING STATEMENTS AND RISK

This management's discussion and analysis ("MD&A") includes forward-looking information with respect to Tree Island Steel, including our business, operations and strategies, as well as financial performance and conditions. The use of forward-looking words such as, "may," "will," "expect" or similar variations generally identify such statements. Any statements that are not statements of historical fact should be considered to be forward-looking statements. Although we believe that the forward-looking statements are reasonable, they involve risks and uncertainties, including the risks and uncertainties discussed under the heading "Risks Relating to the Company's Business" in the Company's AIF for the year ended December 31, 2013.

The forward-looking statements contained herein reflect management's current beliefs and are based upon certain assumptions that management believes to be reasonable based on the information currently available to management. By their very nature, forward-looking statements involve inherent risks and uncertainties, both general and specific, and a number of factors could cause actual events or results to differ materially from the results discussed in the forward-looking statements. In evaluating these statements, prospective investors should specifically consider various factors including the risks outlined herein under the heading "Risk Factors" which may cause actual results to differ materially from any forward-looking statement. Such risks and uncertainties include, but are not limited to: general economic, market and business conditions, the cyclical nature of our business and demand for our products, financial condition of our customers, competition, volume and price pressure from import competition, deterioration in the Company's liquidity, disruption in the supply of raw materials, volatility in the costs of raw materials, significant exposure to the Western United States due to lack of geographic diversity, dependence on the construction industry, transportation costs, foreign exchange fluctuations, leverage and restrictive covenants, labour relations, trade actions, dependence on key personnel and skilled workers, reliance on key customers, intellectual property risks, energy costs, un-insured loss, credit risk, operating risk, management of growth, changes in tax, environmental and other legislation, and other risks and uncertainties set forth in our publicly filed materials.

This MD&A has been reviewed by the Board of Directors of Tree Island and its Audit Committee, and contains information that is current as of the date of this MD&A, unless otherwise noted. Events occurring after that date could render the information contained herein inaccurate or misleading in a material respect. Readers are cautioned not to place undue reliance on this forward-looking information and management of Tree Island undertakes no obligation to update publicly or revise any forward-looking information, whether as a result of new information, future events or otherwise except as required by applicable securities laws.

2. NON-IFRS MEASURES

References in this MD&A to "EBITDA" are to operating income and adding back depreciation and references to "Adjusted Net Income (Loss)" are to net income (loss) per IFRS adjusted for certain non-cash items including non-cash financing expenses, changes in fair value of financial instruments, gain (loss) on renegotiated debt (if any), and deferred income expense (recovery). EBITDA is a measure used by many investors to compare companies on the basis of ability to generate cash flows from operations. Adjusted Net Income (Loss) is a measure for investors to understand the impact of significant non-cash items that affect our results from operations. Neither EBITDA nor Adjusted Net Income (Loss) are earnings measures recognized by IFRS and do not have a standardized meaning prescribed by IFRS. We believe that EBITDA and Adjusted Net Income (Loss) are important supplemental measure for evaluating our performance. You are cautioned that EBITDA and Adjusted Net Income (Loss) should not be construed as alternatives to net income or loss, determined in accordance with IFRS, as indicators of

performance or to cash flows from operating, investing and financing activities as measures of liquidity and cash flows. Our method of calculating EBITDA and Adjusted Net Income (Loss) may differ from methods used by other issuers and, accordingly, our EBITDA or Adjusted Net Income (Loss) may not be comparable to similar measures presented by other issuers.

3. TREE ISLAND

3.1. About Tree Island

Tree Island Steel was incorporated under the laws of Canada on August 2, 2012 upon corporate conversion. Prior to October 1, 2012, TII was wholly owned by Tree Island Wire Income Fund (the "Fund"). On October 1, 2012, the Fund was converted, on a tax deferred basis, from an open-ended limited purpose trust to an incorporated corporation (the "Corporate Conversion") pursuant to a plan of arrangement (the "Arrangement") under the Canada Business Corporations Act. Under the Arrangement, unitholders of the Fund received common shares ("Shares") of the Company, on a one-for-one basis. The business of the Fund continues to be conducted by the Company, through TII, and all obligations of the Fund have been assumed by Tree Island Steel.

In connection with the Arrangement, the Company assumed all of the covenants and obligations of the Fund relating to the Convertible Debentures ("Debentures") and Warrants. The Debentures became convertible subordinated debentures of the Company and holders were entitled to receive Shares, rather than Units, at the same conversion price at which the Units were previously issuable upon conversion thereof, subject to adjustment in certain events as provided for in the Debenture Indenture. The Warrants are convertible into Shares at the same price at which the Warrants were convertible into units of the Fund, subject to adjustment as provided for in the Warrant Certificates governing the Warrants.

The trustees of the Fund became the directors of Tree Island Steel and the officers and management of the Fund became officers and management of Tree Island Steel.

There were 28,546,350 shares outstanding as of December 31, 2013 and 60,687,650 shares outstanding as of March 11, 2014.

As at December 31, 2013, the total number of Debentures remaining outstanding was 161,440 or \$16,144,000 principal outstanding. Subsequent to year end, the Company announced on January 27, 2014 that it would redeem all outstanding convertible debentures by March 4, 2014. On March 4, 2014 the Company redeemed the remaining \$174,600 principal on the outstanding convertible debentures. Between January 1, 2014 and March 3, 2014 \$15,969,400 Convertible Debentures were converted into Shares of the Company. The redemption is more fully described in Note 25 to the consolidated financial statements.

As at December 31, 2013 the total number of Warrants remaining outstanding was 4,575,000. Subsequent to year end, 202,500 Warrants were exercised and 202,500 shares issued. As at March 11, 2014, the total number of Warrants remaining outstanding is 4,372,500.

3.2. About TII

Organizational Structure

Our corporate structure has the following primary entities: TII which is our Canadian operating company as well as the ultimate parent company to our operations in the United States managed through our US operating subsidiary, Tree Island Wire (USA) Inc. ("TIW") In addition, we have a China based sourcing operation.

Products

TII is a manufacturer and supplier of premium quality wire products for a broad range of applications. Our goal is to match the appropriate wire product, level of quality and price point for our customers needs. We achieve this by manufacturing most of our products at our own manufacturing facilities, while outsourcing others from qualified manufacturers. We market these products to customers in Canada, the United States and internationally.

Our manufactured products offer: consistent, high quality standards that meet customers' needs, ASTM standards and applicable codes; broad range of products; short lead times; and technical support and reliable service. We market our products under the following brands:



The products we source from other suppliers are generally limited to high-volume commodity items, or items we do not produce. Products within this group meet general industry specifications but are not customized to individual customer requirements. Outsourced products allow us to enhance our relationship with those customers that require competitively priced commodity products. These products typically create complementary pull through for our manufactured products. As a service to our customers, we also use our network of suppliers world-wide to source commodity wire products and direct ship to our customers.

Markets

The following summarizes the markets, key product groups, the specific end-use markets, and regions we serve with of our products:

Markets	Brand	Key Product Groups	Specific End-Use Markets	Regions
Industrial	Tree Island, TI Wire	Low carbon wire (bright/galvanized/annealed) High carbon wire (bright/galvanized/annealed) Hi-tensile baling wire	Wire fabricating, industrial applications, OEM manufacturing (i.e. mattresses, inner springs), forestry, recycling	North America and International
Residential Construction	Tree Island, Halsteel, K-Lath	Collated, bulk and packaged nails, and stucco reinforcing mesh	Construction and renovation for new and existing homes	North America and International
Commercial Construction	Tree Island, TI Wire	Welded wire reinforcement mesh and concrete reinforcing products	Commercial construction, mining, infrastructure projects	North America and International
Agricultural	Tree Island, Tough Strand	Hi-tensile game fence, farm fence, vineyard wire, barbed wire	Agriculture, farming	North America
Specialty Applications	Industrial Alloys	Stainless spring wire, cold heading wire, shaped wire, specialty alloy bar, and wire	Consumer products, industrial applications, telecommunications, aerospace, automotive, oil and gas	North America and International

Seasonality

Our operations are impacted by the seasonal nature of the various industries we serve, primarily the construction and agriculture industries. Accordingly, revenues, sales volumes and operating results for interim quarters are not necessarily indicative of the results that may be expected for the full fiscal year and fourth quarter results are traditionally lower than other quarters due to the onset of winter and the corresponding reduction in agricultural and construction activities.

4. DEVELOPMENTS AND 2013 BUSINESS OVERVIEW

Business Overview

Modest economic growth, volatility of raw material costs and competitive pressures continue to be a concern, offset by increases in economic and construction activity in the US, with stable or modest improvements in our other key markets. While we can give no assurances that these improvements will continue, we believe that construction activity can be impacted by the direction of the economy, the direction of interest rates, home prices and new construction projects in the pipeline. In response to these challenges, we continue to diversify and manage our product mix, maintain price discipline and manage our costs closely as part of our business strategy.

For the year ended December 31, 2013 gross profit improved to \$17.3 million from \$13.0 million in the year ended

December 31, 2012. As a result, gross profit per ton increased to \$153 per ton from \$127 per ton. Tree Island achieved EBITDA of \$7.2 million versus EBITDA of \$3.6 million during 2012. The improvements in gross profit, gross profit per ton, and EBITDA were largely the result of our ongoing focus on profitable growth, cost management and operational efficiencies.

Redemption of Debentures

On January 27, 2014, the Company announced that it would redeem all of its 10% second Lien Convertible Debentures scheduled to mature on November 26, 2014 by March 4, 2014 (the "Redemption Date"). By the Redemption Date, the Company had redeemed \$174,600 of Convertible Debentures. Between January 1, 2014 and the Redemption Date, a total of \$15,969,400 in principal amount of Debentures was converted to 31,938,800 shares. As at the date of these consolidated financial statements, the current amount of issued and outstanding common shares is 60,687,650.

Union Negotiations

On April 30, 2013 Tree Island and the United Steelworkers Local 8065 successfully concluded a new three year collective agreement. The agreement covers hourly employees at Tree Island's Etiwanda, CA manufacturing facility. The new collective agreement is expires on September 8, 2016.

On September 26, 2013 Tree Island and the Canadian Office and Professional Employees Union Local 378 successfully concluded a new collective agreement. The agreement covers salary employees at Tree Island's Richmond, BC's administration office, and foreman, supervisors, and quality control employees in the Richmond, BC manufacturing facility. The new collective agreement expires September 30, 2015.

On November 4, 2013 Tree Island and the United Electrical, Radio and Machine Workers of America Local 1421 successfully concluded a new three year collective agreement. The agreement covers hourly employees at Tree Island's Pomona, CA manufacturing facility. The new collective agreement is expires on November 9, 2016.

Share Buy-Back

On September 5, 2013, the normal course issuer bid was extended to September 8, 2014. Under the renewed normal course issuer bid Tree Island Steel, may purchase up to 1,800,000 shares. During the year ended December 31, 2013 Tree Island Steel did not purchase shares under its normal course issuer bid. After December 31, 2013, no additional shares have been purchased or cancelled by Tree Island Steel, under the Share Buy-Back.

Trade Action Reviews

During the first quarter of 2013, the Canada Border Services Agency ("CBSA") initiated an investigation subsequent to a complaint filed by the Company and supported by most Canadian producers of galvanized steel wire. In the second quarter, the CBSA made a preliminary determination of dumping against galvanized steel wire imported into Canada from China, Spain and Israel, with a further finding of subsidization against galvanized steel wire from China. During the third quarter, the CBSA issued a final determination of dumping respecting certain galvanized steel wire from China, Israel and Spain and made a final determination of subsidization in respect of certain galvanized steel wire from China. However, the Canadian International Trade Tribunal found that dumping and subsidizing from China, Israel and Spain did not cause injury to the Canadian galvanized wire industry, and therefore anti-dumping and countervailing duties would not be collected by the CBSA.

During the first quarter of 2014, U.S. Department of Commerce announced an antidumping and countervailing duty petition against carbon and certain steel alloy wire rod from The People's Republic of China. The preliminary determinations are due in the second quarter of 2014, or later. We are monitoring the case closely and are in the process of evaluating any potential impact for Tree Island.

Outlook

We continue to see moderate improvements in the economic environment and we remain cautious in our outlook due to the modest pace of recovery in the United States and economic activity in Canada. Our strategies are focused on matching competitive pricing with raw material costs, closely managing costs and leveraging our capacity utilization. Our priority is to achieve sustainable revenue growth and profitability for the long run. We anticipate further fluctuations in our primary raw material costs. We will implement any changes to our diverse product, so as to focus on profitable sales, manage our

inventories to minimize the impact in steel costs fluctuations, carefully manage costs, and continue to drive profitable growth in an improved economic environment.

5. RESULTS FROM OPERATIONS

	December 31		Year Ended December 31		
	2013	2012	2013	2012	2011
Summary of Results (\$000's except for tonnage and per unit amounts)					
Sales Volumes – Tons ⁽¹⁾	27,295	21,583	113,401	102,408	110,314
Sales	\$ 35,748	\$ 28,657	\$ 153,438	\$ 146,238	\$ 150,030
Cost of sales	(31,248)	(26,568)	(133,238)	(130,132)	(136,331)
Depreciation	(731)	(775)	(2,903)	(3,074)	(3,241)
Gross profit	3,769	1,314	17,297	13,032	10,458
Selling, general and administrative expenses	(3,500)	(3,221)	(12,982)	(12,527)	(12,411)
Operating gain (loss)	269	(1,907)	4,315	505	(1,953)
Foreign exchange gain (loss)	5	12	114	87	(722)
Gain (loss) on sale of property, plant and equipment	-	18	(42)	448	11
Property, plant and equipment impairment reversal (impairment)	671	-	671	-	(858)
(Loss) gain on sale of subsidiary	(13)	-	218	-	-
Changes in financial instruments recognized at fair value	(147)	10	(135)	(717)	2,331
Gain on renegotiated debt	-	-	-	17,805	(3,234)
Financing Expenses	(1,490)	(1,324)	(5,890)	(7,299)	(8,500)
(Loss) income before income taxes	(705)	(3,191)	(749)	10,829	(12,925)
Income tax recovery (expense)	40	846	94	(458)	64
Net (loss) income	(665)	(2,345)	(655)	10,371	(12,861)
Operating gain (loss)	269	(1,907)	4,315	505	(1,953)
Add back depreciation	731	775	2,903	3,074	3,241
EBITDA ⁽²⁾	1,000	(1,132)	7,218	3,579	1,288
Foreign exchange gain (loss)	5	12	114	87	(722)
EBITDA including foreign exchange	1,005	(1,120)	7,332	3,666	566
Net (loss) income	(665)	(2,345)	(655)	10,371	(12,861)
Add back significant non-cash items					
Non-cash financing expenses	662	648	2,750	3,961	5,349
Non-cash gain on renegotiated debt	-	-	-	(17,805)	3,234
Changes in financial instruments recognized at fair value	147	(10)	135	717	(2,331)
Deferred income tax recovery (expense)	582	(200)	514	1,207	(13)
Adjusted net income (loss) ⁽²⁾	726	(1,907)	2,744	(1,549)	(6,622)
Per unit					
Net income (loss) per share / unit - basic	(0.03)	(0.11)	(0.03)	0.47	(0.56)
Net income (loss) per share / unit - diluted	(0.03)	(0.11)	(0.03)	0.25	(0.56)
Per ton					
Gross profit per ton	138	61	153	127	95
EBITDA per ton	37	(52)	64	35	12

Financial position	Year Ended December 31		
	2013	2012	2011
Total assets	\$ 85,635	\$ 81,102	\$ 91,005
Total non-current financial liabilities	\$ 13,536	\$ 29,652	\$ 42,789

⁽¹⁾ Sales volumes exclude tons which were processed as part of tolling arrangements

⁽²⁾ See definition of EBITDA and Adjusted Net Income in Section 2 - Non-IFRS Measures

6. COMPARISON OF RESULTS FOR THE THREE MONTHS ENDED DECEMBER 31, 2013 AND 2012

	Q4 2013	Q4 2012
SALES	\$35,748	\$28,657

During the three months ended December 31, 2013, we generated sales revenue of \$35.7 million, an increase of \$7.1 million, or 24.7%, from the same period in 2012. The increase in revenue primarily reflects increased volumes of 26.5%, primarily from our industrial markets in Canada and the US. This is offset by lower pricing per ton which is in part attributable to lower overall steel costs when compared to the prior period coupled with competitive factors.

