



WIRE & WIRE PRODUCTS

ESTABLISHED IN 1964



Q1 2015 Quarterly Results

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, True Spec, 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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# MANAGEMENT DISCUSSION AND ANALYSIS

March 31, 2015 and 2014

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 May 7, 2015 and should be read in conjunction with the unaudited interim condensed consolidated financial statements for the three months ended March 31, 2015. Tree Island Steel's unaudited interim condensed consolidated financial statements are prepared in accordance with International Accounting Standard 34, Interim Financial Reporting, 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, 2014, can be found at [www.sedar.com](http://www.sedar.com) or on Tree Island Steel's website at [www.treeisland.com](http://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, 2014.

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 law.

## **2 NON-IFRS MEASURES**

References in this MD&A to “EBITDA” are to operating income and adding back depreciation and foreign exchange gains or losses 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 STEEL LTD.**

Prior to October 1, 2012, the operations of the Company were wholly owned by Tree Island Wire Income Fund (the “Fund”). Tree Island Steel was incorporated under the laws of Canada on August 2, 2012 upon corporate conversion and 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. 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.

In connection with the Arrangement, the Company assumed all of the covenants and obligations of the Fund relating to the 10% Second Lien Convertible Debentures (the “Debentures”) and the share purchase warrants (the “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.

All outstanding Debentures were converted to Shares or redeemed prior to March 4, 2014 and all outstanding Warrants were either exercised or expired prior to December 31, 2014.

There were 31,142,573 Shares outstanding as of March 31, 2015 and the same number of Shares were outstanding as of May 7, 2015.

### **3.1 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 which are managed through our US operating subsidiary, Tree Island Wire (USA) Inc. (“TIW”), and a China based sourcing operation.

### 3.2 PRODUCTS

Tree Island 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 with 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 that meet customers' needs, ASTM standards and applicable codes; broad range of products; short lead times; technical support and excellent customer 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.

### 3.3 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	Bright/galvanized/annealed low and high carbon wire	Wire fabricating, industrial applications, OEM manufacturing	North America and International
Residential Construction	Tree Island, Halsteel, K-Lath, True Spec	Collated, bulk and packaged nails 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 Concrete reinforcing products	Commercial construction, mining, infrastructure projects	North America and International

<b>Markets</b>	<b>Brand</b>	<b>Key Product Groups</b>	<b>Specific End-Use Markets</b>	<b>Regions</b>
Agricultural	Tree Island, Tough Strand	Hi-tensile game fence and farm fence  Vineyard wire and 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

### **3.4 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 Q1 2015 BUSINESS OVERVIEW AND DEVELOPMENT**

### **4.1 BUSINESS OVERVIEW**

Q1 was a strong start to 2015. We have benefited from a variety of favourable market conditions, including, but not limited to, the milder weather in western North America, increased economic activity in the US and increased demand in some of our end markets. We continued our customer centric approach in generating sales, by focusing on quality products and customer service excellence. At the same time, we identified market opportunities and capitalized on them by implementing appropriate targeted sales initiatives. As a result, volume for the most recent quarter grew by 16.7% to 41,016 tons when compared to the same quarter last year, while revenues grew by 28.6% to \$59.0 million.

Gross profit for Q1 2015 increased by 55% to \$8.2 million over the same period last year. Increased sales revenue, our pricing initiatives, product mix, production efficiencies, the productivity from additional staff hired and trained in 2014 and overall operating leverage derived from the increase in volume all contributed to the surplus. Similarly, gross margin for the most recent quarter improved to 13.9% compared to 11.6% the year prior for the same reasons.

### **4.2 Trade Action Reviews**

From time to time various governments undertake trade actions that may have an impact on Tree Island's business. The Company closely monitors these trade actions, evaluates their potential impacts on the Company's business and takes appropriate action to capitalize on/mitigate the opportunity/threat posed by the trade actions. The following trade action had no material adverse impact on Tree Island's business.

#### **4.2.1 US Trade Case Against Steel Nails From Korea, Malaysia, Taiwan and Vietnam**

On December 17, 2014, the U.S. Department of Commerce announced interim duty calculations for dumping. The US had earlier excluded nails from India and Turkey on the basis that the volumes of imports did not meet the

minimum importation volumes to merit inclusion in the trade case. The interim margins that will apply on nails imported into the US from the noted countries are as follows:

<u>Country</u>	<u>Anti-Dumping Margin Range</u>
Korea	7.26% - 12.38%
Malaysia	2.15% - 39.358%
Oman	9.07%
Taiwan	0%
Vietnam	93.4% - 323.99%

A final determination will occur mid to late May 2015 with the United States International Trade Commission final decision on injury coming at the end of June 2015. The Department of Commerce can change the tariff levels at final determination or if new information becomes available.

The case was brought to the Commerce Department by the Mid-Continent Nail Corp, a wholly owned subsidiary of Mexico-based Deacero in May, 2014.

The nails covered by this investigation have a nominal shaft length not exceeding 12 inches including nails made from round wire and nails cut from flat-rolled steel and exclude roofing nails. The US apparent consumption of these nails in 2013 was US\$904.0 million with imports making up 76% of the market. In 2013, the US imported US\$352.8 million in nails from the subject countries. China, Taiwan, and Oman are the largest sources of import nails into the US. China already has duties from an earlier trade case.

### **4.3 Labour Relations**

The current collective bargaining agreement with the International Brotherhood of Teamsters, the union that represents the production employees at the Richmond, BC production facility, expires on June 30, 2015. In the quarter, the Company started discussions with the union for a new collective bargaining agreement.

## 5 RESULTS FROM OPERATIONS

(\$'000 unless otherwise stated)

	Three Months Ended	
	March 31,	
	2015	2014
Sales Volume – Tons <sup>(1)</sup>	41,016	35,136
Revenue	59,043	45,922
Cost of sales	(50,065)	(39,912)
Depreciation	(744)	(697)
Gross profit	8,234	5,313
Selling, general and administrative expenses	(4,362)	(3,875)
Operating income	3,872	1,438
Foreign exchange gain (loss)	892	524
Gain (loss) on sale of property, plant and equipment	(6)	(10)
Changes in financial liabilities recognized at FV	(123)	(138)
Financing Expenses	(849)	(1,241)
Income before income taxes	3,786	573
Income tax (expense) recovery	(1,669)	(212)
Net Income	2,117	361
Operating Income	3,872	1,438
Add back Depreciation	744	697
Foreign exchange gain / (loss)	892	524
EBITDA <sup>(2)</sup>	5,508	2,659
Net Income	2,117	361
Non-cash financing expenses	296	263
Changes in fair value of financial instruments	123	138
Deferred tax	(115)	203
Adjusted net income <sup>(2)</sup>	2,421	965
Net income per share - basic (\$/share)	0.07	0.01
Net income per share - diluted (\$/share)	0.07	0.01
Gross profit per ton (\$/ton)	201	151
EBITDA per ton (\$/ton)	134	76
Financial position as at:	March 31,	December 31,
	2015	2014
Total assets	128,943	112,106
Total non-current financial liabilities	13,499	13,073