Sales volumes by market were as follows:

Market	Three Months Ended December 31, 2013				Three Months Ended December 31, 2012			
	Revenue	% of Revenue	Tons	% of Sales Volumes	Revenue	% of Revenue	Tons	% of Sales Volumes
Industrial	\$ 14,513	40.6%	12,853	47.1%	\$ 10,874	38.0%	10,010	46.4%
Residential	9,879	27.6%	6,590	24.1%	7,872	27.5%	5,076	23.5%
Commercial	5,790	16.2%	5,173	19.0%	5,400	18.8%	4,636	21.5%
Agricultural	2,507	7.0%	1,975	7.2%	1,130	3.9%	804	3.7%
Specialty	3,059	8.6%	704	2.6%	3,293	11.5%	957	4.4%
International	-	0.0%	-	0.0%	88	0.3%	100	0.5%
Total	\$ 35,748	100.0%	27,295	100.0%	\$ 28,657	100.0%	21,583	100.0%

Industrial volumes increased 28% primarily from sales of galvanized wire for the Canadian and US markets. The residential construction market saw increases of 30% coming from stucco products and other residential products into the US market. Commercial construction saw increases of 12% largely from mesh and agricultural saw increases of 146% led by fencing sales. Increased sales in our Construction and Agricultural markets reflect a return of volume after a decrease in 2012 for the same period. Sales to the specialty sector decreased because the prior period included custom processing that did not occur to the same extent in 2013. International trading sales decreased reflecting the discontinuation of certain projects in our Chinese operation.

During the fourth quarter of 2013, sales volumes continued to be driven by our North American manufactured products resulting from our continued emphasis on manufacturing as a core competency. Going forward, we will continue to review and optimize the mix of manufactured versus imported products as we work to enhance profitability and provide our customers with value and the specific products they need.

	Q4 2013	Q4 2012
COST OF SALES	\$31,248	\$26,568

For the three months ended December 31, 2013, cost of sales increased by \$4.7 million or 17.6% from the same period last year. This increase in cost of sales reflects 26.5% increase in volumes sold in the period. The increase in cost of sales was lower than the increase in volume due to lower overall raw material costs of both carbon and stainless steel, as we purchased in larger volumes in 2013 versus 2012.

	Q4 2013	Q4 2012
GROSS PROFIT	\$3,769	\$1,314

As a result of the increased volume, higher revenue and lower raw material costs noted above, during the three months ended December 31, 2013, gross profit increased \$2.5 million or 186.8%. The gross profit margin was 10.5% versus 4.6% in the prior period and gross profit per ton was \$138 per ton, compared to \$61 per ton in 2012. The increase in gross profit margin and gross profit per ton are from increased volumes compared to prior period, resulting in better recovery on fixed overhead costs.

	Q4 2013	Q4 2012
SELLING, GENERAL, AND ADMINISTRATIVE EXPENSES	\$3,500	\$3,221

SG&A expenses increased by \$0.3 million, or 8.7% due mainly to legal expenses related to the Canadian galvanized wire trade action.

	Q4 2013	Q4 2012
EBITDA	\$1,000	\$(1,132)

EBITDA for the three months ended December 31, 2013 increased by \$2.1 million. The 188.3% improvement reflects profitability gains coming from growth in volumes and lower raw material costs, while keeping SG&A costs in line.

	Q4 2013	Q4 2012
FINANCING EXPENSES	\$1,490	\$1,324

For the three months ended December 31, 2013, financing expenses increased by \$166 thousand. The components of financing expense are below:

	<u>Three months ended December 31</u>	
	<u>2013</u>	<u>2012</u>
Non-cash accretion of debt discount and interest on long term debt and Convertible Debentures	\$ 662	\$ 648
Cash interest on Convertible Debentures	500	487
Interest on Senior Credit Facility	156	186
Other interest and financing costs	154	(18)
Financing transaction costs and amortization of deferred financing costs	18	21
	<u>\$ 1,490</u>	<u>\$ 1,324</u>

	Q4 2013	Q4 2012
FOREIGN EXCHANGE GAIN	\$5	\$12

Our Canadian operation, whose functional currency is the Canadian dollar, has a portion of its assets, liabilities, sales and expenses denominated in currencies other than the Canadian dollar, in particular the US dollar. Foreign exchange gains and losses are unpredictable in nature and therefore can be expected to vary significantly from period-to-period and over time.

	Q4 2013	Q4 2012
INCOME TAX RECOVERY	\$40	\$846

The income tax recovery for the current period relates to a change in tax reserves. Current income tax recovery represents \$0.6 million (2012 – \$0.6 million recovery) and deferred income tax expense represents \$0.6 million (2012 - \$0.2 million recovery). The income tax recovery was based on the statutory tax rate of 25.8% (2012 – 25.0%) applied to the income of subsidiaries before taxes, with adjustments for permanent differences between accounting and taxable income.

	Q4 2013	Q4 2012
NET LOSS	\$(665)	\$(2,345)

For the fourth quarter of 2013 there was a net loss of \$0.7 million (2012 - net loss of \$2.3 million), or basic and diluted loss per share of \$0.03 (2012 - net loss of \$0.11 per unit basic and diluted). The decrease in net loss is the result of improved gross profit in the quarter and the reversal of a \$0.7 million impairment previously recorded on certain machinery and equipment as part of the Company's annual review of long lived assets.

	Q4 2013	Q4 2012
ADJUSTED NET INCOME (LOSS)	\$726	\$(1,907)

Adjusted for the impact of certain non-cash items recognized in net income, Adjusted Net Income for the three months ended December 31, 2013 increased by \$2.6 million primarily due to an increase in operating income, which was driven by higher sales volumes versus the same period in the prior year.

7. COMPARISON OF RESULTS FOR THE YEAR ENDED DECEMBER 31, 2013 AND 2012

	2013	2012
SALES	\$153,438	\$146,238

During the year ended December 31, 2013, we generated sales revenue of \$153.4 million, an increase of \$7.2 million, or 4.9% from the same period in 2012. The increase in revenue primarily reflects increased volumes of 10.7%. The increase in volumes are primarily from our industrial markets in Canada and the US. Lower pricing per ton, which is in part attributable to lower overall steel costs, when compared to the prior period coupled with competitive factors offset the higher volumes overall.

Sales volumes by market were as follows:

Market	Year Ended December 31, 2013				Year Ended December 31, 2012			
	Revenue	% of Revenue	Tons	% of Sales Volumes	Revenue	% of Revenue	Tons	% of Sales Volumes
Industrial	\$ 55,040	35.9%	47,736	42.1%	\$ 51,039	34.9%	40,943	39.9%
Residential	45,090	29.4%	29,314	25.9%	44,046	30.1%	28,574	27.9%
Commercial	25,891	16.9%	22,660	20.0%	23,866	16.3%	19,733	19.3%
Agricultural	13,465	8.8%	10,093	8.9%	12,171	8.3%	8,558	8.4%
Specialty	13,905	9.0%	3,546	3.1%	14,726	10.1%	4,159	4.1%
International	47	0.0%	52	0.0%	390	0.3%	441	0.4%
Total	\$ 153,438	100.0%	113,401	100.0%	\$ 146,238	100.0%	102,408	100.0%

Overall sales volumes increased by 10,993 tons or 10.7% in the year and the product mix also changed from the prior period. Volumes in our industrial market are higher due to sales of galvanized wire. In the construction markets, residential demand is higher than the prior period mainly due to demand for stucco products. The commercial construction market increased due to increased sales in concrete reinforcing products. The construction market experienced a return of volume after a decrease in 2012 versus 2011. Agricultural volumes are ahead of the prior period due to increased demand for fencing. Specialty sales are slightly down year over year because, as noted above, custom processing did not occur to the same extent as in 2012.

	2013	2012
COST OF SALES	\$133,238	\$130,132

For the year ended December 31, 2013, cost of sales increased by \$3.1 million or 2.4% from the same period last year. This increase in cost of sales is lower than the increase in volume due to lower overall raw material costs of both carbon and stainless steel, due to our ability to purchase in larger volumes compared to the prior year. Our average cost of carbon rod decreased by 9.5% when compared to 2012. Stainless steel costs were lower, primarily from falling surcharges. The cost of zinc remained consistent with the same period in 2012. Because carbon rod is usually transacted in US dollars, the cost of carbon rod for our Canadian operations was negatively impacted by the weakening of the Canadian dollar which resulted in increasing costs of goods sold by 1.0%.

	2013	2012
GROSS PROFIT	\$17,297	\$13,032

During the year ended December 31, 2013, gross profit increased \$4.3 million or 32.7%. Gross profit margin increased to 11.3% versus 8.9% in the prior period and gross profit per ton increased to \$153 per ton compared to \$127 per ton in 2012. The increase in gross profit and gross profit per ton are the result of stronger volumes and margin, lower overall raw materials costs and our focus on the profitability of our sales mix.

	2013	2012
SELLING, GENERAL, AND ADMINISTRATIVE EXPENSES	\$12,982	\$12,527

SG&A expenses increased \$0.5 million, or 3.6% due largely to an increase in retirement and severance allowances, and legal expenses related to the Canadian galvanized wire trade action.

	2013	2012
EBITDA	\$7,218	\$3,579

EBITDA for the year ended December 31, 2013 increased by \$3.6 million or 101.7% due to growth in volumes, improvements in profitability and keeping SG&A costs in line.

	2013	2012
FINANCING EXPENSES	\$5,890	\$7,299

For the year ended December 31, 2013, financing expenses decreased by \$1.4 million. The decrease is primarily due to the decrease in non-cash accretion of debt discount and interest on long-term debt as a result of the renegotiation of our long-term trade debt in June 2012. The components of financing expense are below:

	Year Ended December 31	
	2013	2012
Non-cash accretion of debt discount and interest on long term debt and Convertible Debentures	\$ 2,750	\$ 3,961
Cash interest on Convertible Debentures	1,899	1,940
Interest on Senior Credit Facility	622	707
Other interest and financing costs	554	305
Financing transaction costs and amortization of deferred financing costs	65	386
	\$ 5,890	\$ 7,299

	2013	2012
FOREIGN EXCHANGE GAIN	\$114	\$87

Our Canadian operation, whose functional currency is the Canadian dollar, has a portion of its assets, liabilities, sales and expenses denominated in currencies other than the Canadian dollar, in particular the US dollar. Foreign exchange gains and losses are unpredictable in nature and therefore can be expected to vary significantly from period-to-period and over time.

	2013	2012
INCOME TAX RECOVERY (EXPENSE)	\$94	\$(458)

In the current year, the current income tax recovery relates to a change in the tax reserves and the deferred income tax expense relates to the utilization of loss carryforwards. Current income tax recovery represents \$0.6 million (2012 - \$0.7 million) and a deferred income tax expense represents \$0.5 million (2012 - \$1.2 million). The income tax expense was based on the statutory tax rate of 25.8% (2012 - 25.0%) applied to the income of subsidiaries before taxes, with adjustments for permanent differences between accounting and taxable income. The income tax expense for the prior year was largely due to deferred tax from the gain on renegotiation of debt.

	2013	2012
NET (LOSS) INCOME	\$(655)	\$10,371

The current year includes a reversal an impairment of \$671 (see Note 8 of the financial statements), and a gain of \$218 from the sale of a subsidiary (see Note 24 of the financial statements) In the prior year, net income included \$17.8 million relating to the renegotiation of long-term debt which is described further in section 8.2 of this MD&A.

	2013	2012
ADJUSTED NET INCOME	\$2,744	\$(1,549)

Adjusted for the impact of certain non-cash items recognized in net income, Adjusted Net Income for the year ended December 31, 2013 increased by \$4.3 million, improving significantly from the prior year because of increased sales volume coupled with lower raw material cost as we were able to purchase in larger volumes compared to the prior year, and keeping our SG&A costs in line.

8. FINANCIAL CONDITION AND LIQUIDITY

8.1. Working Capital

Our business requires an ongoing investment in working capital, comprised primarily of accounts receivable and inventories, financed primarily by credit in the form of our Senior Revolving Facility and accounts payable and accrued liabilities. Our largest investment in working capital is in our inventories. We rely on credit from our key suppliers to finance the purchase of the raw materials needed for our operations.

Our investment in working capital fluctuates from quarter-to-quarter based on factors such as seasonal sales demand, strategic purchasing decisions taken by management, and the timing of collections from customers and payments made to our suppliers. The construction and agricultural markets are seasonal in nature. As a result, sales and working capital requirements may be higher in the first three quarters when demand is historically highest.

A summary of the composition of our working capital as at December 31, 2013 compared to 2012 is provided below (\$000's):

	December 31		December 31	
	2013		2012	
Investment in working capital assets				
Cash	\$	1,264	\$	2,371
Accounts receivable		16,960		11,984
Inventories		35,307		32,732
Other current assets		1,691		2,200
	\$	55,222	\$	49,287
Less current liabilities				
Senior Revolving Facility		(16,370)		(10,785)
Accounts payable and accrued liabilities		(7,619)		(9,649)
Other current liabilities		(561)		(1,741)
		(24,550)		(22,175)

As at December 31, 2013 there was a significant increase in accounts receivable as a result of the higher volumes in the fourth quarter of 2013 compared to fourth quarter 2012. Inventories increased in total mainly due to an increase in raw material purchases as part of our strategy to stock up for the first quarter production requirements. Finished goods inventory declined in part due to higher sales volumes in Q4 2013, overall lower raw material costs, and improving the alignment of inventories against sales levels.

Our objective for managing the investment in working capital is to maximize the turnover of productive current assets, being accounts receivable and inventories. We manage our cash to keep utilization of our Senior Revolving Facility as low as practicable to maintain borrowing capacity for when it is needed and to reduce ongoing interest costs. We also work with our key vendors to use vendor credit when available on advantageous terms.

We manage our inventories with an emphasis on a continuous inflow of raw materials to meet our production needs balanced with strategic purchases. We have also established processes to regularly adjust the levels of finished goods stocked in our warehouses so that we can both satisfy customer needs and meet our objective of minimizing inventories on hand.

We manage our accounts receivable and the related credit risk by focusing on well-established customers with favourable credit profiles. The credit worthiness of customers is assessed using credit scores supplied by a third party and through direct monitoring of their financial well-being on a continual basis. We have established guidelines for customer credit limits and when thresholds in these areas are reached, appropriate precautions are taken to improve collectability. We maintain provisions for potential credit losses (allowance for doubtful accounts) and such losses to date have been within our expectations.

8.2. Liquidity and Capital

Cash Flow

Following is a summary of our cash flow for the three months and year ended December 31, 2013 and 2012 (\$000's – bracketed figures indicate use of cash):

	Three Months Ended December		Year Ended December 31	
	2013	2012	2013	2012
Cash provided by (used in) operating activities	\$ 2,044	\$ (479)	\$ 8,672	\$ 3,962
Working capital adjustments	(3,071)	6,928	(9,951)	133
Net cash (used in) provided by operating activities	\$ (1,027)	\$ 6,449	\$ (1,279)	\$ 4,095
Net cash (used in) provided by investing activities	\$ (104)	\$ (84)	\$ (47)	\$ 171
Cash flows from financing activities				
Advance on (Repayment of) Senior Term Loan	(125)	(83)	(500)	4,792
Repayment of long-term debt	(407)	(298)	(1,519)	(6,812)
Conversion of Warrants	-	-	171	-
Interest paid	(753)	(608)	(3,039)	(2,929)
Normal Course Issuer Bid	-	(16)	-	(317)
Advance on (Repayment of) Senior Revolving Facility	1,539	(5,846)	5,053	(462)
Net cash provided by (used in) financing activities	\$ 253	\$ (6,851)	\$ 165	\$ (5,728)
Exchange rate changes on foreign cash balances	28	7	54	(19)
Decrease in cash balances	\$ (850)	\$ (479)	\$ (1,107)	\$ (1,481)

During the three months ended December 31, 2013, cash flow used in operating activities was \$1.0 million and for the year ended December 31, 2013 cash flow used in operating activities was \$1.2 million, compared to \$6.4 million cash provided and \$4.1 million cash provided over the same periods in the prior year with the increases resulting from increased EBITDA and lower cash financing costs.

During the three months ended December 31, 2013 working capital adjustments had a negative impact on cash flow mainly due to increase in inventories. During the year ended December 31, 2013, working capital adjustments also negatively impacted cash flow primarily as a result of an increase in inventories and the timing of collections on our accounts receivable as compared to the prior periods, especially with stronger sales in December compared to the prior period.

Cash flows used in investing activities were primarily the result of maintenance capital expenditure during the three and twelve month periods ended December 31, 2013 and 2012. The full year period in 2012 includes proceeds on \$0.5 million receipt in cash from the holdback from the sale of surplus land in 2009 and \$0.4 million from the sale of a subsidiary in the third quarter.

In regards to the long-term debt, during the three months and year ended December 31, 2013 we made payments of \$0.4 million and \$1.5 million respectively compared to \$0.3 million and \$6.8 million during the same periods in the prior year. The decrease is the result of the renegotiation and settlement of long-term debt in June 2012. The settlement was funded through the \$5 million in proceeds received from the Senior Term Loan (described below under the section *Senior Credit Facility*).

During the three month period we drew \$1.5 million (2012 - \$5.8 million in repayment) on the Senior Revolving Facility and during the year ended December 31, 2013, we drew \$5.1 million from our Senior Revolving Facility (2012 - \$0.5 million in repayment) to support working capital needs in the year.

Senior Credit Facility

The Senior Credit Facility was renewed and amended on June 11, 2012. Under the terms of the amended Senior Credit Facility, up to \$40 million may be borrowed in Canadian and US currency. Interest is charged at variable rates based on the Canadian and/or US prime rate and the Canadian B.A. and/or Euro dollar rate. The amended Senior Credit Facility matures on June 11, 2016.

The Senior Credit Facility consists of a Senior Revolving Facility and a \$5.0 million Senior Term Loan. Management expects that the Senior Credit Facility is sufficient to accommodate our current daily operating needs. The credit available at any given time under the Senior Credit Facility is limited to the amount of the calculated borrowing base, less a minimum availability and certain reserves if applicable.

The Senior Revolving Facility has defined covenants, primarily a quarterly test whereby the Company is required to meet a defined fixed charge coverage ratio if the availability on the Senior Revolving Facility falls below a certain threshold ("Availability Test"). In addition, there are other restrictive covenants that limit the discretion of management with respect to certain business matters.

As at December 31, 2013 the availability was in excess of the Availability Test and the Company was in compliance with its covenants on the Senior Credit Facility. For more details on the Senior Credit Facility refer to Note 9 of the Company's consolidated financial statements for the year ended December 31, 2013.

Long-Term Debt Agreements

On June 11, 2012 the Fund completed certain amendments to its long-term debt with both principal vendors. With one of the vendors, Tree Island entered into a Second Amendment to the long-term debt agreement ("Agreement"). Under the terms of this Agreement approximately US\$15.8 million in principal debt will be repaid monthly over a ten year amortization period. Interest is non-compounding, will be accrued on a declining balance starting in June 2017 and is payable over a four year period beginning June 2024. Additionally, approximately US\$16.7 million of principal debt to the other vendor was extinguished with a final payment of US\$5.0 million. As a result of these amendments and settlement, in the second quarter of 2012, the company recorded a gain on renegotiation of debt of \$17.8 million, net of transaction costs.

9. CAPITAL EXPENDITURES AND CAPACITY

For the three months and year ended December 31, 2013, we made capital expenditures of \$128 thousand and \$510 thousand respectively (2012 - \$117 thousand and \$349 thousand) made up primarily of maintenance capital. We have planned capital expenditures for the 2014 fiscal year to a level which we believe will be sufficient to maintain the existing productive capacity of our manufacturing operations. Non-maintenance capital is funded out of our Senior Credit Facility and maintenance capital is funded from cash generated by operations. We anticipate that we will continue to have sufficient capacity to meet projected future demand.

10. CONTRACTUAL OBLIGATIONS AND COMMITMENTS

As of December 31, 2013, we were committed to the contracts, operating leases and debt repayments (including scheduled interest payments on interest bearing debt) set out below, which will be financed through working capital and our Senior Revolving Facility.

	2014	2015	2016	2017	2018	Thereafter	Total
Commitments							
Wire Rod Purchases	\$ 42,684	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 42,684
Finished Goods	1,326	-	-	-	-	-	1,326
Operating Lease Agreements	1,475	1,236	1,131	11	1	-	3,854
	45,485	1,236	1,131	11	1	-	47,864
Financial Liabilities							
Senior Revolving Facility	16,370	-	-	-	-	-	16,370
Accounts Payable and accrued liabilities	7,619	-	-	-	-	-	7,619
Finance Lease	70	29	-	-	-	-	99
Senior Term Loan	500	500	500	500	500	1,792	4,292
Long-term debt	1,351	1,404	1,478	1,532	1,532	11,775	19,072
Debentures	17,602	-	-	-	-	-	17,602
	43,512	1,933	1,978	2,032	2,032	13,567	65,054
Total	\$ 88,997	\$ 3,169	\$ 3,109	\$ 2,043	\$ 2,033	\$ 13,567	\$ 112,918

The wire rod purchases are for raw materials to be used in the day-to-day operations of our manufacturing facilities and are expected to be delivered within the next seven months.

We have leases for facilities and equipment that are considered to be operating leases for accounting purposes and as such are not recorded on the consolidated statement of financial position for the year ended December 31, 2013.

The Company enters into US dollar currency forward contracts for periods consistent with a portion of US dollar currency transaction exposures, generally from one to three months. These are not designated as cash flow, fair value or net investment

hedges. The fair value of outstanding US dollar currency forwards as at December 31, 2013 was for notional \$8.6 million and the mark-to-market gain on those contracts was \$0.1 million.

11. SUMMARY OF QUARTERLY FINANCIAL INFORMATION

The table below provides selected quarterly financial information for the eight most recent fiscal quarters to December 31, 2013 (\$000's, except tons and per unit amounts). First and second quarter sales volumes are traditionally higher than the other quarters due to the seasonality of our business. Quarter-over-quarter results may also be impacted by unusual or infrequently occurring items.

These financial results are not necessarily indicative of results for any future period and should not be relied upon to predict future performance.

	Dec-31 2013	Sep-30 2013	Jun-30 2013	Mar-31 2013	Dec-31 2012	Sept-30 2012	Jun-30 2012	Mar-31 2012
Sales Volumes – Tons	27,295	29,345	29,160	27,601	21,583	24,242	25,965	30,618
Revenue	\$ 35,748	\$ 39,003	\$ 40,594	\$ 38,093	\$ 28,657	\$ 33,962	\$ 39,622	\$ 43,997
Gross Profit	\$ 3,769	\$ 3,896	\$ 5,396	\$ 4,236	\$ 1,314	\$ 3,487	\$ 4,239	\$ 3,992
EBITDA	\$ 1,000	\$ 1,550	\$ 2,859	\$ 1,809	\$ (1,132)	\$ 998	\$ 1,985	\$ 1,728
Foreign exchange gain (loss)	\$ 5	\$ (23)	\$ 106	\$ 26	\$ 12	\$ 163	\$ (397)	\$ 309
EBITDA including foreign exchange	\$ 1,005	\$ 1,527	\$ 2,965	\$ 1,835	\$ (1,120)	\$ 1,161	\$ 1,588	\$ 2,037
Net Income (Loss)	\$ (665)	\$ (43)	\$ 190	\$ (137)	\$ (2,345)	\$ (1,991)	\$ 15,125	\$ (418)
Net Income (Loss) per Unit – Basic	\$ (0.03)	\$ (0.00)	\$ 0.01	\$ (0.01)	\$ (0.11)	\$ (0.09)	\$ 0.69	\$ (0.02)
Gross Profit per Ton	\$ 138	\$ 133	\$ 185	\$ 153	\$ 61	\$ 144	\$ 163	\$ 130
EBITDA per Ton	\$ 37	\$ 53	\$ 98	\$ 66	\$ (52)	\$ 41	\$ 76	\$ 56

- Q2 2012: The second quarter includes a \$17.8 million gain realized as a result of the renegotiation and settlement of long term debt (refer to Note 11 of the December 31, 2012 consolidated financial statements on www.Sedar.com).
- Q1 2012: First quarter sales volumes and revenues increased as customers bought in advance of announced price increases.

12. ACCOUNTING POLICIES AND ESTIMATES

Tree Island's significant accounting policies are contained in Note 3 of the consolidated financial statements for the year ended December 31, 2013. Certain of these policies involve critical accounting estimates that require us to make subjective or complex judgments about matters that are inherently uncertain and because of the likelihood that materially different amounts could be reported under differing conditions or using different assumptions. We evaluate these estimates and assumptions regularly.

Critical Accounting Estimates

The areas that we consider to have critical accounting estimates are: going concern, financial instruments valued at fair value through profit and loss, inventory valuation, allowance for doubtful accounts, property, plant and equipment, and income taxes. These critical estimates and the judgments involved are discussed further in the consolidated financial statements for the year ended December 31, 2013 (Note 4).

13. RELATED PARTY TRANSACTIONS

Transactions with associated companies

The Futura Corporation ("Futura") is considered to be a related party to the Company, because of its share ownership interest and the fact that Mr. Doman, the sole shareholder and president of Futura, and Mr. Rosenfeld, the Executive Vice President of Futura, sit on the Board of Directors. Futura had purchased \$5.0 million of Debentures and was issued 1,875,000 Warrants. During the three months and year ended December 31, 2013, Futura received interest settled in cash of \$126 thousand and \$500 thousand (2012 - \$126 thousand and \$500 thousand) on the Debentures at the stated rate of interest. Subsequent to December 31, 2013, Futura converted \$5.0 million of Debentures into 10.0 million shares of the Company. Based on Tree Island

Steel's fully diluted common shares as at March 11, 2014, Futura owns 29.1% of the fully diluted common shares of the Company.

In addition, TII sells products to subsidiaries of a company of which Mr. Doman is Chairman and CEO, CanWel Building Materials Group Ltd. ("CanWel"), which amounted to, net of rebates, \$0.3 million and \$2.7 million (2012 - \$0.4 million and \$3.9 million) during the three months and year ended December 31, 2013 and trade accounts receivable owing from CanWel as at December 31, 2013 were \$83 thousand (2012 - \$86 thousand). Outstanding trade accounts receivable from CanWel at period end are unsecured, interest free and settlement occurs in cash.

Transactions with key management personnel

Included in the definition of key management for purposes of disclosure of related party transactions are members of Board of Directors and officers of Tree Island Steel. Amounts for key management personnel for the three months and year ended December 31, 2013 were \$0.4 million and \$1.9 million (2012 - \$0.4 million and \$2.1 million) which includes wages, salaries, share-based compensation (if any) and social security contributions, paid annual and sick leave, vehicle costs and bonuses. It also includes directors' fees paid to members of the Board.

14. RISKS AND UNCERTAINTIES

Investment in Tree Island Steel is subject to a number of risks. Our income is dependent upon the wire products business, which is susceptible to a number of risks. A detailed discussion of our significant business risks is provided in the 2013 Annual Information Form under the heading "Risk Factors" which can be found at www.sedar.com.

15. DISCLOSURE CONTROLS AND PROCEDURES AND INTERNAL CONTROL OVER FINANCIAL REPORTING

Disclosure Controls and Procedures

Disclosure controls and procedures are controls and other procedures that are designed to: (a) provide reasonable assurance that material information required to be disclosed by us is accumulated and communicated to management to allow timely decisions regarding required disclosure; and (b) ensure that information required to be disclosed by us is recorded, processed, summarized, and reported within the time periods specified in applicable securities legislation.

Our management, with the participation of the Chief Executive Officer and the Chief Financial Officer, has evaluated the effectiveness of our disclosure controls and procedures as of December 31, 2013. Based upon this evaluation, the Chief Executive Officer and Chief Financial Officer have concluded that these disclosure controls and procedures, as defined by National Instrument 52-109, Certification of Disclosure in Issuers' Annual and Interim Filings, are effective for the purposes set out above.

Internal Control over Financial Reporting

Our management is responsible for designing, establishing and maintaining an adequate system of internal control over financial reporting. Our internal control system was designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes, in accordance with IFRS.

Our management, with the participation of the Chief Executive Officer and the Chief Financial Officer, has conducted an evaluation of the effectiveness of our internal control over financial reporting as of December 31, 2013 based on the framework from the Committee of Sponsoring Organizations of the Treadway Commission. Based on that evaluation, management concluded that our internal control over financial reporting, as defined by National Instrument 52-109, Certification of Disclosure in Issuers' Annual and Interim Filings, is effective to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements in accordance with IFRS.

Changes in Internal Control over Financial Reporting

Under the supervision and with the participation of management, including the Chief Executive Officer and Chief Financial Officer, we have evaluated changes in internal control over financial reporting that occurred during the fiscal quarter ended December 31, 2013 and found no change that has materially affected, or is reasonably likely to materially affect, internal control over financial reporting.

Tree Island's Board of Directors and Audit Committee reviewed and approved the 2013 audited consolidated financial statements and this management's discussion and analysis prior to its release

CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2013 and 2012

MANAGEMENT'S STATEMENT OF RESPONSIBILITY

The accompanying consolidated financial statements are the responsibility of management and have been reviewed and approved by the Board of Directors. The consolidated financial statements have been prepared by management, in accordance with International Financial Reporting Standards and, where appropriate, reflect management's best estimates and judgments. Management has also prepared financial and all other information in the annual report and has ensured that this information is consistent with the consolidated financial statements.

The Company maintains appropriate systems of internal control, policies and procedures, which provide management with reasonable assurance that assets are safeguarded and the financial records are reliable and form a proper basis for preparation of the consolidated financial statements.

The Board of Directors ensures that management fulfills its responsibilities for financial reporting and internal control through an Audit Committee. This committee reviews the consolidated financial statements and reports to the Directors. The auditors have full and direct access to the Audit Committee.

The consolidated financial statements have been independently audited by Ernst & Young LLP, in accordance with Canadian generally accepted auditing standards. Their report below expresses their opinion on the consolidated financial statements of the Company.



Dale R. MacLean
Director, President, CEO, Tree Island Steel Ltd

INDEPENDENT AUDITORS' REPORT

To the Shareholders of Tree Island Steel Ltd.