(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 MARCH 31, 2015 AND 2014

<i>(\$'000 unless otherwise stated)</i>	<u>Q1 2015</u>	<u>Q1 2014</u>	<u>Variance Fav/(Unfav)</u>	
<b>Sales</b>	59,043	45,922	13,121	28.6%

### Revenue by Market Segment

*(\$'000 unless otherwise stated)*

	<u>Three Months Ended March 31, 2015</u>				<u>Three Months Ended March 31, 2014</u>			
	<u>Revenue</u>	<u>% of</u>	<u>Sales</u>	<u>% of Sales</u>	<u>Revenue</u>	<u>% of</u>	<u>Sales</u>	<u>% of Sales</u>
		<u>Revenue</u>	<u>(Tons)</u>			<u>Revenue</u>	<u>(Tons)</u>	
Industrial	20,468	34.7%	16,795	40.9%	17,397	37.9%	15,381	43.8%
Residential	17,908	30.3%	10,640	25.9%	12,741	27.7%	8,736	24.9%
Commercial	8,188	13.9%	7,021	17.1%	6,888	15.0%	5,984	17.0%
Agricultural	7,456	12.6%	5,565	13.6%	5,177	11.3%	4,145	11.8%
Specialty	5,023	8.5%	995	2.4%	3,719	8.1%	890	2.5%
Total Revenue	<u>59,043</u>		<u>41,016</u>		<u>45,922</u>		<u>35,136</u>	

For the three months ended March 31, 2015, net revenue totalled \$59.0 million, an increase of \$13.1 million (+28.6%) over the same period last year. The strength of the construction market in the US relative to the prior year, our ability to leverage our relationships with our customers and key sales initiatives are a large reason for the increase in Q1 volume which grew 5,880 tons over last year to 41,016 tons.

Agricultural products registered the highest rate of growth of the five market segments, with volume growing by 34.3% and revenues by 44.0% as a result of the combination of our increased focus in the United States, the relatively mild winter in western Canada and our strategic pricing initiatives.

As a result of the strength of the housing market in the Western US, Residential volume grew by 21.8% and revenue by 40.6%.

Sales volume of Commercial products increased by 17.3% over the same period last year as we strengthen our relationships with customers.

The Industrial sector continues to be the largest contributor to total volume and revenues. Year-over-year volume and revenue growth were 17.7% and 7.8%, respectively. Our efforts to maintain solid relationships with our customers by providing them with high quality products and customer service and being responsive to market pricing has allowed us to grow our sales volume across our markets.

## Revenue by Location and Currency

(\$'000 unless otherwise stated)

	Three Months Ended March 31,					
	2015		2014		Variance	
	\$	% of Total	\$	% of Total	\$	%
United States	39,032	66.1%	28,185	61.4%	10,847	38.5%
Canada	18,523	31.4%	16,556	36.0%	1,967	11.9%
International	1,488	2.5%	1,181	2.6%	307	26.0%
<b>Total</b>	<b>59,043</b>	<b>100.0%</b>	<b>45,922</b>	<b>100.0%</b>	<b>13,121</b>	<b>28.6%</b>
Average C\$/US\$	1.2421		1.1035			

Revenues generated in the United States increased by 38.5%, a large reason of which is due to our efforts to increase sales volume in our US markets.

(\$'000 unless otherwise stated)	Q1 2015	Q1 2014	Variance Fav/(Unfav)	
<b>COST OF SALES</b>	50,809	40,609	(10,200)	(25.1%)

With our rod costs and consumables cost being transacted in US dollars and with these costs representing a significant portion of our cost of sales, the strength of the US currency increased our production costs by 7.2%. The increase in sales volumes contributed 16.7% to the increase. These increases were offset by the benefits associated with the productivity from additional staff hired and trained in 2014 and overall operating leverage benefits resulting from the increase in volume.

(\$'000 unless otherwise stated)	Q1 2015	Q1 2014	Variance Fav/(Unfav)	
<b>GROSS PROFIT</b>	8,234	5,313	2,921	55.0%

## Gross Profit

(\$'000 unless otherwise stated)

	Three Months Ended March 31,					
	2015		2014		Variance	
	Gross Profit	% of Total	Gross Profit	% of Total	\$	%
US\$ GP after FX translation	4,798	58.3%	2,903	54.6%	1,895	65.3%
C\$ Gross Profit	3,436	41.7%	2,410	45.4%	1,026	42.6%
<b>Total Gross Profit in C\$</b>	<b>8,234</b>	<b>100.0%</b>	<b>5,313</b>	<b>100.0%</b>	<b>2,921</b>	<b>55.0%</b>
Average C\$/US\$	1.2421		1.1035			

Gross profit for the quarter increased by 55.0% year-over-year to \$8.2 million, which is 13.9% of revenues compared to 11.6% last year. The increase in gross profit stems mainly from the combination of the increase in sales volume, our pricing initiatives, product mix, better production efficiencies as a result of the additional staff hired and trained in 2014 and overall operating leverage.

The increase in US\$ gross profit is related to the targeted efforts to increase sales volume in our US markets.

<i>(\$'000 unless otherwise stated)</i>	<u>Q1 2015</u>	<u>Q1 2014</u>	<u>Variance Fav/(Unfav)</u>	
<b>SG&amp;A EXPENSES</b>	4,362	3,875	(487)	(12.6%)

The increase in SG&A expenses is a combination of the strength of the US currency, the additional selling expenses incurred to generate the additional sales volume and the additional general and administrative costs related to the increase in the business.

<i>(\$'000 unless otherwise stated)</i>	<u>Q1 2015</u>	<u>Q1 2014</u>	<u>Variance Fav/(Unfav)</u>	
<b>EBITDA</b>	5,508	2,659	2,849	107.1%

Inclusive of a foreign exchange gain of \$0.9 million, EBITDA for the quarter grew by \$2.8 million over the same period last year to \$5.5 million, a 107.1% increase. The increase in EBITDA is attributable to the increase in sales volume, our pricing initiatives, product mix, production efficiencies and overall operating leverage

<i>(\$'000 unless otherwise stated)</i>	<u>Q1 2015</u>	<u>Q1 2014</u>	<u>Variance Fav/(Unfav)</u>	
<b>FINANCING EXPENSES</b>	849	1,241	392	31.6%

Financing expenses decreased by \$0.4 million when compared to the same period last year to \$0.8 million in Q1 2015. This is a direct result of the redemption of the Debentures in Q1 of 2014.