We have audited the accompanying consolidated financial statements of Tree Island Steel Ltd., which comprise the consolidated statements of financial position as at December 31, 2013 and 2012, and the consolidated statements of operations, comprehensive (loss) income, shareholders / unitholders equity and cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's responsibility for the consolidated financial statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' responsibility

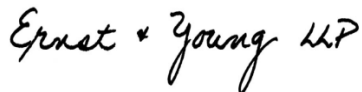
Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Tree Island Steel Ltd. as at December 31, 2013 and 2012 and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.



Chartered Accountants
March 11, 2014
Vancouver, Canada

Tree Island Steel Ltd.
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

(in thousands of Canadian dollars)

	December 31 2013	December 31 2012
Assets (Note 9)		
<i>Current</i>		
Cash	\$ 1,264	\$ 2,371
Accounts receivable (Note 6)	16,960	11,984
Inventories (Note 7)	35,307	32,732
Prepaid expenses	1,691	2,200
	<u>55,222</u>	<u>49,287</u>
<i>Property, plant and equipment (Note 8)</i>	30,255	31,592
<i>Other non-current assets (Note 9.1)</i>	158	223
	<u>\$ 85,635</u>	<u>\$ 81,102</u>
Liabilities		
<i>Current</i>		
Senior Revolving Facility (Note 9.1)	\$ 16,370	\$ 10,785
Accounts payable and accrued liabilities	7,619	9,649
Income taxes payable	201	1,346
Other current liabilities	119	83
Fair value of convertible instruments (Note 10)	241	312
Convertible Debentures (Note 10)	14,696	-
Current portion of long term borrowings (Notes 9.2, 11, 22.5)	1,911	1,748
	<u>41,157</u>	<u>23,923</u>
<i>Convertible Debentures (Note 10)</i>	-	15,634
<i>Senior Term Loan (Note 9.2)</i>	3,792	4,292
<i>Long-term debt (Note 11)</i>	9,718	9,639
<i>Finance lease (Note 22.5)</i>	26	87
<i>Other non-current liabilities (Note 11)</i>	675	449
<i>Deferred income taxes (Note 18)</i>	2,487	1,973
	<u>57,855</u>	<u>55,997</u>
Shareholders' Equity	<u>27,780</u>	<u>25,105</u>
	<u>\$ 85,635</u>	<u>\$ 81,102</u>

Approved on behalf of Tree Island Steel Ltd.

[Signed]

"Amar S. Doman"

Director

[Signed]

"Dale R. MacLean"

Director

See accompanying Notes to the Consolidated Financial Statements

Tree Island Steel Ltd.**CONSOLIDATED STATEMENTS OF OPERATIONS***(in thousands of Canadian dollars, except shares / units and per-share / unit amounts)*

	Year Ended December 31	
	2013	2012
Sales	\$ 153,438	\$ 146,238
Cost of goods sold (Note 7)	133,238	130,132
Depreciation (Note 8)	2,903	3,074
Gross profit	17,297	13,032
Selling, general and administrative expenses	12,982	12,527
Operating income	4,315	505
Foreign exchange gain	114	87
(Loss) gain on sale of property, plant and equipment	(42)	448
Property, plant and equipment impairment reversal (Note 8)	671	-
Gain on sale of subsidiary (Note 24)	218	-
Changes in financial instruments recognized at fair value	(135)	(717)
Gain on renegotiated debt (Note 11)	-	17,805
Financing expenses (Note 12)	(5,890)	(7,299)
(Loss) Income before income taxes	(749)	10,829
Income tax recovery (expense) (Note 18)	94	(458)
Net (loss) income for the year	\$ (655)	\$ 10,371
Net (loss) income per share / unit (Note 21)		
Basic	\$ (0.03)	\$ 0.47
Diluted	\$ (0.03)	\$ 0.25
Weighted-average number of shares / units (Note 21)		
Basic	24,294,737	21,978,006
Diluted	24,294,737	60,590,535

See accompanying Notes to the Consolidated Financial Statements

Tree Island Steel Ltd.**CONSOLIDATED STATEMENTS OF COMPREHENSIVE (LOSS) INCOME***(in thousands of Canadian dollars, except shares / units and per-share / unit amounts)*

	Year Ended December 31	
	2013	2012
Net (loss) income for the year	(655)	10,371
Other comprehensive income (loss)		
Unrealized income (loss) on translating financial statements of subsidiary operations, net of tax	448	(486)
Comprehensive (loss) income for the year	\$ (207)	\$ 9,885

See accompanying Notes to the Consolidated Financial Statements

Tree Island Steel Ltd.

CONSOLIDATED STATEMENTS OF SHAREHOLDERS / UNITHOLDERS EQUITY

(in thousands of Canadian dollars, except shares / units and per-share / unit amounts)

	Shareholders' Capital (Note 14)	Unitholders' Capital (Note 15)	Warrants and Equity Component of Convertible Debentures	Accumulated Deficit	Distributions	Accumulated Other Comprehensive Income (loss)	Total
Balance as at December 31, 2012	\$ 211,311	\$ -	\$ 720	\$ (186,776)	\$ -	\$ (150)	\$ 25,105
Conversion of Convertible Debentures (Note 10)	2,823	-	(112)	-	-	-	2,711
Conversion of Warrants (Note 14)	173	-	(2)	-	-	-	171
Net loss	-	-	-	(655)	-	-	(655)
Other comprehensive income	-	-	-	-	-	448	448
Balance as at December 31, 2013	\$ 214,307	\$ -	\$ 606	\$ (187,431)	\$ -	\$ 298	\$ 27,780

Balance as at December 31, 2011	\$ -	\$ 211,450	\$ -	\$ (37,899)	\$ (159,248)	\$ 336	\$ 14,639
Units exchanged into common shares	211,158	(211,158)	-	-	-	-	-
Reclassification of distributions to accumulated deficit	-	-	-	(159,248)	159,248	-	-
Conversion of phantom units	-	9	-	-	-	-	9
Conversion of Convertible Debentures	169	-	(7)	-	-	-	162
Normal course issuer bid	(16)	(301)	-	-	-	-	(317)
Reclassification of convertible instruments to equity	-	-	727	-	-	-	727
Net Income	-	-	-	10,371	-	-	10,371
Other comprehensive loss	-	-	-	-	-	(486)	(486)
Balance as at December 31, 2012	\$ 211,311	\$ -	\$ 720	\$ (186,776)	\$ -	\$ (150)	\$ 25,105

See accompanying Notes to the Consolidated Financial Statements

Tree Island Steel Ltd.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands of Canadian dollars, except shares / units and per-share / unit amounts)

	Year Ended December 31	
	2013	2012
Cash flows from operating activities		
Net (loss) income for the year	\$ (655)	\$ 10,371
Adjustments for:		
Depreciation	2,903	3,074
Changes in financial liabilities recognized at fair value	135	717
Loss (gain) on sale of property, plant and equipment	42	(448)
Property, plant and equipment impairment reversal	(671)	-
Gain on renegotiated debt	-	(17,805)
Net finance costs	5,890	7,299
Deferred income tax expense	514	1,207
Fair value change on Phantom Units	-	(64)
Exchange revaluation on foreign denominated debt	732	(389)
Gain on sale of subsidiary	(218)	-
Working capital adjustments:		
Accounts Receivable	(4,605)	1,738
Inventories	(1,674)	3,095
Accounts payable and accrued liabilities	(2,110)	(4,021)
Income and other taxes	(1,128)	(747)
Other	(434)	68
Net cash (used in) provided by operating activities	(1,279)	4,095
Cash flows from investing activities		
Proceeds from sale of subsidiary, net of costs	439	-
Proceeds on disposal of property, plant and equipment	24	520
Purchase of property, plant and equipment	(510)	(349)
Net cash (used in) provided by investing activities	(47)	171
Cash flows from financing activities		
(Repayment of) advance on Senior Term Loan	(500)	4,792
Repayment of long-term debt	(1,519)	(6,812)
Conversion of warrants	171	-
Interest paid	(3,039)	(2,929)
Share buy back	-	(317)
Advance (repayment) on Senior Revolving Facility	5,053	(462)
Net cash provided by (used in) financing activities	165	(5,728)
Effect of exchange rate changes on cash	54	(19)
Decrease in cash	(1,107)	(1,481)
Cash, beginning of year	2,371	3,852
Cash, end of year	\$ 1,264	\$ 2,371

See accompanying Notes to the Consolidated Financial Statements

Tree Island Steel Ltd.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the years ended December 31, 2013 and 2012

(in thousands of Canadian dollars, except shares / units and per-share / unit amounts)

1. NATURE OF BUSINESS

These consolidated financial statements of Tree Island Steel Ltd. ("Tree Island Steel" or the "Company") for the year ended December 31, 2013 were authorized for issue in accordance with a resolution of the Board of Directors on March 11, 2014.

Tree Island Steel is a corporation established under the laws of Canada on August 2, 2012 as a result of the corporate conversion noted below, and is headquartered at 3933 Boundary Road, Richmond, British Columbia, Canada. Tree Island Steel's shares are publicly traded on the Toronto Stock Exchange ("TSX") under the symbol TSL. Tree Island Steel is the successor to Tree Island Wire Income Fund ("Fund")

Tree Island Steel owns 100% of the common shares of Tree Island Industries Ltd. ("TII") (collectively "Tree Island"). TII supplies a diverse range of steel wire and fabricated steel wire products to customers in Canada, the United States, and internationally.

On October 1, 2012, pursuant to an information circular dated August 15, 2012, the Fund was converted, on a tax deferred basis, from an open-ended limited purpose trust to an incorporated corporation (the "Corporate Conversion") pursuant to a plan of arrangement (the "Arrangement") under the Canada Business Corporations Act. Pursuant to the Corporate Conversion, Tree Island Steel acquired all of the outstanding units of the Fund ("Units"), in exchange for Common Shares ("Shares"), on the basis of one Share for each Unit. The Convertible Debentures ("Convertible Debentures") became debentures of Tree Island Steel. The Convertible Debentures were convertible, but into Shares of Tree Island Steel at the same price at which the Convertible Debentures were convertible into units of the Fund, subject to adjustment as provided for in the trust indenture governing the Convertible Debentures. The Warrants became warrants of Tree Island Steel and continue to be convertible, but into Shares of Tree Island Steel at the same price at which the Warrants were convertible into Units of the Fund, subject to adjustment as provided for in the Warrant Certificates governing the Warrants. As a result of the Corporate Conversion, Tree Island Steel became the sole holder of the outstanding Units. On October 1, 2012, the Fund was dissolved and all of its assets were transferred to, and all of its liabilities were assumed by, Tree Island Steel on that date. The exchange of the Units of the Fund to Tree Island Steel was recorded at the carrying values of the Fund's assets and liabilities on October 1, 2012.

2. BASIS OF PREPARATION

Basis of presentation

The consolidated financial statements as at and for the year ended December 31, 2013 have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"). Certain comparative information has been reclassified to conform to the presentation adopted during the year.

These consolidated financial statements have been prepared on a historical cost basis except for certain financial instruments categorized as fair value through profit or loss. In addition, these consolidated financial statements have been prepared using the accrual basis of accounting, except for cash flow information.

Basis of consolidation

The consolidated financial statements include the accounts of Tree Island and TII, and TII's wholly-owned subsidiaries, Tree Island Wire Holdings (USA) Inc. ("TIWH") and Tree Island Wire (USA) Inc. ("TIW"), and Tree Island International Trade (Beijing) Company, Ltd., and up to September 30, 2013, the financial results of GIP International and its subsidiaries (formerly Tree Island International Ltd., a Hong Kong based company). Intercompany accounts and transactions have been eliminated on consolidation.

Functional currency

The functional and presentation currency of Tree Island and its subsidiary TII is the Canadian Dollar. The functional currencies of Tree Island's subsidiaries are: TIW and TIWH is the US Dollar; Tree Island International Trade (Beijing) Company, Ltd. is the Chinese Renminbi ("RMB").

Tree Island Steel Ltd.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the years ended December 31, 2013 and 2012

(in thousands of Canadian dollars, except shares / units and per-share / unit amounts)

3. SIGNIFICANT ACCOUNTING POLICIES, CRITICAL ACCOUNTING JUDGMENTS AND ESTIMATES

The accounting policies applied in the preparation of these consolidated financial statements are set out below:

a) Revenue recognition

Tree Island recognizes revenue on the sale of goods when the significant risks and rewards of ownership pass to the buyer which is considered to be when legal title passes to customers, the revenue can be reliably measured and collectability is reasonably assured. Revenue related to contract manufacturing is recognized at the point at which the items are ready to ship to the customer, the revenue can be reliably measured and collectability is reasonably assured. For both the sale of goods and contract manufacturing, revenue is stated net of early payment discounts, rebates granted and costs to ship product to customer locations if incurred by Tree Island.

b) Cash

Cash is comprised of bank balances, net of outstanding items in deposit and disbursement accounts, cash balances in excess of revolving credit outstanding on the Senior Credit Facility, and cash on hand.

c) Inventories

Raw materials and consumable supplies and spare parts inventories are stated at the lower of weighted average cost and net realizable value. Finished and semi finished products are stated at the lower of first-in first-out cost and net realizable value. Cost for finished and semi-finished products includes direct costs incurred in production including direct labour, materials, freight, depreciation and directly attributable overhead costs and indirect overhead costs based on normal operating capacity. Net realizable value is the estimated selling price in the ordinary course of business less estimated costs to sell. Consumable supplies and spare parts are inventories that are expected to be consumed in operations.

d) Property, plant and equipment and depreciation

As part of the transition to IFRS, the Fund elected under IFRS 1 to value machinery and equipment at fair value on transition, which then becomes the deemed cost on which to amortize/depreciate in future periods. Land, building and improvements continue to be valued at cost less accumulated depreciation and/or impairment losses recognized. Assets acquired or constructed after the transition date are recorded at historic cost, including borrowing costs for long-term construction projects if the recognition criteria are met.

No depreciation is charged on capital projects during the period of construction. Regular repair and maintenance costs are recognized in the consolidated statement of operations as incurred.

Depreciation is determined using the straight-line method over the estimated useful lives of the depreciable assets. When parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items of property, plant and equipment. Depreciation methods, asset residual values and useful lives are reviewed annually and adjusted prospectively as required.

Depreciation is calculated over the following rates:

Land	not depreciated
Buildings and improvements	19 to 30 years
Machinery and equipment	3 to 17 years

An item of property, plant and equipment and any significant part initially recognized is derecognized upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the consolidated statement of operations when the asset is derecognized.

Tree Island Steel Ltd.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the years ended December 31, 2013 and 2012

(in thousands of Canadian dollars, except shares / units and per-share / unit amounts)

e) Impairment of non-financial assets

Impairment Charges

Tree Island performs annual impairment tests on long-lived assets when events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss, if any, is determined as the excess of the carrying value of the asset over its recoverable amount, and is charged to income.

Tree Island assesses at each reporting date whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, Tree Island estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating unit's ("CGU") fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. Where the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

In determining fair value less costs to sell, fair value is based on quoted market prices, prices for similar assets or other valuation techniques.

The impairment analysis contains estimates due to the inherently speculative nature of forecasting long-term estimated cash flows and determining the ultimate useful lives of assets. If any of these estimates change, future net cash flows from the assets could be lower, which would result in additional impairment. As well, as much as practicable, third-party valuers are used to provide fair values which also contain assumptions concerning current market information for similar or same assets and if applicable functional and economic obsolescence.

Impairment losses of continuing operations, including impairment on inventories, are recognized in the statement of operations in those expense categories consistent with the function of the impaired asset.

Reversal of Previous Impairments

An assessment is made at each reporting date as to whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased. If such indication exists, Tree Island estimates the asset's or CGU's recoverable amount. A previously recognized impairment loss is reversed only if there has been a change in the assumptions used to determine the assets or CGU's recoverable amount since the last impairment loss was recognized. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognized for the asset in prior years. Such reversal is recognized in the statement of operations.

f) Fair value measurement

The Company measures financial instruments such as derivatives at fair value at each statement of financial position date. Also, fair values of financial instruments measured at amortized cost are disclosed in Note 19.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

In the principal market for the asset or liability, or

In the absence of a principal market, in the most advantageous market for the asset or liability

The principal or the most advantageous market must be accessible to by the Company. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Company uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorized within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

Level 1 — Quoted (unadjusted) market prices in active markets for identical assets or liabilities

Level 2 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable

Level 3 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

For assets and liabilities that are recognized in the consolidated financial statements on a recurring basis, the Company determines whether transfers have occurred between levels in the hierarchy by re-assessing categorization (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

g) Financial instruments and risks

Financial Assets

Tree Island classifies, at recognition, its financial assets in the following category: loans and receivables. The financial assets are classified depending on the purpose for which the financial assets were acquired. Tree Island currently has the following type of financial assets:

(i) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are classified as current assets or non-current assets based on their maturity date. Loans and receivables are carried at amortized cost less any impairment. Loans and receivables are comprised of accounts receivable.

Tree Island assesses at each reporting date whether there is objective evidence that financial assets under loans and receivables are impaired. Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in payments, the probability that they will enter bankruptcy or other financial reorganization. Impaired loans and receivables are charged to the statement of operations as bad debts and allowance for doubtful accounts is recognized.

Financial Liabilities

Tree Island classifies its financial liabilities in the following categories: borrowings and other financial liabilities.

(i) Borrowings and other financial liabilities

Borrowings and other financial liabilities are classified as current or non-current based on their maturity date and recognized initially at fair value, net of transaction costs incurred and are subsequently stated at amortized cost. Any difference between the amounts originally received, net of transaction costs, and the redemption value is recognized in the consolidated statement of operations over the period to maturity using the effective interest method.

Financial liabilities include the Senior Revolving Facility, accounts payable and accrued liabilities, finance lease, Senior Term Loan, long-term debt, and Convertible Debentures.

A financial liability is derecognized when the obligation under the liability is discharged or cancelled or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original

Tree Island Steel Ltd.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognized in the statement of operations as a gain or loss on renegotiated debt.

Financial instruments at fair value through profit and loss

Financial instruments at fair value through profit and loss are initially recognized at their fair value on the date the contract or transaction is entered into and are subsequently re-measured at their fair value at each reporting period with changes in the fair value recognized through the statement of operations. Financial instruments at fair value through profit and loss include the change in control premium associated with the Convertible Debentures, the early payment option and foreign exchange forward contracts. As a result of the Corporate Conversion, the conversion feature and Warrants associated with the Convertible Debentures were reclassified to equity at their fair value on the conversion date (Note 10).

h) Convertible Debentures

The Convertible Debentures are hybrid instruments and the proceeds received were bifurcated to record the fair value of the associated elements, which include the embedded financial derivative for the change of control premium, the conversion feature and Warrants issued, with the residual being allocated to the Convertible Debentures. Transaction costs were allocated pro rata between the elements of the Convertible Debentures.

The fair value of the change of control premium is determined using a probability weighted future cash flow stream and is recorded as a financial liability. The probability of change of control is based on management's best estimate of the likelihood of a change of control event occurring during the term of the Convertible Debentures. The change of control premium is revalued at each reporting date, with changes in the fair value recorded as charges or credits to changes in liabilities recorded at fair value.

The fair value of the conversion feature and Warrants were determined using an option pricing model that takes into account assumptions on volatility of the Company's shares and the risk-free interest rates of return. The conversion feature and Warrants were classified as financial liabilities and the related transaction costs were expensed when incurred. As a result of the Corporate Conversion, the conversion feature and Warrants have characteristics of equity, as they are convertible into Shares of Tree Island on a fixed basis. Thus, the conversion feature and Warrants with fair value of \$727 as at October 1, 2012 (conversion date) were reclassified as equity instruments.

The residual amount recorded for the Convertible Debentures is at a discount from the face amount and this discount, together with the stated interest on the Convertible Debentures and associated transaction costs, are amortized as a charge to financing expense over the life of the instrument using the effective interest method.

Upon exercise of the conversion feature or Warrants, the related portions of the financial liability and equity for all the elements are derecognized. The Shares are recorded in share capital based on amortized cost of the Convertible Debentures and the remainder is allocated to the conversion feature and Warrants.

Upon maturity of the Convertible Debentures, to the extent that they are not exercised, any financial liabilities remaining on the change in control premium will be recorded as a gain in the consolidated statements of operations and any balance remaining on the conversion features and Warrants will be transferred within the Shareholders equity account from Warrants and equity component of Convertible Debentures to share capital. Subsequent to year end, the Company announced on January 27, 2014, the redemption of all outstanding Convertible Debentures on March 4, 2014. (refer to Note 25).

i) Leases

The determination of whether an arrangement is, or contains, a lease is based on the substance of the arrangement at inception date and are classified as either finance or operating. Leases that transfer substantially all the benefits and risks of ownership of the leased item to Tree Island are accounted for as finance leases. Assets under finance lease would be accounted for as assets and amortized over the lesser of the estimated useful life or the lease term. A finance lease obligation would be recognized to reflect the present value of future lease payments and the finance element of the lease payments would be charged to income over the term of the lease.

Operating lease payments are recognized as an operating expense in the statement of operations on a straight-line basis over the term of the lease.

Tree Island Steel Ltd.

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j) Provisions

General

Provisions are recognized when Tree Island has an obligation (legal or constructive) as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made on the amount of the obligation. Where Tree Island expects some or all of a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognized as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in the statement of operations, net of any reimbursement.

Asset decommissioning and retirement obligations

Tree Island recognizes obligations associated with the retirement of property, plant and equipment that result from the acquisition, construction, development or normal operations of the assets. These obligations, if material, are recorded at fair value and capitalized and depreciated as part of the cost of the related asset. Management has determined that Tree Island does not have any material asset decommissioning or retirement obligations.

Onerous contracts

An onerous contract is one whereby the unavoidable costs of meeting the obligation exceed the expected economic benefits. Costs associated with non-cancellable lease obligations relating to the exiting of an activity or location that do not qualify for treatment as discontinued operations, net of any sub-lease receipts, are accrued as a provision for an onerous contract. If the effect of the time value of money is material, the provision is discounted using a current pre-tax rate that reflects, when appropriate, the risks specific to the liability. When discounting is used, the increase in the provision due to the passage of time is recognized as a finance cost.

k) Post-retirement benefits

Tree Island has three defined contribution pension plans. The cost of defined contribution pensions are expensed as earned by employees.

l) Taxes

Current income tax

Current income tax assets and liabilities for the current period are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted, at the reporting date in the countries where Tree Island operates and generates taxable income.

Management periodically evaluates positions taken in the tax returns with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions where appropriate.

Deferred tax

Deferred tax is provided using the liability method on temporary differences between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes at the reporting date.

Deferred tax assets and liabilities are recognized for all taxable temporary differences, except in respect of taxable temporary differences associated with investments in subsidiaries when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognized for all deductible temporary difference to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry-forward of unused tax losses can be utilized, except in respect of deductible temporary differences associated with investments in subsidiaries, deferred tax assets are recognized only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilized.

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The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilized. Unrecognized deferred tax assets are reassessed at each reporting date and are recognized to the extent that it has become probable that future taxable profits will allow the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date.

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current income tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

Sales tax

Revenues, expenses and assets are recognized net of the amount of sales tax, except when the sales tax incurred on a purchase of assets or services is not recoverable from the taxation authority, in which case, the sales tax is recognized as part of the cost of acquisition of the asset or as part of the expense item, as applicable.

Receivables and payables are stated with the amount of sales tax included.

The net amount of sales tax recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the consolidated statement of financial position.

m) Phantom units

On August 20, 2012, prior to the Corporate Conversion, the Phantom Unit Plan was terminated. There are no continuing obligations with respect to the Plan.

The Fund maintained a Long-Term Incentive Plan which granted Phantom Units that appreciated or depreciated with increases or decreases in the market price of the Fund's units. Phantom Units granted were considered to be in respect of future services. Vested Phantom Units could be converted to regular units of the Fund at any time after vesting. Upon conversion, Phantom Units were exchanged for units issued from treasury for no further consideration.

The Phantom Units were considered to be financial liabilities and were accounted for under IFRS 2 as cash-settled awards whereby the outstanding Phantom Units were accounted for at fair value at each reporting period and changes in fair value are recognized in compensation expense. As there was no exercise price, the fair value of the Phantom Units was considered to be the market price for the Fund's units. The changes in fair value for unvested awards were recognized over the vesting period and the changes in fair value of vested awards are recognized in full each period until converted to Shares or forfeited.

Phantom Units that expired or were forfeited before vesting were derecognized as a financial liability and the balance was recorded as a reduction of employee benefits expense in the period.

n) Net income (loss) per Share / Unit

Basic net income (loss) per Share / Unit is calculated by dividing net income (loss) by the weighted-average number of Shares / Units outstanding during the period. Diluted net income (loss) per Share / Unit is calculated by factoring in the impact of dilutive instruments, including Phantom Units (prior to termination of the plan), the conversion of debentures to Shares / Units using the "if-converted" method, and Warrants using the treasury stock method, which assumes that the proceeds from in-the-money Warrants are used to repurchase Shares / Units at the average market price during the period.

o) Foreign exchange

Transactions in currencies other than the functional currency are recorded at the rate of exchange prevailing on the date of the transaction. Monetary assets and liabilities that are denominated in foreign currencies are translated at the rate prevailing at each reporting date. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at the exchange rate at the date the fair value was determined. Non-monetary items that are measured at historical cost in a foreign currency are translated at the exchange rate on the date of the transaction.

Tree Island Steel Ltd.

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(in thousands of Canadian dollars, except shares / units and per-share / unit amounts)

On consolidation the assets and liabilities of foreign operations are translated into Canadian dollars at the rate of exchange prevailing at the reporting date and their statement of operations are translated at exchange rates prevailing at the dates of the transactions. The exchange differences arising on translation for consolidation are recognized in other comprehensive income.

4. CRITICAL ACCOUNTING JUDGMENTS AND ESTIMATES

The preparation of consolidated financial statements in accordance with IFRS requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingencies as at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Significant areas that involve estimates including the assessment are listed below:

Going concern

In the context of the current economic climate, especially in the United States, and the economic conditions in our principal markets in both Canada and the United States management has assessed the entity's ability to continue as a going concern. Management has forecast Tree Island's financial results and cash flows for fiscal 2014. The forecasts are based on management's best estimates of operating conditions in the context of management's best estimates of the current economic climate. The judgments and assumptions that can most directly impact these forecasts are the expected sales volumes and prices realized, costs of raw materials and in particular carbon rod, costs of imported finished goods, foreign exchange fluctuations, and collectability rates on accounts receivables.

With a \$40 million Senior Revolving Facility, working capital of \$14 million as at December 31, 2013, and forecasts projecting credit availability through 2014, Tree Island believes that there is sufficient capital to continue as a going concern. The assumptions and estimates used to make this conclusion are based on the available information and management's best estimates of future earnings, cash flows and working capital turnover. Subsequent to year end, the Company announced on January 27, 2014, the redemption of all outstanding Convertible Debentures on March 4, 2014. (refer to Note 25 of the Company's consolidated financial statements for the year ended December 31, 2013. The Convertible Debentures were classified as current liabilities at December 31, 2013.

Financial instruments valued at fair value through profit and loss

Tree Island records certain of its financial instruments at fair value using various techniques. These include estimates of fair values based on prevailing market rates (bid and ask prices, as appropriate) for instruments with similar characteristics and risk profiles or internal or external valuation models, such as discounted cash flow analysis and option pricing models, using, to the extent possible, observable market-based inputs. Refer to notes 10 and 19 for significant assumptions used in the valuation of these financial instruments and carrying amount as at December 31, 2013 and 2012.

Inventory valuation

Inventories must be recognized at the lower of cost or their Net Realizable Value ("NRV"), which is the estimated selling price in the ordinary course of business less the estimated costs of completion and estimated costs necessary to make the sale. IFRS requires that the estimated NRV be based on the most reliable evidence available at the time the estimates are made of the amounts that inventories are expected to realize.

The measurement of an inventory write-down to NRV is based on our best estimate of the NRV and of our expected future sale or consumption of our inventories. Due to market driven fluctuations in certain product group sales prices and the commodity nature of our significant raw materials, there is uncertainty as to whether the NRV of the inventories will remain consistent with those used in our assessment of NRV at period end. As a result there is the risk that a write-down of on-hand and unconsumed inventories could occur in future periods. Also, a certain portion of inventory may become damaged or obsolete. A slow moving reserve is recorded, as required, based on an analysis of the length of time product has been in inventory and historical rates of damage and obsolescence. Refer to note 7 for the inventory provision as at December 31, 2013 and 2012.

Allowance for doubtful accounts

It is possible that a certain portion of required customer payments will not be made, and as such an allowance for these doubtful accounts is maintained. The allowance is based on estimation of the potential of recovering the accounts receivable and incorporates current and expected collection trends. The estimates will change, as necessary, to reflect market or specific industry

Tree Island Steel Ltd.

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risks, as well as known or expected changes in the customers' financial position. Refer to note 6 for the carrying amount of allowance for doubtful accounts as at December 31, 2013 and 2012.

Property, plant and equipment

Property, plant and equipment comprises a large component of the total assets of Tree Island and as such the capitalization of costs, the determination of estimated recoverable amounts and the estimates of useful lives of these assets have a significant effect on Tree Island's financial results.

Management uses the best available information to identify the point at which a development project is capitalized. Changing assumptions about future selling prices of products, exchange rates, and production costs may change the estimate of the useful life of these assets and as a result the amount of depreciation or amortization recognized.

The carrying value of long-lived assets is reviewed annually. The impairment analysis contains estimates that can change due to the inherently speculative nature of forecasting long-term estimated cash flows and determining the ultimate useful lives of assets. If any of these estimates change significantly, future net cash flows from the property, plant and equipment could be lower or higher, which would result in additional impairment or reversal of impairments recognized in prior periods. As well, as much as practicable, third-party valuers are used to provide fair values that also contain assumptions concerning current market information for similar or same assets and if applicable functional and economic obsolescence. Refer to note 8 for the impairment reversal as at December 31, 2013.

Income taxes

As at each consolidated statement of financial position date, a deferred income tax asset would be recognized for all deductible temporary differences, unused tax losses and income tax reductions, but only to the extent that their realization is probable. The determination of this requires significant judgment. This evaluation includes review of: (1) the ability to carry back operating losses to offset taxes paid in prior years; (2) the carry-forward periods of the losses; (3) an assessment of the excess of fair value over the tax basis of Tree Island's net assets, and, (4) appropriate and feasible corporate actions with respect to repatriation of foreign earnings. If based on this review, it is not probable such assets will be realized, then no deferred income tax asset is recognized. Refer to Note 18 for deferred income tax assets and liabilities as at December 31, 2013 and 2012.

5. CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

Tree Island Steel adopted the following IFRS standards effective January 1, 2013:

IFRS 10 Consolidated Financial Statements – in May 2011, the IASB issued IFRS 10, which provides additional guidance to determine whether an investee should be consolidated. The guidance applies to all investees, including special purpose entities.