#### **Financing Expense**

*(\$'000 unless otherwise stated)*

	Three Months Ended March 31,			
	<u>2015</u>	<u>2014</u>	<u>Variance</u>	
			<u>\$</u>	<u>%</u>
Non cash financing expenses	296	263	(33)	(12.5%)
Cash on Convertible Debentures	-	534	534	100.0%
Interest on Senior Credit Facility	249	196	(53)	(27.0%)
Other interest and financing costs	298	232	(66)	(28.4%)
Deferred financing costs	6	16	10	62.5%
<b>Total Financing Expenses</b>	<b>849</b>	<b>1,241</b>	<b>392</b>	<b>31.6%</b>

<i>(\$'000 unless otherwise stated)</i>	<u>Q1 2015</u>	<u>Q1 2014</u>	<u>Variance Fav/(Unfav)</u>	
<b>FOREIGN EXCHANGE GAIN (LOSS)</b>	892	524	368	70.2%

Foreign exchange recorded a gain of approximately \$0.9 million in Q1 2015 compared to a gain of \$0.5 million last year. Our Canadian operation, whose functional currency is 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. With raw material costs being denominated in US dollar, having a significant portion of our sales also being denominated in US dollar creates a natural partial hedge. Foreign currency forward contracts are used to manage a portion of the remaining currency risk. Foreign exchange gains and losses are unpredictable in nature and therefore can vary significantly over time.

<i>(\$'000 unless otherwise stated)</i>	<u>Q1 2015</u>	<u>Q1 2014</u>	<u>Variance Fav/(Unfav)</u>	
<b>INCOME TAX RECOVERY (EXPENSE)</b>	(1,669)	(212)	(1,457)	(687.3%)

The income tax expense for Q1 2015 of \$1.7 million relates to current taxes payable, primarily from the Canadian operations. The income tax recovery (expense) is based on the statutory tax rate of 26.0% (the same as 2014)

applied to the income of subsidiaries before taxes, with adjustments for permanent differences between accounting and taxable income.

<i>(\$'000 unless otherwise stated)</i>	<u>Q1 2015</u>	<u>Q1 2014</u>	<u>Variance Fav/(Unfav)</u>	
<b>NET INCOME (LOSS)</b>	2,117	361	1,756	486.4%

Net income for the quarter was approximately \$2.1 million compared to \$0.4 million the year prior. This is attributable to the better operating income and less financing expenses for the period being partially offset by the increase in income tax expense.

<i>(\$'000 unless otherwise stated)</i>	<u>Q1 2015</u>	<u>Q1 2014</u>	<u>Variance Fav/(Unfav)</u>	
<b>ADJUSTED NET INCOME (LOSS)</b>	2,421	965	1,456	150.9%

After accounting for non-cash financing expenses, changes in fair value of financial instruments and deferred tax, Q1 recorded an adjusted net income of approximately \$2.4 million compared against an adjusted net income of \$1.0 million last year. The \$1.5 million increase is primarily a result of the better operating performance.

## 7 FINANCIAL CONDITION AND LIQUIDITY

### 7.1 WORKING CAPITAL

A summary of the composition of our working capital as at March 31, 2015 compared to 2014 is provided below:

#### **Working Capital**

*(\$'000 unless otherwise stated)*

	<u>As at March 31,</u>	
	<u>2015</u>	<u>2014</u>
Cash	1,779	1,571
Accounts Receivable	34,621	24,502
Inventories	57,535	43,947
Other Current Assets	4,168	2,805
<b>Total Current Assets</b>	<u>98,103</u>	<u>72,825</u>
Senior Credit Facility	(44,813)	(26,325)
Accounts Payable and Accrued Liabilities	(17,815)	(14,442)
Other Current Liabilities	(2,024)	(331)
Current Portion of Long Term Debt	(2,191)	(1,918)
<b>Total Current Liabilities</b>	<u>(66,843)</u>	<u>(43,016)</u>
<b>Net Working Capital</b>	<u>31,260</u>	<u>29,809</u>

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 Credit 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.

Net working capital as at March 31, 2015 was \$31.3 million compared to \$29.8 million the year before. Accounts receivable at the end of Q1 2015 was higher than at Q1 2014, reflecting the increase in revenues. Inventories levels were also higher at Q1 2015 when compared to 2014 as a result of the higher value of raw materials and finished goods due to the strength of the US dollar and an increase in raw material purchases during the period to ensure raw material inventory levels were sufficient to meet production volume. The increases in the Senior Credit Facility and in accounts payable and accrued liabilities were used to fund our increased production volumes.

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 Credit 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, growth requirements 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.

## **7.2 CASH FLOW**

For the three months ended March 31, 2015 net cash used in operating activities was \$10.7 million, as a result of more inventory for raw materials and finished goods (before accounting for foreign exchange translation over the prior quarter) to support the growth of the business, which was partially offset by the improvement in operating income over the same period last year.

Cash flow used for investing activities in Q1 2015 amounted to \$0.8 million which was used for investments in new equipment.

Repayments on the long term debt for the first quarter of 2015 was \$0.6 million while \$12.2 million was advanced from the Senior Revolving Facility to support the increase in working capital requirements and payments for capital investments earmarked for 2015. Overall cash flow decreased by \$0.5 million, which is reflective of the repayment of the long term debt and the exchange rate changes on foreign cash balances.

The following is a summary of our cash flow for the three months ended March 31, 2015 and 2014:

**Cash Flow**

*(\$'000 unless otherwise stated)*

	Three Months Ended	
	March 31,	
	<u>2015</u>	<u>2014</u>
Cash provided by (used in) operating activities	4,762	3,086
Working Capital adjustments	<u>(15,504)</u>	<u>(10,255)</u>
Net Cash provided by (used in) operating activities	<u>(10,742)</u>	<u>(7,169)</u>
Net Cash provided by (used in) investing activities	<u>(844)</u>	<u>(95)</u>
Advance on (repayment of) Senior Term Loan	(103)	(125)
Repayment of Long-Term Debt	(581)	(502)
Conversion of Warrants	-	115
Interest paid	(512)	(947)
Redemption of Debentures	-	(175)
Advance on (repayment of) Senior Revolving Facility	<u>12,215</u>	<u>9,197</u>
Net Cash provided by (used in) financing activities	<u>11,019</u>	<u>7,563</u>
Exchange rate changes on foreign cash balances	37	8
Increase (decrease) in cash balances	<u>(530)</u>	<u>307</u>

**7.3 SENIOR CREDIT FACILITY**

On April 21, 2014, the Company announced the renewal of its senior banking facility with Wells Fargo. The five year senior secured committed banking facility has been increased from \$40.0 million to \$60.0 million and now matures in April of 2019. Under the terms of the Senior Credit Facility, up to \$60.0 million may be borrowed for Tree Island's financing requirements in Canadian and/or US dollars of which \$3.7 million has been advanced as a term loan. Interest is charged at variable rates based on the Canadian and/or US Prime rate and the Canadian Banker's Acceptance rate and/or the Eurodollar rate. The amount advanced under the Senior Credit Facility at any time is limited to a defined percentage of inventories, accounts receivable and real estate, less certain reserves. The Senior Credit Facility is secured by a first charge over Tree Island's assets supported by the appropriate guarantees, pledges and assignments, and requires that certain covenants be met by Tree Island.