IFRS 11 Joint Arrangements – requires a venturer to classify its interest in a joint arrangement as a joint venture or joint operation. Joint ventures are accounted for using the equity method of accounting, whereas for a joint operation the venturer recognizes its share of the assets, liabilities, revenue and expenses of the joint operation. Under previous IFRS, entities had the choice to proportionately consolidate or equity account for interest in joint ventures. IFRS 11 supersedes IAS 31, Interest in Joint Ventures, and SIC-13, Jointly Controlled Entities – Non-monetary Contributions by Venturers.

IFRS 12 Disclosure of Interests in Other Entities – in May 2011, the IASB issued IFRS 12, which aggregates and amends disclosure requirements included within other standards. The new standard requires Tree Island to provide disclosures about subsidiaries, joint arrangements, associates and unconsolidated structured entities

IAS 1 Presentation of Items of other Comprehensive Income – in June 2011, the IASB issued amendments to IAS 1 – presentation of financial statements to split items of other comprehensive income between those that are reclassified to income and those that are not.

Adoption of the above IFRS standards did not result in adjustments to the Company's consolidated financial statements.

IFRS 13 Fair Value Measurement – in May 2011, the IASB issued IFRS 13 to provide comprehensive guidance for instances where IFRS required fair value to be used. IFRS 13 does not change when an entity is required to use fair value, but rather, provides

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guidance on how to measure the fair value of financial and non-financial assets and liabilities when required or permitted by IFRS. There is no impact other than additional disclosure on the consolidated financial statements. (see Note 3(f) and Note 19).

5.1 FUTURE IFRS STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE

Unless otherwise indicated below, Tree Island is in the process of assessing whether there will be any significant changes to its consolidated financial statements upon adoption of these new standards, interpretations, or amendments. At this time, Tree Island does not plan to early adopt any of these new standards, interpretations, or amendments.

IFRS 9 *Financial Instruments* – in November 2009, the IASB issued IFRS 9 as a first step in the process to replace IAS 39 *Financial Instruments: Recognition and Measurement*. IFRS 9 introduces new requirements for classifying and measuring financial assets, and could affect Tree Island's accounting for its financial assets. The standard is required to be adopted for annual periods beginning on or after January 1, 2015.

6. ACCOUNTS RECEIVABLE

Below is the composition and aging of Tree Island's accounts receivable at year end:

	December 31	
	2013	2012
Accounts Receivable		
Current	\$ 15,451	\$ 11,028
30-60 days past due	1,011	816
61-90 days past due	426	121
Over 91 days past due	261	314
	17,149	12,279
Allowance for doubtful accounts	(189)	(295)
Balance, end of period	\$ 16,960	\$ 11,984

Accounts receivable are non-interest bearing and are generally due on 30-day to 90-day terms. These terms are consistent for related party receivables as disclosed in Note 16.

The maximum credit risk that Tree Island was exposed to by way of its accounts receivable is equal to the net amount of \$16,960 (2012 - \$11,984) as at December 31, 2013.

At the end of each reporting period a review of the provision for bad and doubtful accounts is performed. It is an assessment of the potential amount of trade accounts receivable that will be paid by customers after the consolidated statements of financial position date. The assessment is made by reference to age, status and risk of each receivable, current economic conditions and historical information. The trade accounts receivable balance is reduced through the use of the allowance for doubtful accounts and the amount of the loss is recognized in the consolidated statement of operations. Reversals to the allowance for doubtful accounts occur when previously allowed for trade accounts receivable are collected. Individual trade accounts receivable, together with any associated allowance previously recognized, are written off when there is no realistic prospect of future recovery.

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The following table represents a summary of the movement of the allowance for doubtful accounts:

	December 31 2013	December 31 2012
Opening Balance	\$ 295	\$ 301
Additions during the year	95	75
Reversals during the year	(177)	(41)
Write-offs during the year	(28)	(38)
Foreign exchange revaluation	4	(2)
Balance, end of year	\$ 189	\$ 295

See Note 19.3 on credit risk of trade receivables to understand how credit quality of accounts receivable that are neither past due nor impaired are managed and measured.

7. INVENTORIES

Tree Island had the following categories of inventory as at:

	December 31 2013	December 31 2012
Raw materials	\$ 10,282	\$ 6,562
Finished and semi finished products	17,349	18,360
Consumable supplies and spare parts	7,676	7,810
	\$ 35,307	\$ 32,732

At each year end, the ending inventories on hand are reviewed to determine if a write down to net realizable value is required. Based on this review, it was determined that no write downs were necessary in 2013 and \$11 in 2012. In the year ended December 31, 2013 and 2012, Tree Island recognized, in income, inventory costs for the following:

	Year Ended December 31	
	2013	2012
Opening inventory	\$ 32,732	\$ 36,123
Raw material purchases	94,644	86,600
Finished goods purchased for resale	4,854	5,741
Conversion costs	36,315	34,411
Writedowns	-	(11)
Inventories, closing	(35,307)	(32,732)
Cost of goods sold	\$ 133,238	\$ 130,132

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8. PROPERTY, PLANT, AND EQUIPMENT

	Land & Improvements	Building & Improvements	Machinery & Equipment	Construction in progress	Total
Cost					
As at December 31, 2011	\$ 9,136	\$ 38,848	\$ 17,856	\$ 363	\$ 66,203
Additions	-	69	662	(215)	516
Disposals	-	-	(1,299)	-	(1,299)
Foreign currency translation	(31)	(116)	(108)	-	(255)
As at December 31, 2012	\$ 9,105	\$ 38,801	\$ 17,111	\$ 148	\$ 65,165
Additions	-	213	219	95	527
Disposals	-	-	(194)	-	(194)
Foreign currency translation	96	362	381	-	839
As at December 31, 2013	\$ 9,201	\$ 39,376	\$ 17,517	\$ 243	\$ 66,337
Accumulated depreciation and impairment					
As at December 31, 2011	\$ -	\$ 25,275	\$ 6,625	\$ -	\$ 31,900
Depreciation charge for the period	-	1,398	1,676	-	3,074
Disposals	-	-	(1,227)	-	(1,227)
Foreign currency translation	-	(37)	(137)	-	(174)
As at December 31, 2012	\$ -	\$ 26,636	\$ 6,937	\$ -	\$ 33,573
Depreciation charge for the period	-	1,355	1,547	-	2,902
Disposals	-	-	(128)	-	(128)
Impairment reversal	-	-	(671)	-	(671)
Foreign currency translation	-	245	161	-	406
As at December 31, 2013	\$ -	\$ 28,236	\$ 7,846	\$ -	\$ 36,082
Net book values as at:					
December 31, 2012	\$ 9,105	\$ 12,165	\$ 10,174	\$ 148	\$ 31,592
December 31, 2013	\$ 9,201	\$ 11,140	\$ 9,671	\$ 243	\$ 30,255

During the year ended December 31, 2013 additions to machinery and equipment related to assets under finance lease were \$nil (2012 - \$170). The carrying value of machinery and equipment held under finance lease at December 31, 2013 was \$86 (2012 - \$128). The leased asset is pledged as security for the related finance lease.

The carrying value of long-lived assets is reviewed annually. For the purposes of testing for impairment, or the reversal of impairment, Tree Island Steel's assets are grouped and tested at the CGU level. Tree Island considers both qualitative and quantitative factors when determining whether an asset may be impaired, or when a reversal of impairment is required. Where the carrying value of the assets is not expected to be recoverable from future cash flows, they are written down to their recoverable amount. Tree Island has reviewed certain machinery and equipment and concluded that an impairment reversal for a CGU involved with nail production was indicated, and as a result an impairment reversal of \$671 was recognized in 2013 (2012 - \$nil). Management noted improved sales for the CGU tied to the recovery of one of its key markets, specifically construction in the Western United States.

9. SENIOR CREDIT FACILITY

On June 11, 2012, the Fund amended and restated its senior secured committed credit facility ("Senior Credit Facility") with Wells Fargo Capital Finance Corporation. Under the terms of the Senior Credit Facility, up to \$40,000 may be borrowed in Canadian and US currency under a revolving credit facility ("Senior Revolving Facility") and a \$5,000 term loan ("Senior Term Loan"). Interest is charged at variable rates based on the Canadian and/or US prime rate and the Canadian Bankers Acceptance and/or Euro rate. The Senior Credit Facility matures on June 11, 2016.

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The Senior Credit Facility is collateralized by a first charge over Tree Island's assets including a first charge on the real and personal property of TII, TIW and TI International and guarantees, pledges and assignments between its subsidiaries. All existing and after-acquired real and personal property of Tree Island and its subsidiaries are pledged as collateral against the Senior Credit Facility.

9.1 Senior Revolving Facility

The Senior Revolving Facility includes a \$10,000 Letter of Credit sub-facility which enables TII and TIW to open documentary letters of credit for raw material purchases. There were was a \$32 Letter of Credit outstanding as at December 31, 2013.

The amount available under the revolving portion of the Senior Revolving Facility is limited to the amount of the calculated borrowing base, less minimum availability, less issued Letters of Credit, and less principal due under the Senior Term Loan (Note 9.2). The borrowing base is calculated as 85% of eligible receivables, plus the lesser of (a) 85% of the net orderly liquidation value of inventory and (b) 65% of eligible inventory.

The Senior Revolving Facility has financial tests and other covenants with which Tree Island must comply. Quarterly, Tree Island is required to meet a rolling 4 quarters defined fixed charge coverage ratio of 1:1 if the availability on the Senior Credit Facility falls below an availability threshold. As well, the Senior Revolving Facility contains restrictive covenants that limit the discretion of management with respect to certain business matters. These covenants place restrictions on, among other things, the ability of TII and TIW to incur additional indebtedness, to create liens or other encumbrances, to pay dividends or make certain other payments, investments, loans and guarantees and to sell or otherwise dispose of assets and merge or consolidate with another entity.

As at December 31, 2013 the Company was in compliance with both the financial and non-financial covenants on the Senior Revolving Facility.

The following amounts are outstanding under the Senior Revolving Facility:

	2013	2012
Senior Revolving Facility ⁽¹⁾	\$ 16,370	\$ 10,785
Deferred financing costs ⁽²⁾	(158)	(223)
	<u>\$ 16,212</u>	<u>\$ 10,562</u>

(1) The portion of the Senior Revolving Facility denominated in US dollars is \$14,301 (Dec 31, 2012 - \$2,509).

(2) Deferred financing costs are included in other non-current assets on the statement of consolidated financial position.

9.2 Senior Term Loan

On June 11, 2012, the Fund, through its subsidiaries, entered into a term loan with Wells Fargo Capital Finance Corporation (the "Senior Term Loan"). The Senior Term Loan matures on June 11, 2016 and is repayable through monthly principal installments of \$42 plus interest at variable rates based on the Canadian prime rate and the Canadian Bankers Acceptance rate. The proceeds of the Senior Term Loan were used to settle long-term debt (Note 11).

The following amounts are outstanding under the Senior Term Loan:

	2013	2012
Senior Term Loan, beginning of year	\$ 4,792	\$ -
Advances	-	5,000
Payments	(500)	(208)
Senior Term Loan, end of year	4,292	4,792
Less current portion	(500)	(500)
	<u>\$ 3,792</u>	<u>\$ 4,292</u>

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10. CONVERTIBLE DEBENTURES

On November 26, 2009, the Fund completed a private placement with certain investors to issue an aggregate of \$9,750 principal amount of Convertible Debentures along with 4,875,000 Warrants (see Note 14). In the first quarter of 2010, an additional \$10,000 in Convertible Debentures were issued through a rights offering to unitholders. All Convertible Debentures have the same rights and terms governed by those described in the trust indenture regardless of when they were issued.

In connection with the Corporate Conversion, Tree Island assumed all obligations of the Fund relating to the outstanding Convertible Debentures. Holders are entitled to receive shares, rather than Units, at the same conversion price at which the Units were previously issuable upon conversion. Subsequent to year end, on January 27, 2014 the Company announced that it would redeem all outstanding Convertible Debentures on March 4, 2014. For further details refer to Note 25.

The Convertible Debentures mature on November 26, 2014 and are convertible into Shares at \$0.50 each. The conversion price was subject to change based on certain events described in the trust indenture. The Convertible Debentures were subordinated debt until all outstanding commitments on the Senior Credit Facility have been fully settled. If a change of control event occurs, as defined in the trust indenture, Tree Island was required to offer to purchase the outstanding Convertible Debentures for 110% of the principal owing. Tree Island had the option to redeem the Convertible Debentures at par after November 26, 2012 and up to the day prior to maturity so long as the weighted average trading price per Share for the 30 consecutive days prior to redemption was greater than 150% of the conversion price and no event of default has occurred.

The Convertible Debentures pay interest quarterly, 30 days in arrears, at a stated rate of 10%. Interest is payable in cash unless Tree Island was restricted from doing so under certain circumstances (an "Interest Block Condition"). An Interest Block Condition could be triggered by certain events including Tree Island being in default under its Senior Credit Facility or the aggregate borrowing availability under the Senior Credit Facility on the date interest is payable and for a period of 30 days prior to the availability threshold. If the quarterly interest could not be paid in cash then the interest payable, subject to regulatory approval, could be settled by issuing additional Convertible Debentures equal to the amount of the interest owing; or by deferring payment of interest. Deferred interest would accrue additional interest at 10% per annum until paid in full.

Upon issuance, the Convertible Debentures, less fair values allocated to the conversion feature, change of control premium, and Warrants issued were classified as a liability. The liability was discounted using the effective interest rate method and a discount rate of 21.9%. The debt discount, together with the stated interest and associated transaction costs, were being amortized as interest expense over the life of the Convertible Debentures.

As a result of the Corporate Conversion, the conversion feature and Warrants have characteristics of equity, as they are convertible into Shares of Tree Island on a fixed basis. Thus, the conversion feature and Warrants with fair value of \$727 as at October 1, 2012 (conversion date) were reclassified as equity instruments.

The change of control option is recorded as a financial liability under IAS 32 and is accounted for at fair value. Changes in fair value are recognized in the statement of operations at each period end. The carrying value of the Convertible Debentures at year end is:

	2013	2012
Convertible Debentures, beginning of year	\$ 15,634	\$ 14,298
Accretion of debt discount for the year	3,626	3,435
Payment of interest in cash	(1,899)	(1,940)
Conversion of debentures to Tree Island shares	(2,665)	(159)
Convertible Debentures, end of year	\$ 14,696	\$ 15,634

During the year ended December 31, 2013, \$3,046 principal value of Convertible Debentures were converted into 6,091,200 Shares resulting in an increase to shareholders capital of \$2,823 (net of proportionate issuance costs of \$223) offset by charges of \$2,665 to the Convertible Debentures, \$46 to the change of control premium, and \$112 to the conversion feature.

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As at December 31, 2013, there were 161,440 (2012 – 191,896) Convertible Debentures outstanding. Refer to Subsequent Events Note 25 for conversions after December 31, 2013.

The fair values, change in fair value, and reclassifications to equity for the other elements are:

	Conversion Feature		Warrants		Change of Control Premium		Total	
December 31, 2012	\$	-	\$	-	\$	312	\$	312
Change in fair value		-		-		(25)		(25)
Reclassification to equity		-		-		(46)		(46)
December 31, 2013	\$	-	\$	-	\$	241	\$	241

	Conversion Feature		Warrants		Change of Control Premium		Total	
December 31, 2011	\$	2	\$	-	\$	320	\$	322
Change in fair value		700		25		(8)		717
Reclassification to equity		(702)		(25)		-		(727)
December 31, 2012	\$	-	\$	-	\$	312	\$	312

11. LONG-TERM DEBT

	Year of Maturity	2013	2012
Beginning of period	2028	\$ 10,833	\$ 33,373
Gain on renegotiated debt		-	(17,805)
Payments		(1,519)	(6,812)
Foreign exchange revaluation		732	(389)
Accretion of debt discount		1,023	2,466
End of period		11,069	10,833
Less current portion		(1,351)	(1,194)
		\$ 9,718	\$ 9,639

On June 11, 2012, the long-term debt with one trade creditor was extinguished (“Settlement and Release Agreement”) and the long-term debt with the other trade creditor was amended (“Second Amendment Agreement”).

With respect to the Settlement and Release Agreement, long-term debt with a carrying amount of \$18,001 was settled for a sum of US\$5,000. The settlement resulted in a gain on renegotiated debt of \$12,881, net of transaction costs, for accounting purposes and the extinguishment of US\$19,842 in principal and accrued interest. The current income tax associated with the Settlement and Release Agreement was offset through the utilization of non-capital losses available to TII and TIW respectively. All transaction costs associated with the settlement have been expensed. There is no continuing obligation with respect to the Settlement and Release Agreements.

The Second Amendment Agreement extended the repayment term to June 2028 with principal payments over a 10 year amortization period and non-compounding interest at 4% commencing June 2017, payable monthly over 4 years commencing June 2024. Principal payments are monthly in the amounts of US\$100 in years 1 and 2, US\$110 in years 3 and 4, US\$120 in years 5, 6 and 7, and US\$185 in years 8, 9 and 10. For accounting purposes, it was determined that the June 11, 2012 amendment resulted in

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an exchange of debt instruments with substantially different terms. As a result, the amendment was accounted for as an extinguishment of the original financial liabilities and the recognition of new financial liabilities at their present value resulting in a gain on renegotiated debt of \$4,924, net of transaction costs which were expensed. Present value was determined using discounted cash flows and a credit adjusted discount rate of 9%. The discount rate, together with the stated interest, comprises the debt discount. Using the effective interest rate method, the debt discount is amortized as accretion and charged to interest expense over the term of the amended long-term debt agreements.

The amounts owing under the Second Amendment Agreement are denominated in US dollars.

A provision exists for early payment of a portion of the principal outstanding if certain conditions are met. As at December 31, 2013 a provision of \$410 has been accrued and is included in other noncurrent liabilities.

12. FINANCING EXPENSES

	Year Ended December 31	
	2013	2012
Non-cash accretion of debt discount and interest on long-term debt and Convertible Debentures	\$ 2,750	\$ 3,961
Cash interest on debentures	1,899	1,940
Interest on Senior Credit Facility	622	707
Other interest and financing costs	554	305
Amortization of deferred financing costs	65	386
	\$ 5,890	\$ 7,299

13. PHANTOM UNITS

On August 20, 2012 the Phantom Unit Plan was terminated. There are no continuing obligations with respect to the Plan.

14. SHAREHOLDERS' CAPITAL

On September 13, 2012, unitholders and holders of the Special Voting Units of the Fund approved the reorganization of the Fund's income trust structure into a corporation, pursuant to the Arrangement. The effective date of the Arrangement was October 1, 2012. Unitholders of the Fund exchanged their Units for Shares of Tree Island on a one-for-one basis.

Tree Island is authorized to issue an unlimited number of common shares. The Shares have no par value. Shares issued and outstanding are as follows:

	Shares	Gross	Issuance Costs ⁽¹⁾	Net
Shareholders' capital - December 31, 2012	22,155,150	\$ 222,711	\$ 11,400	\$ 211,311
Conversion of Convertible Debentures	6,091,200	2,823	-	2,823
Conversion of Warrants	300,000	173	-	173
Shareholders' capital - December 31, 2013	28,546,350	\$ 225,707	\$ 11,400	\$ 214,307

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	Shares	Gross	Issuance Costs ⁽¹⁾	Net
Shareholders' capital - December 31, 2011	-	\$ -	\$ -	-
Issued pursuant to Corporate Conversion	21,797,550	222,558	11,400	211,158
Conversion of Convertible Debentures	390,000	169	-	169
Normal course issuer bid	(32,400)	(16)	-	(16)
Shareholders' capital - December 31, 2012	22,155,150	\$ 222,711	\$ 11,400	\$ 211,311

(1) Issuance costs were incurred as a result of the November 2002 Initial Public Offering and October 2004 Secondary Offering.

Normal Course Issuer Bid

On September 5, 2013, the Company received approval from the TSX to renew a normal course issuer bid (the "Bid"). The Bid commenced on September 9, 2013 and terminates on the earlier of September 8, 2014 and the date on which Tree Island has acquired the maximum number of Shares permitted under the Bid. Tree Island may acquire up to 1,800,000 Shares under the Bid, such number representing approximately 10% of the public float of Tree Island's issued and outstanding Shares as at the August 30, 2013. Tree Island has no obligation to purchase any Shares under the Bid. Subject to certain exemptions for block purchases, the maximum number of Shares that Tree Island may purchase on any one trading day is 5,001 Shares up to and including September 8, 2014, representing 25% of the average daily trading volume for the previous six months. During the year ended December 31, 2013 Tree Island did not purchase Shares under the Bid.

Warrants

In 2009, the Fund issued 4,875,000 Warrants to certain investors. The Warrants have an exercise price of \$0.57 and expire November 26, 2014. As discussed in Note 10, the Warrants were measured at fair value prior to the Corporate Conversion. As a result of the Corporate Conversion, all Warrants were exchanged on an one-for-one basis for Warrants of Tree Island effective October 1, 2012 and were reclassified to equity. During the year, 300,000 Warrants were exercised for proceeds of \$171. As at December 31, 2013 there were 4,575,000 warrants outstanding.

15. UNITHOLDERS' CAPITAL

As a result of the Corporate Conversion, all Fund Units were exchanged on an one-for-one basis into Shares of Tree Island effective October 1, 2012. The Fund had the following Unit transactions:

	Units	Gross	Issuance Costs ⁽¹⁾	Net
Unitholders' capital - December 31, 2011	22,790,404	\$ 222,850	\$ 11,400	\$ 211,450
Conversion of Phantom Units	25,646	9	-	9
Normal course issuer bid	(1,018,500)	(301)	-	(301)
Units exchanged for common shares on October 1, 2012 pursuant to the Corporate Conversion	(21,797,550)	(222,558)	(11,400)	(211,158)
Unitholders' capital - December 31, 2012	-	\$ -	\$ -	\$ -

(1) Issuance costs were incurred as a result of the November 2002 Initial Public Offering and October 2004 Secondary Offering.

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16. RELATED PARTY TRANSACTIONS

Transactions with associated companies

The Futura Corporation ("Futura"), is considered to be a related party of Tree Island because of its ownership interest and holding two positions on the Board of Directors. Futura has purchased \$5,000 of the Convertible Debentures and was issued 1,875,000 Warrants. During the year ended December 31, 2013, Futura received interest settled in cash of \$500 (2012 - \$500) on the Convertible Debentures at the stated rate of interest. Subsequent to year end, Futura converted \$5,000 in Convertible Debentures to 10.0 million shares of Tree Island Steel.

As well, Tree Island sells products to subsidiaries of a company of which Mr. Doman is Chairman and CEO, CanWel Building Materials Group Ltd. ("CanWel"), which amounted to, net of rebates, \$2,656 (2012 - \$3,869) during the year ended December 31, 2013 and trade accounts receivable owing from CanWel as at December 31, 2013 was \$83 (2012 - \$86). Outstanding trade accounts receivable from CanWel at year end are unsecured, interest free and settlement occurs in cash.

Transactions with key management personnel

Included in the definition of key management for purposes of disclosure of related party transactions are members of Board of Trustees / Directors and officers of Tree Island. Short-term employee benefits for key management personnel for the year ended December 31, 2013 were \$1,869 (2012 - \$2,128) which includes wages, salaries, unit-based compensation and social security contributions, paid annual and sick leave, vehicle costs and bonuses. It also includes Directors fees paid to members of the Board.

17. POST RETIREMENT BENEFITS

Tree Island has three defined contribution pension plans for the benefit of all eligible personnel employed by Tree Island's subsidiaries. Contributions made by Tree Island's subsidiaries amounted to \$1,160 (2012 - \$1,159). Funding obligations are satisfied upon making contributions.

18. INCOME TAXES

A provision for income taxes is recognized for Tree Island, TII, and its wholly owned subsidiaries, as Tree Island, TII, and its wholly owned subsidiaries are subject to tax.

Income tax recovery (expense)

The income tax recovery (expense) is divided between current and deferred taxes as follows:

	2013	2012
<i>Recorded in the statement of operations</i>		
Current tax recovery	\$ 608	\$ 749
Deferred tax expense	(514)	(1,207)
	\$ 94	\$ (458)

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The expense or recovery of income taxes varies from the amount that would be expected if computed by applying the Canadian federal and provincial and US federal and state statutory income tax rates to the income before income taxes as shown in the following table:

	2013	2012
(Loss) income before provision for income taxes	\$ (749)	\$ 10,829
Loss of the Fund subject to tax in the hands of the recipient	-	900
(Loss) income of wholly-owned subsidiary companies before income taxes	(749)	11,729
Tax Rate	25.8%	25.0%
Expected recovery of income taxes (income tax expense)	\$ 193	\$ (2,932)
Increased (reduced) by:		
Revisions of prior year estimates	332	3
Items not taxable	695	(80)
Foreign exchange on intercompany loans	(999)	-
Differential tax rates on U.S. and Chinese subsidiaries	654	517
Increase in statutory future income tax rate	(24)	-
Change in unrecognized deferred tax benefits	(1,361)	796
Change in tax reserves	622	749
Items of the Fund	-	560
Other	(18)	(71)
Income tax recovery (expense)	\$ 94	\$ (458)

Deferred income tax assets and liabilities

The components of deferred income tax assets and liabilities as at December 31 are as follows:

	2013	2012
Non-capital tax loss carry-forwards	\$ 2,756	\$ 3,843
Deferred gain and financing costs	26	244
Reserves and other liabilities	129	35
Property, plant and equipment	(5,159)	(5,153)
Convertible Debentures	-	(586)
Long-term debt	(936)	(1,106)
Unrealized foreign exchange losses	824	843
Goodwill and intangibles	2	62
Other	(129)	(155)
Deferred tax liability, net	\$ (2,487)	\$ (1,973)

	2013	2012
Opening balance	\$ (1,973)	\$ (766)
Deferred tax (expense) during the year	(514)	(1,207)
Closing balance	\$ (2,487)	\$ (1,973)

Tree Island offsets tax assets and liabilities if and only if it has a legally enforceable right to offset current tax assets and current tax liabilities and the deferred tax assets and deferred tax liabilities relate to income taxes levied by the same tax authority.

Tree Island Steel Ltd.

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No deferred tax assets have been recognized on the consolidated statements of financial position where Tree Island has concluded that it is not probable that the benefits of recognized deferred income tax assets will be realized prior to their expiry. As such, Tree Island has not recognized a deferred tax asset on the following items:

	2013	2012
Non-capital tax loss carry-forwards	\$ 10,721	\$ 10,392
Goodwill and intangibles	2,472	2,836
Deferred gain and financing costs	60	6
Unrealized foreign exchange losses	851	1,066
Reserves and other liabilities	618	1,075
Capital losses	999	-
Convertible Debentures	72	-
Property, plant and equipment	-	87
Other	7,149	5,374
Deferred tax asset	\$ 22,942	\$ 20,836

Income tax loss carry-forwards

As at December 31, 2013, Tree Island had income tax loss carry forwards available to offset future taxable income with expiries as shown in the table below:

Year of Expiry	Canada	US - Federal	US - State	China
2018	\$ -	\$ -	\$ -	\$ 89
2021	-	-	4,121	-
2028	-	8,042	-	-
2029	3,920	4,134	-	-
2030	-	4,235	-	-
2031	294	6,022	45,660	-
2032	265	2,528	558	-
2033	-	337	341	-
	\$ 4,479	\$ 25,298	\$ 50,680	\$ 89

As at December 31, 2013, the Company had capital losses of \$7,682 in addition to the non capital loss carry forwards listed above. These capital losses can be carried forward indefinitely to offset against future capital gains.

19. FINANCIAL INSTRUMENTS

19.1 Fair value of financial instruments

Tree Island records certain of its financial instruments at fair value using various techniques. These include estimates of fair values based on prevailing market rates (bid and ask prices, as appropriate) for instruments with similar characteristics and risk profiles or internal or external valuation models, such as discounted cash flow analysis and option pricing models, using, to the extent possible, observable market-based inputs.

Tree Island Steel Ltd.

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Below is a comparison by class of the carrying amounts and fair value of Tree Island's financial instruments that are carried in the financial statements.

	December 31, 2013		December 31, 2012	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial assets				
Cash	\$ 1,264	\$ 1,264	\$ 2,371	\$ 2,371
Accounts receivable	16,960	16,960	11,984	11,984
Foreign exchange forward contracts	111	111	-	-
Total financial assets	\$ 18,335	\$ 18,335	\$ 14,355	\$ 14,355
Financial liabilities				
Senior Revolving Facility	\$ 16,370	\$ 16,370	\$ 10,785	\$ 10,785
Accounts payable and accrued liabilities	7,619	7,619	9,649	9,649
Finance lease	86	86	141	141
Senior Term Loan	4,292	4,292	4,792	4,792
Long-term debt	11,069	11,834	10,833	11,543
Convertible debentures	14,696	16,534	15,634	17,916
Change of control premium	241	241	312	312
Early payment option	410	410	138	138
Total financial liabilities	\$ 54,783	\$ 57,386	\$ 52,284	\$ 55,276

The fair values of the financial assets and financial liabilities are included at the amount at which the instrument could be exchanged in a current transaction between willing parties, other than a forced or liquidation sale. The following methods and assumptions were used to estimate the fair values:

- Cash, accounts receivable, Senior Revolving Facility, and accounts payable and accrued liabilities approximate their carrying amounts largely due to the short-term nature of these instruments.
- Fair value on the Company's finance lease, Senior Term Loan, and long-term debt are based on estimated market interest rate on similar borrowings. The fair value of the finance lease and Senior Term Loan approximate fair value as the interest rates approximate market. A 1% change in the market interest rate would change the fair value of long term debt by \$650.
- Convertible Debentures are traded on the TSX and the fair value disclosed is based on the closing price at period end less the fair values of the change of control premium, conversion feature, and Warrants. Fair value of the conversion feature and Warrants were estimated using the Black-Scholes Option Pricing Model
- Fair value of the change of control premium is estimated using the Black-Scholes Option Pricing Model.
- Fair value of the early payment option was estimated using a discounted cash flow analysis and a discount rate of 9%.
- Fair value of the forward exchange forward contracts are estimated using observable foreign exchange spot and forward rates. The Company does not consider interest rates or the credit quality of counterparties as significant inputs to the valuation.

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19.2 Fair value hierarchy

The financial instruments have been categorized on a fair value hierarchy based on whether the inputs to those valuation techniques are observable (inputs reflect market data obtained from independent sources) or unobservable (inputs reflect the Company's market assumptions).

The three levels of fair value estimation are:

Level 1 – Quoted (unadjusted) market prices in active markets for identical assets or liabilities.

Level 2 – Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable.

Level 3 – Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

The following table summarizes the classification of the Company's financial assets and liabilities into three levels based upon a fair value hierarchy that reflects the significance of the inputs used in making the measurements.