Subsequent to March 31, 2015, the Company obtained a second term loan from Wells Fargo in the amount of \$3 million. The funds will be used to purchase capital equipment. The term loan is part of the existing \$60 million Senior Credit Facility and will be amortized over five years with interest at prime plus 0.5%. The funds were advanced on April 30, 2015 in full to our revolving facility. Principal and interest payments will begin June 1, 2015.

The Senior Credit 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 Credit 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 March 31, 2015 the availability was in excess of the Availability Test and the Company was in compliance with its covenants on the Senior Credit Facility.

## 7.4 LONG TERM DEBT AGREEMENTS

Tree Island entered into a Second Amendment to the long-term debt agreement ("Agreement") on June 11, 2012. Under the terms of this Agreement, the total principal debt amount of approximately US\$15.8 million is to 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.

## 8 CAPITAL EXPENDITURES AND CAPACITY

For the three months ended March 31, 2015 we made capital expenditures of \$0.8 million. These expenditures are primarily for new equipment targeted for start-up in 2015.

## 9 CONTRACTUAL OBLIGATIONS AND COMMITMENTS

As of March 31, 2015, 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 Credit Facility.

The wire rod purchases are for raw materials to be used in the day-to-day operations of our manufacturing facilities, are in the normal course of our business activities and are expected to be delivered by the end of this year. The finished goods purchases are also in the normal course of our business activity and are expected to be delivered before the end of 2015.

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.

### Contractual Obligations and Commitments

(\$'000 unless otherwise stated)

	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>Thereafter</u>	<u>Total</u>
Wire Rod Purchases	17,964	-	-	-	-	-	17,964
Finished Goods	1,862	-	-	-	-	-	1,862
Operating Leases	<u>1,396</u>	<u>1,505</u>	<u>137</u>	<u>46</u>	<u>34</u>	<u>26</u>	<u>3,144</u>
Total Commitments	<u>21,222</u>	<u>1,505</u>	<u>137</u>	<u>46</u>	<u>34</u>	<u>26</u>	<u>22,970</u>
Senior Revolving Facility	44,813	-	-	-	-	-	44,813
AP and Accrued Liabilities	17,815	-	-	-	-	-	17,815
Finance Lease	18	8	8	8	6	-	48
Senior Term Loan	309	413	413	413	413	1,788	3,749
Long-Term Debt	<u>1,256</u>	<u>1,763</u>	<u>1,826</u>	<u>1,826</u>	<u>2,403</u>	<u>10,455</u>	<u>19,529</u>
Total Financial Liabilities	<u>64,211</u>	<u>2,184</u>	<u>2,247</u>	<u>2,247</u>	<u>2,822</u>	<u>12,243</u>	<u>85,954</u>
Total Obligations and Commitments	<u>85,433</u>	<u>3,689</u>	<u>2,384</u>	<u>2,293</u>	<u>2,856</u>	<u>12,269</u>	<u>108,924</u>

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. As of March 31, 2015, the Company had no outstanding US dollar currency forward contracts.

The Company enters into forward contracts to purchase a portion of the zinc used in its production process. These are not designated as cash flow, fair value or net investment hedges. The fair value of forward contracts as at March 31, 2015 was a notional amount of \$1.9 million and the mark to market liability on those contracts was \$0.2 million.

## 10 SUMMARY OF QUARTERLY FINANCIAL RESULTS

The table below provides selected quarterly financial information for the eight most recent fiscal quarters to March 31, 2015. Sales volume in the last quarter of the year has traditionally been the lowest due to the seasonality of our business and the markets we sell to. 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.

### Summary of Quarterly Financial Results

*(\$'000 unless otherwise stated)*

	Mar 31, 2015	Dec 31, 2014	Sep 30, 2014	Jun 30, 2014	Mar 31, 2014	Dec 31, 2013	Sep 30, 2013	Jun 30, 2013
Sales Volumes - Tons	41,016	31,910	36,491	36,398	35,136	27,296	29,345	29,160
Revenue	59,043	42,265	47,975	47,782	45,922	35,748	39,004	40,595
Gross Profit	8,234	4,172	5,215	4,624	5,313	3,767	3,895	5,396
Foreign exchange gain (loss)	892	(84)	37	(208)	524	5	(23)	106
EBITDA	5,508	1,201	2,403	1,737	2,659	1,003	1,526	2,965
Net Income (Loss)	2,117	56	390	171	361	(665)	(43)	191
Net Income (Loss) per unit - Basic	0.07	0.00	0.01	0.01	0.01	(0.03)	(0.00)	0.01
Gross Profit per Ton	201	131	143	127	151	138	133	185
EBITDA per Ton	134	38	66	48	76	37	52	102

Q2 2014: Increases in volumes in the first and second quarter of 2014 required investment of additional labour staffing, training, and increasing maintenance programs to support the higher throughput in the facilities. The growth in volumes and operating leverage contributed positively to our gross profit but gross profit was impacted by approximately \$0.7 million for the added costs of this growth related investment.

## 11 ACCOUNTING POLICIES AND STATEMENTS

Certain of our accounting 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.

Our significant accounting policies are described in Note 3 of the December 31, 2014 audited consolidated financial statements, the Annual Information Form for the year ended December 31, 2014 and Note 3 to the March 31, 2015 unaudited consolidated financial statements.



## **11.1 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 unaudited consolidated financial statements for the three months ended December 31, 2014 (Note 4).

## **12 RELATED PARTY TRANSACTIONS**

### **12.1 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.

Based on Tree Island Steel’s outstanding Shares as at March 7, 2015, Futura owns 27.3% of the fully diluted Shares of the Company.

In addition, Mr. Doman is Chairman and CEO of CanWel Building Materials Group Ltd. (“CanWel”). In Q1 of 2015, Tree Island sold, net of rebates, approximately \$1.1 million (\$1.2 million in 2014) of goods to CanWel during the year and trade accounts receivable owing from CanWel is approximately \$0.8 million (approximately \$0.5 million in 2014). Outstanding trade accounts receivable from CanWel at period end are unsecured, interest free and settlement occurs in cash

### **12.2 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 March 31, 2015 was approximately \$0.6 million (approximately \$0.5 million in 2014) 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.

## **13 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 2014 Annual Information Form under the heading “Risk Factors” which can be found at [www.sedar.com](http://www.sedar.com).