	December 31,		Level 1	Level 2	Level 3
	2013				
Accounts receivable	\$ 16,690	\$	-	\$ -	\$ 16,690
Senior revolving facility	16,370		-	16,370	-
Accounts payable and accrued liabilities	7,619		-	-	7,619
Finance lease	86		-	86	-
Senior term loan	4,292		-	4,292	-
Long-term debt	11,834		-	-	11,834
Convertible debentures	16,534		-	16,534	-
Change of control premium	241		-	-	241
Early payment option	410		-	-	410
Foreign Exchange Forward Contracts	(111)		-	(111)	-
	\$ 73,965	\$	-	\$ 37,171	\$ 36,794

Refer to Note 10 for a reconciliation of the opening and closing balances of the change of control premium, conversion feature, and Warrants. The balance of the early payment option was increased to \$410 (2012 – \$138) to adjust to the value of the option as at December 31, 2013.

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Description of significant unobservable inputs to valuation of financial instruments measured at fair value and classified as level 2 or 3 in the fair value hierarchy:

	Valuation technique	Significant unobservable inputs	Sensitivity of the input to fair value
Change in control premium	Black Scholes option pricing model	Probability of change in control	5% increase in probability of change in control would result in an increase in fair value of \$27, while 5% decrease in probability of change in control would result in a \$74 decrease
Early payment option	DCF	% of purchase qualifying for early payment	5% increase(decrease) in the percentage of qualifying purchases for early payment would result in an increase (decrease) in fair value of \$21
	DCF	Change in discount rate	5% increase in the discount rate would result in an increase in fair value of \$11, while 5% decrease in the discount rate would result in a \$12 decrease

19.3 Risk exposure and management

The Fund, and following Corporate Conversion, Tree Island, is exposed to various risks associated with its financial instruments. These risks are categorized as credit risk, liquidity risk and market risk.

Credit risk

Credit risk consists of credit losses arising in the event of non-payment of accounts receivable of customer accounts. However, the credit risk is minimized through selling to well-established customers of high-credit quality. The credit worthiness of customers is assessed using credit scores supplied by a third party and through direct monitoring of their financial well-being on a continual basis. Management establishes guidelines for customer credit limits and should thresholds in these areas be reached, appropriate precautions are taken to improve collectability. Provisions for potential credit losses (allowance for doubtful accounts) are maintained and any such losses to date have been within management's expectations.

Liquidity risk

Liquidity arises from our financial obligations and in the management of our assets, liabilities and capital structure. This risk is managed by regular evaluation of our liquid financial resources to fund current and long-term obligations and to meet its capital commitments in a cost-effective manner.

The main factors that affect liquidity include realized sales prices, production levels, cash production costs, working capital requirements, future capital expenditure requirements, scheduled payments on financial liabilities and lease obligations, credit capacity and expected future debt and equity capital market conditions.

The table below summarizes the future undiscounted contractual cash flow requirements for financial liabilities (including scheduled interest payments on interest bearing liabilities) as at December 31, 2013 and December 31, 2012:

Tree Island Steel Ltd.

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(in thousands of Canadian dollars, except shares / units and per-share / unit amounts)

December 31, 2013	Carrying Amount	Contractual Cash Flow	Greater		
			Less than 1 Year	1 - 2 Years	than 2 Years
Senior Revolving Facility	\$ 16,370	\$ 16,370	\$ 16,370	\$ -	\$ -
Accounts payable and accrued liabilities	7,619	7,619	7,619	-	-
Finance lease (Note 22.5)	86	92	66	26	-
Senior Term Loan (Note 9.2)	4,292	4,292	500	1,000	2,792
Long-term debt (Note 11)	11,069	19,071	1,351	2,882	14,838
Convertible debentures (Note 10)	14,696	18,010	18,010	-	-
	\$ 54,133	\$ 65,454	\$ 43,916	\$ 3,908	\$ 17,630

December 31, 2012	Carrying Amount	Contractual Cash Flow	Greater		
			Less than 1 Year	1 - 2 Years	than 2 Years
Senior Revolving Facility	\$ 10,785	\$ 10,785	\$ 10,785	\$ -	\$ -
Accounts payable and accrued liabilities	9,649	9,649	9,649	-	-
Finance lease (Note 22.5)	141	158	65	93	-
Senior Term Loan (Note 9.2)	4,792	4,792	500	1,000	3,292
Long-term debt (Note 11)	10,833	19,151	1,194	2,577	15,380
Convertible debentures (Note 10)	15,634	23,326	1,918	21,408	-
	\$ 51,834	\$ 67,861	\$ 24,111	\$ 25,078	\$ 18,672

Liquidity requirements are met through a variety of sources including cash balances on hand, cash generated from operations, existing credit facilities, and debt and equity capital markets. Management monitors and manages liquidity risk by preparing annual budgets, monthly projections to the end of the fiscal year and regular monitoring of financial liabilities against the constraints of the available revolving credit facilities. Subsequent to year end, the Company announced on January 27, 2014, the redemption of all outstanding Convertible Debentures on March 4, 2014. (refer to Note 25).

Market risk

Foreign currency risk

The significant market risk exposures affecting the financial instruments are those related to foreign currency exchange rates and interest rates which are explained as follows:

	December 31, 2013
Increase (decrease) to net comprehensive income of a \$0.01 increase (decrease) in Cdn\$ to US\$ exchange rate	177

Tree Island's US dollar-denominated cash, accounts receivable, accounts payable and accrued liabilities, Senior Credit Facility and long-term debt are exposed to foreign currency exchange rate risk because the value of these financial instruments will fluctuate with changes in the US/Canadian dollar exchange rate. Tree Island's RMB denominated cash, accounts receivable, accounts payable and accrued liabilities are exposed to foreign currency exchange rate risk because the value of these financial instruments will fluctuate with changes in the RMB/Canadian dollar exchange rate. The Company enters into US dollar currency forward contracts for periods consistent with a portion of US dollar currency transaction exposures, generally from one to three months. These are not designated as cash flow, fair value or net investment hedges. The fair value of outstanding US dollar currency forwards as at December 31, 2013 was for notional \$8.6 million and the mark-to-market gain on those contracts was \$0.1 million.

Tree Island Steel Ltd.

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Interest rate risk

Tree Island is exposed to interest rate risk on its Senior Credit Facility, which is further discussed in Note 9. A 1% increase in the interest rates charged on the Senior Credit Facility would increase financing expenses by \$164. Tree Island does not use derivative instruments to manage the interest rate risk.

20. MANAGEMENT OF CAPITAL

The Company's objectives when managing its capital are:

- (i) To maintain a capital base so as to preserve and enhance investor, creditor, and market confidence and to sustain viability and future development of the business;
- (ii) To manage capital in a manner that will comply with the financial covenants on the Senior Credit Facility, term loan, Convertible Debentures and long-term debt agreements as described further in Notes 9.1, 9.2, 10, and 11.

Management manages the capital structure in accordance with these objectives, as well as considerations given to changes in economic conditions and the risk characteristics of the underlying assets, in particular by close monitoring of cash flows and compliance with external debt covenants.

The capital structure is as follows:

	2013	2012
Total shareholders' equity	\$ 27,780	\$ 25,105
Senior Revolving Facility (Note 9.1)	16,370	10,785
Senior Term Loan (Note 9.2)	4,292	4,792
Convertible debentures (Note 10)	14,696	15,634
Long-term debt (Note 11)	11,069	10,833
Total capital	\$ 74,207	\$ 67,149

21. NET (LOSS) INCOME PER SHARE / UNIT

Basic earnings per Share / Unit amounts are calculated by dividing net (loss) income for the year by the weighted average number of Shares / Units outstanding during the year.

Diluted earnings per Share / Unit amounts are calculated by dividing the net (loss) income for the year (after adjusting for interest and accretion, net of tax, on the convertible preference shares and the change in fair value of the Phantom Units) by the weighted average number of Shares / Units outstanding during the year plus the weighted average number of Shares / Units that would be issued on conversion of all the dilutive potential units into Shares / Units.

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The following reflects the (loss) income and Share / Unit data used in the basic and diluted earnings per Share / Unit computations:

	2013		2012
Net (loss) income for the year	\$ (655)	\$	10,371
Dilutive effect of:			
Convertible Debentures ⁽¹⁾	-		4,887
Phantom units ⁽²⁾	-		64
Warrants	-		-
Net (loss) income for the year adjusted for the effect of dilution	\$ (655)	\$	15,322

	2013		2012
Weighted average number of shares / units outstanding during the period - basic	24,294,737		21,978,006
Dilutive effect of:			
Convertible Debentures ⁽¹⁾	-		38,379,200
Phantom units	-		233,329
Warrants ⁽²⁾	-		-
Weighted average number of shares / units outstanding during the period - diluted	24,294,737		60,590,535

(1) There was a loss for the year ended December 31, 2013; therefore all Convertible Debentures and Warrants have been excluded from the calculation of diluted loss per Share because they are anti-dilutive.

(2) The Warrants are anti-dilutive and have been excluded from all calculations.

	2013 ⁽³⁾		2012
Net income (loss) per share / unit			
Basic	(0.03)		0.47
Diluted	(0.03)		0.25

(3) There was a loss for the year ended December 31, 2013; therefore all Convertible Debentures and Warrants have been excluded from the calculation of diluted loss per Share because they are anti-dilutive.

Between December 31, 2013 and March 11, 2014, 159,694 Convertible Debentures were converted into 31,938,800 Shares and 202,500 Warrants were exercised. There have been no additional transactions involving Shares or potential Shares between the reporting date and the date of completion of these consolidated financial statements.

22. PROVISIONS AND COMMITMENTS

22.1 Litigation and claims

Tree Island is party to certain legal actions and claims, none of which individually, or in the aggregate, is expected to have a material adverse effect on its financial position, statement of operations or cash flows.

22.2 Environmental remediation on sale of surplus land

The Fund completed the sale of 12.5 acres of surplus lands at its Richmond, BC manufacturing facility in 2009. The agreement contained a condition whereby \$1,500 was held in trust to be released upon completion of the agreed upon remediation of the site. In 2011, the Fund completed the remediation work based on the planned requirements and submitted the results for

Tree Island Steel Ltd.

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approval. During the year ended December 31, 2012, the Fund received the final Certificate of Compliance and a gain of \$372 was recognized for the difference between the \$1,500 holdback and the total costs incurred for the environmental remediation.

There are no further requirements or obligations under the purchase and sale agreement.

22.3 Purchase commitments

Tree Island's wholly owned subsidiaries have committed to rod purchases totaling \$42,684 (US\$40,132) at December 31, 2013 and imported finished goods purchases of \$1,326 (US\$1,247).

22.4 Operating lease commitments

Tree Island and its subsidiaries have various operating lease agreements with remaining terms of up to five years with varying renewal options. Annual lease rental payments due under non-cancelable operating leases, including payments for US facilities which have been accrued as discussed above, are as follows:

Less than 1 year	\$	1,475
1 to 5 years		2,379
More than 5 years		-
	\$	3,854

During the year ended December 31, 2013, Tree Island recognized \$1,434 (2012 – \$2,003) in operating lease payments, net of sub-lease receipts, in cost of sales.

22.5 Finance lease commitments

Tree Island has a finance lease for certain machinery and equipment which bears interest at 5.5% per annum and matures in May 2015. Future minimum lease payments under the finance lease with the present value of the net minimum lease payments are as follows:

	Minimum Payments	2013 Present Value of Payments	Minimum Payments	2012 Present Value of Payments
Less than 1 year	\$ 66	\$ 60	\$ 65	\$ 54
1 to 5 years	26	26	93	87
More than 5 years	-	-	-	-
Total minimum lease payments	92	86	158	141
Less amounts representing finance charges	(6)	-	(17)	-
Present value of minimum lease payments	\$ 86	\$ 86	\$ 141	\$ 141

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23. SEGMENTED INFORMATION

Tree Island operates primarily within one industry, the steel wire products industry, with no separately reportable operating segments. Tree Island groups its products into the following: industrial, residential construction, commercial construction, agricultural, and specialty. Revenues for each group for the years ended December 31, 2013 and 2012 were as follows:

	2013		2012	
Industrial	\$	55,087	\$	51,429
Residential construction		45,090		44,046
Commercial construction		25,891		23,866
Agricultural		13,465		12,171
Specialty		13,905		14,726
	\$	153,438	\$	146,238

No one customer is more than 10% of total revenue.

Geographic information

The products are sold primarily to customers in the United States and Canada.

	2013		2012	
Sales ⁽¹⁾				
Canada	\$	55,836	\$	57,462
United States		93,265		84,180
Other		4,337		4,596
	\$	153,438	\$	146,238

⁽¹⁾ Sales are attributed to geographic areas based on the location of customers.

Non-current assets for this purpose consist of property, plant and equipment and other non-current assets. These assets are attributed to geographic areas based on the locations of the subsidiary company owning the assets.

	December 31		December 31	
	2013		2012	
Non-current assets				
Canada	\$	23,054	\$	24,948
United States		7,357		6,801
China		2		66
	\$	30,413	\$	31,815

24. DISPOSITION OF SUBSIDIARY

In the third quarter, the Company entered into a share purchase agreement with an arm's length party. The Company sold to the purchaser its holding in GIP International, a wholly owned subsidiary, which represented a portion of the Company's international business, at a purchase price of \$510(USD 494). At the time of completion of the sale, the shares had a net book value of \$208. After deducting \$84 in costs related to the sale, a gain of \$218 was realized.

Tree Island Steel Ltd.

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25. SUBSEQUENT EVENTS

On January 27, 2014, Tree Island Steel announced that it would redeem all of the Convertible Debentures on March 4, 2014 (the "Redemption Date"). On the Redemption Date, Tree Island Steel would pay to the holders of redeemed Convertible Debentures a redemption price equal to the principal amount par value of \$100 per Debenture, plus accrued and unpaid interest up to but excluding the Redemption Date. Holders of Debentures retained their right to convert all or any part of the outstanding principal amount of the Debentures into common shares of Tree Island Steel at the Conversion Price of \$0.50 per common share until the day prior to the Redemption Date.

On the Redemption Date, the Company completed the redemption of its Convertible Debentures scheduled to mature on November 26, 2014 for an aggregate principal amount of \$175.

Between January 1, 2014 and the Redemption Date, 159,694 Convertible Debentures were converted into 31.9 million shares. As a result, the issued and outstanding shares as at the date of these Financial Statements are 60.7 million shares. The redemption and conversions subsequent to year end have resulted in the following approximate changes to the consolidated statement of financial position: \$15,329 increase to equity (net of proportionate issuance costs), \$14,689 decrease to Convertible Debentures, \$585 decrease to conversion feature and a decrease to the change of control premium of \$241.

SHAREHOLDER INFORMATION

TREE ISLAND STEEL
LTD. (formerly Tree
Island Wire Income
Fund)

Board of Directors:

Amar S. Doman –
Chairman of the Board

Dale R. MacLean

Harry Rosenfeld

Michael Fitch

Sam Fleiser

Theodore A. Leja



Leadership Team:

Dale R. MacLean
*President and Chief
Executive Officer*

Nancy Davies
*Chief Financial Officer
and Vice President,
Finance*

Stephen Ogden
*Vice President,
Operations*

Remy Stachowiak
*Vice President, Sales and
Marketing*

James Miller
*Vice President, Corporate
Development and
Procurement*

Shares:

Market Information

On October 1, 2012, Tree
Island Wire Income Fund
converted to a
corporation. Effective
October 3, 2012, the
corporation, Tree Island
Steel Ltd., is listed on the
Toronto Stock Exchange
trading symbol: TSL.

Registrar and Transfer Agent

Computershare Investor
Services Inc.

Corporate Head Office:

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Richmond, B.C.
Canada, V6V 1T8

Website:

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Investor Relations:

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Investor Relations
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Auditors:

Ernst & Young LLP
Vancouver, B.C.