## **14 DISCLOSURE CONTROLS AND PROCEDURES AND INTERNAL CONTROL OVER FINANCIAL REPORTING**

Our management is responsible for designing disclosure controls and procedures that (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 is responsible for designing, establishing, and maintaining an adequate system of internal control over financial reporting. Our internal control system was designed based on the Internal Control –

Integrated Framework (“COSO Framework”) published by the Committee of Sponsoring Organizations of the Treadway Commission to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes, in accordance with IFRS.

Our Chief Executive Officer and Chief Financial Officer certified the appropriateness of the financial disclosures in the interim financial report together with the other financial information included in the interim filings for the period ended March 31, 2015. These executives also certified that they are responsible for the design of disclosure controls and procedures and internal control over financial reporting. There have been no changes in internal control over financial reporting during the quarter ended March 31, 2015 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

The Company’s Board of Directors and Audit Committee reviewed and approved the March 31, 2015 unaudited interim condensed consolidated financial statements and this MD&A prior to its release.

**INTERIM UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**March 31, 2015 and 2014**

**NOTICE OF NO AUDITOR REVIEW OF INTERIM FINANCIAL STATEMENTS**

Under National Instrument 51-102 "Continuous Disclosure Obligations", Part 4, Subsection 4.3(3a), if an auditor has not performed a review of the interim financial statements, they must be accompanied by a notice indicating that the financial statements have not been reviewed by an auditor.

The accompanying interim condensed consolidated financial statements of Tree Island Steel Ltd. have been prepared by and are the responsibility of Tree Island Steel Ltd.'s management.

Tree Island Steel Ltd.'s independent auditor, Ernst & Young LLP, has not performed a review of these financial statements in accordance with standards established by the Canadian Institute of Chartered Accountants for a review of interim financial statements by an entities auditor.

May 7, 2015

**INTERIM UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
**March 31, 2015 and 2014**

**INTERIM UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION**  
*(\$'000 unless otherwise stated)*

	As at March 31, 2015	As at December 31, 2014
Cash	1,779	2,309
Accounts receivable <i>(Note 5)</i>	34,621	20,092
Inventories <i>(Note 6)</i>	57,535	55,950
Prepaid expenses	4,168	3,914
Current Assets	<u>98,103</u>	<u>82,265</u>
Property, plant and equipment <i>(Note 7)</i>	30,670	29,723
Other non-current assets	170	118
Total assets	<u><u>128,943</u></u>	<u><u>112,106</u></u>
Senior revolving facility <i>(Note 8.1)</i>	44,813	30,553
Accounts payable and accrued liabilities	17,815	18,758
Income taxes payable	1,848	81
Other current liabilities	176	154
Current portion of long-term borrowing <i>(Notes 8.2, 10)</i>	2,191	1,976
Current liabilities	<u>66,843</u>	<u>51,522</u>
Senior term loan <i>(Note 8.2)</i>	3,334	3,437
Long-term debt <i>(Note 10)</i>	10,137	9,611
Other non-current liabilities	407	450
Deferred income taxes	2,873	2,988
Total liabilities	<u>83,594</u>	<u>68,008</u>
Shareholders' equity	<u>45,349</u>	<u>44,098</u>
Total liabilities and shareholders' equity	<u><u>128,943</u></u>	<u><u>112,106</u></u>

See accompanying Notes to the Interim Unaudited Condensed Consolidated Financial Statements

Approved on behalf of Tree Island Steel Ltd.

[Signed]  
 "Amar S. Doman"  
 Chairman of the Board of Directors

[Signed]  
 "Dale R. Maclean"  
 Director, President and Chief Executive Officer

**INTERIM UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
**March 31, 2015 and 2014**

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**INTERIM UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS**

*(\$'000 unless otherwise stated)*

	Three Months Ended March 31,	
	2015	2014
Sales	59,043	45,922
Cost of goods sold <i>(Note 6)</i>	(50,065)	(39,912)
Depreciation	(744)	(697)
Gross profit	8,234	5,313
Selling, general and administrative expenses	(4,362)	(3,875)
Operating income	3,872	1,438
Foreign exchange gain (loss)	892	524
Gain (loss) on sale of property, plant and equipment	(6)	(10)
Changes in financial liabilities recognized at fair value	(123)	(138)
Financing expenses <i>(Note 11)</i>	(849)	(1,241)
Income (loss) before income taxes	3,786	573
Income tax recovery (expense) <i>(Note 14)</i>	(1,669)	(212)
Net income	2,117	361
Net income per share <i>(Note 17)</i>		
Basic	0.07	0.01
Diluted	0.07	0.01
Weighted average number of shares <i>(Note 17)</i>		
Basic	31,142,573	25,111,091
Diluted	31,142,573	26,165,421

*See accompanying Notes to the Interim Unaudited Consolidated Financial Statements*

**INTERIM UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

March 31, 2015 and 2014

**INTERIM UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**

(\$'000 unless otherwise stated)

	Three Months Ended March 31,	
	2015	2014
Net income for the year	2,117	361
Unrealized income (loss) on foreign exchange translation	(866)	39
Comprehensive income (loss)	<u>1,251</u>	<u>400</u>

See accompanying Notes to the Interim Unaudited Consolidated Financial Statements

**INTERIM UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY**

(\$'000 unless otherwise stated)

	Shareholders' Capital	Warrants and Equity Component of Convertible Debentures	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total
Balance as at December 31, 2014	230,674	-	(186,445)	(131)	44,098
Net income	-	-	2,117	-	2,117
Other comprehensive income (loss)	-	-	-	(866)	(866)
Balance as at March 31, 2015	<u>230,674</u>	<u>-</u>	<u>(184,328)</u>	<u>(997)</u>	<u>45,349</u>
Balance as at December 31, 2013	214,307	606	(187,423)	290	27,780
Conversion of Debentures (Note 9)	15,320	(585)	-	-	14,735
Conversion of warrants	1,047	(21)	-	-	1,026
Net income (loss)	-	-	978	-	978
Other comprehensive income (loss)	-	-	-	(421)	(421)
Balance as at December 31, 2014	<u>230,674</u>	<u>-</u>	<u>(186,445)</u>	<u>(131)</u>	<u>44,098</u>

See accompanying Notes to the Interim Unaudited Consolidated Financial Statements

**INTERIM UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

March 31, 2015 and 2014

**INTERIM UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**

(\$'000 unless otherwise stated)

	Three Months Ended	
	March 31,	
	2015	2014
Net income (loss)	2,117	361
Depreciation	744	697
Changes in financial liabilities recognized at fair value	123	138
Gain (loss) on sale of property, plant and equipment	6	10
Amortization and write-off of deferred financing	6	16
Net financing costs	843	1,225
Deferred income tax expense (recovery)	(115)	203
Exchange revaluation of foreign denominated debt	1,038	436
Working Capital Adjustments		
Accounts receivable	(14,528)	(7,316)
Inventories	(1,586)	(8,088)
Accounts payable and accrued liabilities	(1,510)	6,563
Prepaid expenses	(254)	(1,085)
Income and other taxes	1,784	9
Other	590	(338)
Net cash provided by (used in) operating activities	<u>(10,742)</u>	<u>(7,169)</u>
Purchase of property, plant and equipment	<u>(844)</u>	<u>(95)</u>
Net cash used in investing activities	<u>(844)</u>	<u>(95)</u>
Repayment of senior term loan	(103)	(125)
Repayment of long-term debt	(581)	(502)
Conversion of warrants	-	115
Interest paid	(512)	(947)
Redemption of debentures (Note 9)	-	(175)
Advance on (repayment of) Senior Revolving Facility	12,215	9,197
Net cash provided by (used in) financing activities	<u>11,019</u>	<u>7,563</u>
Effect of exchange rate change on cash	<u>37</u>	<u>8</u>
Increase (decrease) in cash	(530)	307
Cash - beginning of period	<u>2,309</u>	<u>1,264</u>

*See accompanying Notes to the Interim Unaudited Consolidated Financial Statements*

**NOTES TO THE INTERIM UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
**March 31, 2015 and 2014**

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## **1 NATURE OF BUSINESS**

These consolidated financial statements of Tree Island Steel Ltd. ("Tree Island Steel" or the "Company") for the quarter ended March 31, 2015 were authorized for issue in accordance with a resolution of the Board of Directors on May 7, 2015.

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 ("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 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 shares ("Shares"), on the basis of one Share for each Unit. The 10% Second Lien Convertible Debentures (the "Debentures") became debentures of Tree Island Steel. The Debentures were convertible, but into Shares of Tree Island Steel at the same price at which the Debentures were convertible into units of the Fund, subject to adjustment as provided for in the trust indenture governing the Debentures. The share purchase warrants became warrants of Tree Island Steel (the "Warrants") 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**

The interim condensed consolidated financial statements as at and for the three months ended March 31, 2015 have been prepared in accordance with International Accounting Standard ("IAS") 34, "Interim Financial Reporting". They should be read in conjunction with the annual consolidated financial statements and the notes thereto for the year ended December 31, 2014 and do not include all information required for the full annual financial statements. Certain comparative information has been reclassified to conform to the presentation adopted during the period.

## **3 SIGNIFICANT ACCOUNTING POLICIES, CRITICAL ACCOUNTING JUDGEMENTS AND ESTIMATES**

The accounting policies, methods of application and critical judgements and estimates used in the preparation of these consolidated financial statements are consistent with those disclosed in the annual consolidated financial statements as at December 31, 2014.



#### **4 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**

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, 2018. The Company is currently assessing the impact of IFRS 9 and plans to adopt the new standard on the required effective date.

##### **IFRS 15 Revenue from Contracts with Customers**

IFRS 15 was issued in May 2014 and establishes a new five-step model that will apply to revenue arising from contracts with customers. Under IFRS 15 revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The principles in IFRS 15 provide a more structured approach to measuring and recognising revenue.

Then new revenue standard is applicable to all entities and will supersede all current revenue recognition requirements under IFRS. Either a full or modified retrospective application is required for annual periods beginning on or after January 1, 2017 with early adoption permitted. The Company is currently assessing the impact of IFRS 15 and plans to adopt the new standard on the required effective date.

#### **5 ACCOUNTS RECEIVABLE**

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

*(\$'000 unless otherwise stated)*

	As at March 31, 2015	As at December 31, 2014
	<u>2015</u>	<u>2014</u>
Current	32,366	18,379
30 - 60 days past due	1,139	1,090
61 - 90 days past due	526	356
Over 91 days past due	778	421
Total Accounts Receivable	<u>34,809</u>	<u>20,246</u>
Allowance for doubtful accounts	<u>(188)</u>	<u>(155)</u>
Net Accounts Receivable	<u>34,621</u>	<u>20,091</u>

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 13.

The maximum credit risk that Tree Island was exposed to by way of its accounts receivable is equal to the net amount of \$34.6 million as at March 31, 2015 (\$20.1 million as at December 31, 2014).

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

**NOTES TO THE INTERIM UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
**March 31, 2015 and 2014**

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.

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

(\$'000 unless otherwise stated)

	As at March 31, 2015	As at December 31, 2014
Opening Balance - January 1	155	189
Additions during the year	30	153
Reversals during the year	-	(23)
Write-offs during the year	-	(165)
Foreign exchange revaluation	3	1
Closing Balance - March 31	<u>188</u>	<u>155</u>

See Note 15.3 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.

## 6 INVENTORIES

Tree Island had the following categories of inventory as at:

(\$'000 unless otherwise stated)

	As at March 31, 2015	As at December 31, 2014
Raw Materials	23,152	20,000
Finished and semi-finished products	23,523	26,368
Consumable supplies and spare parts	10,860	9,582
Total Inventory	<u>57,535</u>	<u>55,950</u>

For the three months periods ended March 31, 2015 and 2014, Tree Island recognized, in income, inventory costs for the following:

(\$'000 unless otherwise stated)

	Three Months Ended March 31,	
	2015	2014
Opening Inventory	55,950	35,307
Raw material purchases	37,785	36,585
Finished goods purchased for resale	1,176	1,083
Conversion costs	12,689	10,884
Closing inventory	<u>(57,535)</u>	<u>(43,947)</u>
Cost of goods sold	<u>50,065</u>	<u>39,912</u>

**NOTES TO THE INTERIM UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
**March 31, 2015 and 2014**

At each period 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 Q1 2015 and no write downs were needed in the prior period. The inventory reserves for Q1 2015 were \$2.2 million (\$1.7 million in 2014).

**7 PROPERTY, PLANT AND EQUIPMENT**

The net book value of the Company's property, plant and equipment is detailed below:

*(\$'000 unless otherwise stated)*

	Land & Improvement	Building & Improvement	Machinery & Equipment	Construction in Progress	Total
<b>Cost</b>					
As at December 31, 2013	9,201	39,376	17,517	243	66,337
Additions	-	248	788	579	1,615
Disposals	-	-	(31)	-	(31)
Foreign exchange translation	135	511	563	69	1,278
As at December 31, 2014	9,336	40,135	18,837	891	69,199
Additions	-	-	69	883	952
Disposals	-	-	(11)	-	(11)
Foreign exchange translation	152	572	651	64	1,439
As at March 31, 2015	<u>9,488</u>	<u>40,707</u>	<u>19,546</u>	<u>1,838</u>	<u>71,579</u>
<b>Depreciation and impairment</b>					
As at December 31, 2013	-	28,236	7,847	-	36,083
Depreciation for the period	-	1,325	1,497	-	2,822
Disposals	-	-	(22)	-	(22)
Foreign exchange translation	-	369	224	-	593
As at December 31, 2014	-	29,930	9,546	-	39,476
Depreciation for the period	-	337	406	-	743
Disposals	-	-	(5)	-	(5)
Foreign exchange translation	-	428	267	-	695
As at March 31, 2015	<u>-</u>	<u>30,695</u>	<u>10,214</u>	<u>-</u>	<u>40,909</u>
<b>Net Book Value as at</b>					
December 31, 2014	9,336	10,205	9,291	891	29,723
March 31, 2015	9,488	10,012	9,332	1,838	30,670

The carrying value of machinery and equipment held under finance lease as at March 31, 2015 was approximately \$43m (\$72m in 2014) (Note 18.3). The leased asset is pledged as security for the related finance lease.

The carrying value of long-lived assets is reviewed each reporting period. 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 noted no indicators of impairment for this reporting period.

## **8 SENIOR CREDIT FACILITY**

On April 21, 2014 the Company renewed its senior banking facility with Wells Fargo Capital Finance Corporation Canada (“Wells Fargo”). The five year senior secured committed banking facility (the “Senior Credit Facility”) was increased from \$40 million to \$60 million and matures in April of 2019. Under the terms of the Senior Credit Facility, up to \$60 million may be borrowed for Tree Island’s financing requirements in Canadian and/or US dollars of which \$4.1 million was advanced as a term loan. Interest is charged at variable rates based on the Canadian and/or US Prime rate and the Canadian B.A. rate and/or the Eurodollar rate. The amount advanced under the Senior Credit Facility at any time is limited to a defined percentage of inventories, accounts receivable and real estate, less certain reserves. The Senior Credit Facility is secured by a first charge over Tree Island’s assets supported by the appropriate guarantees, pledges and assignments, and requires that certain covenants be met by Tree Island.

### **8.1 Senior Credit Facility**

The Senior Credit Facility includes a \$10.0 million Letter of Credit sub-facility which enables TII and TIW to open documentary and standby letters of credit for raw material purchases. There was a \$38m Letter of Credit outstanding as at March 31, 2015.

The amount available under the revolving portion of the Senior Credit Facility is limited to the amount of the calculated borrowing base, less issued Letters of Credit, and less principal due under the Senior Term Loan (Note 8.2). The borrowing base is calculated as 90% of eligible receivables, plus the lesser of (a) 90% of the net orderly liquidation value of inventory and (b) 70% of eligible inventory.

The Senior Credit Facility has financial tests and other covenants with which the Company and its subsidiaries must comply. Quarterly, the Company 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 a required minimum availability. As well, the Senior Credit Facility contains restrictive covenants that limit the discretion of the Company’s management with respect to certain business matters. These covenants place restrictions on, among other things, the ability of the Company’s operating subsidiaries 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 March 31, 2015, the Company was in compliance with all of its financial covenants on the Senior Credit Facility.

The following amounts are outstanding under the revolving portion of the Senior Credit Facility:

*(\$’000 unless otherwise stated)*

	As at March 31, 2015	As at December 31, 2014
Revolving portion of the Senior Credit Facility <sup>(1)</sup>	44,813	30,553
Deferred Financing Costs <sup>(2)</sup>	(170)	(118)
<b>Total</b>	<b>44,643</b>	<b>30,435</b>

(1) The revolving portion of the Senior Revolving Facility denominated in US dollars is \$39.4 million (\$29.5 million in 2014).

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

**NOTES TO THE INTERIM UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
**March 31, 2015 and 2014**

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**8.2 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 was renewed on April 21, 2014 and matures in April of 2019 and is repayable through monthly principal instalments of \$34,375 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 partially settle long-term debt (Note 10).

The following amounts are outstanding under the Senior Term Loan:

*(\$'000 unless otherwise stated)*

	As at March 31, 2015	As at December 31, 2014
Senior Term Loan - beginning of period	3,850	4,292
Payments	(103)	(442)
Senior Term Loan - end of period	3,747	3,850
Less: current portion	(413)	(413)
Total	<u>3,334</u>	<u>3,437</u>

Subsequent to March 31, 2015, the Company obtained a second term loan from Wells Fargo in the amount of \$3 million. The term loan is part of the existing \$60 million Senior Credit Facility and will be amortized over five years with interest at prime plus 0.5%. The funds were advanced on April 30, 2015 in full to our revolving facility. Principal and interest payments will begin June 1, 2015.

**9 DEBENTURES**

On January 27, 2014, the Company announced that it would redeem all of its Debentures by March 4, 2014 (the "Redemption Date"). By the Redemption Date, the Company had redeemed \$0.2 million of Debentures. Between January 27, 2014 and the Redemption Date, a total of \$16.0 million in principal value of Debentures were converted to 31,938,800 pre-consolidation Shares, resulting in an increase to shareholders' capital of \$15.3 million (net of proportionate issuance costs of approximately \$0.6 million) offset by charges of \$14.5 million to Debentures, \$0.2 million to the change of control premium and \$0.6 million to the conversion feature.

**10 LONG-TERM DEBT**

In June of 2012 the Company entered into long-term debt agreements with a trade creditor. The repayment schedule of the long-term debt extends to June 2028 with principal payments over a 10 year amortization period. The interest is non-compounding interest at 4% and commences accruing June 2017 and is payable monthly over 4 years commencing June 2024. Principal payments, which started in 2009, are monthly in the amounts of US\$100m in years 1 and 2, US\$110m in years 3 and 4, US\$120m in years 5, 6 and 7, and US\$185m in years 8, 9 and 10. Present value of the debt 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 long-term debts 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 March 31, 2015 a provision of \$265m has been accrued and is included in other noncurrent liabilities.

**NOTES TO THE INTERIM UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
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The elements of the long-term debt are listed below:

*(\$'000 unless otherwise stated)*

	As at March 31, 2015	As at December 31, 2014
Beginning of period	11,143	11,070
Payments	(581)	(1,954)
Foreign exchange revaluation	1,038	964
Accretion of debt discount	297	1,063
End of period	11,897	11,143
Less: current portion	(1,760)	(1,532)
Net Long-Term Debt	10,137	9,611

**11 FINANCING EXPENSES**

*(\$'000 unless otherwise stated)*

	Three Months Ended March 31	
	2015	2014
Non-cash accretion of debt discount and interest on long term debt and Debentures (Note 9)	296	263
Cash interest on Debentures (Note 9)	-	534
Interest on Senior Credit Facility	249	196
Other interest and financing costs	298	232
Amortization of deferred financing costs	6	16
Total	849	1,241

**12 SHAREHOLDERS' CAPITAL**

Tree Island is authorized to issue an unlimited number of Shares. The Shares have no par value. There were no shares issued or cancelled in the three months ended March 31, 2015. Shares issued and outstanding are as follows:

*(\$'000 except for Shares)*

	Shares	Gross	Issuance Costs <sup>(1)</sup>	Net
Shareholders' capital - December 31, 2013	28,546,350	225,707	11,400	214,307
Conversion of Convertible Debentures	31,938,800	15,320	-	15,320
Conversion of Warrants	202,500	115	-	115
Effect of Share Consolidation	(30,343,827)	-	-	-
Conversion of Warrants	798,750	932	-	932
Shareholders' capital - December 31, 2014	31,142,573	242,074	11,400	230,674
Changes for the period	-	-	-	-
Shareholders' capital - March 31, 2015	31,142,573	242,074	11,400	230,674

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

**NOTES TO THE INTERIM UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
**March 31, 2015 and 2014**

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**12.1 NORMAL COURSE ISSUER BID**

On September 17, 2014, the Company renewed its normal course issuer bid (the "Bid") to purchase up to 1,649,000 Shares. The expiration date of the normal course issuer bid is September 16, 2015. For the period January 1, 2015 to March 31, 2015 the Company did not purchase any Shares under the renewed normal course issuer bid. Tree Island has no obligation to purchase any Shares under the Bid.

**13 RELATED PARTY TRANSACTIONS**

**13.1 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.

Based on Tree Island Steel's outstanding Shares as at March 7, 2015, Futura owns 27.3% of the fully diluted Shares of the Company.

In addition, Mr. Doman is Chairman and CEO of CanWel Building Materials Group Ltd. ("CanWel"). In Q1 of 2015, Tree Island sold, net of rebates, approximately \$1.1 million (\$1.2 million in 2014) of goods to CanWel during the year and trade accounts receivable owing from CanWel is approximately \$0.8 million (approximately \$0.5 million in 2014). Outstanding trade accounts receivable from CanWel at period end are unsecured, interest free and settlement occurs in cash.

**13.2 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 March 31, 2015 was approximately \$0.6 million (approximately \$0.5 million in 2014) 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 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.

**14.1 INCOME TAX RECOVERY (EXPENSE)**

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

*(\$'000 unless otherwise stated)*

	Three Months Ended March 31,	
	2015	2014
Current tax recovery (expense)	(1,784)	(9)
Deferred tax recovery (expense)	115	(203)
Total recorded in the Statement of Operations	<u>(1,669)</u>	<u>(212)</u>

**NOTES TO THE INTERIM UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
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**15 FINANCIAL INSTRUMENTS**

**15.1 FAIR VALUE OF FINANCIAL INSTRUMENTS**

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.

*(\$'000 unless otherwise stated)*

	As at March 31, 2015		As at December 31, 2014	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Cash and cash investments	1,779	1,779	2,309	2,309
Accounts Receivable	34,621	34,621	20,092	20,092
Foreign exchange forward contracts	-	-	172	172
<b>Total financial assets</b>	<b>36,400</b>	<b>36,400</b>	<b>22,573</b>	<b>22,573</b>
Senior Revolving Facility	44,813	44,813	30,553	30,553
Accounts payable and accrued liabilities	17,815	17,815	18,758	18,758
Finance lease	43	43	58	58
Senior Term Loan	3,747	3,747	3,850	3,850
Long-Term Debt	11,897	13,363	11,143	12,094
Early payment option	265	265	299	299
Commodity purchase contract embedded derivative	150	150	138	138
<b>Total financial liabilities</b>	<b>78,730</b>	<b>80,196</b>	<b>64,799</b>	<b>65,750</b>

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.

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, the revolving portion of the Senior Credit 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 \$0.7 million;
- 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 commodity purchase contract embedded derivatives are estimated using observable spot rates for zinc; and



**NOTES TO THE INTERIM UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
**March 31, 2015 and 2014**

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- 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.

**15.2 FAIR VALUE HEIRARCHY**

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; and

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.

*(\$'000 unless otherwise stated)*

	March 31, 2015	Level 2	Level 3
Senior Revolving Facility	44,813	44,813	-
Finance lease	43	43	-
Senior Term Loan	3,747	3,747	-
Long-Term Debt	13,363	-	13,363
Early payment option	265	-	265
Commodity purchase contract embedded derivative	150	150	-

The balance of the early payment option was revised to \$0.3 million (\$0.4 million in 2014) to adjust to the value of the option as at March 31, 2015.

**NOTES TO THE INTERIM UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
**March 31, 2015 and 2014**

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A description of significant observable inputs to valuation of financial instruments measured at fair value and classified as level 2 or 3 in the fair value hierarchy is noted below:

<u>Item</u>	<u>Valuation Technique</u>	<u>Significant Observable Inputs</u>	<u>Sensitivity of the input to fair value</u>
Early payment option	DCF	Increase / decrease in dollar value of purchases that qualify for early payment	A 5% increase (decrease) in the dollar value of purchases that qualify for the early payment option will result in an increase (decrease) in fair value of approximately \$13,000
	DCF	Change in discount rate	A 1% increase in the discount rate will result in an increase in fair value of approximately \$43,000 and a 1% decrease in the discount rate will result in a decrease in fair value of approximately \$47,000
Long-Term Debt	DCF	Change in discount rate	A 1% increase (decrease) in the discount rate will result in a decrease (increase) in fair value of approximately \$65,000

**15.3 RISK EXPOSURE AND MANAGEMENT**

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

**15.3.1 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.

**15.3.2 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.

**NOTES TO THE INTERIM UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
**March 31, 2015 and 2014**

The table below summarizes the future undiscounted contractual cash flow requirements for financial liabilities (including scheduled interest payments on interest bearing liabilities) as at March 31, 2015 and December 31, 2014:

*(\$'000 unless otherwise stated)*

	<u>Carrying Amount</u>	<u>Contractual Cash Flow</u>	<u>Less Than 1 Year</u>	<u>1 - 2 Years</u>	<u>Greater Than 2 Years</u>
Senior Revolving Facility	44,813	44,813	44,813	-	-
Accounts payable and accrued liabilities	17,815	17,815	17,815	-	-
Finance lease	43	49	17	17	15
Senior Term Loan	3,747	3,747	309	825	2,613
Long-term debt	<u>11,897</u>	<u>19,530</u>	<u>1,865</u>	<u>3,589</u>	<u>14,076</u>
As at March 31, 2015	<u>78,315</u>	<u>85,954</u>	<u>64,819</u>	<u>4,431</u>	<u>16,704</u>
Senior Revolving Facility	30,553	30,553	30,553	-	-
Accounts payable and accrued liabilities	18,757	18,757	18,757	-	-
Finance lease	58	64	35	15	14
Senior Term Loan	3,850	3,850	413	825	2,612
Long-term debt	<u>11,413</u>	<u>18,421</u>	<u>1,528</u>	<u>3,283</u>	<u>13,610</u>
As at December 31, 2014	<u>64,631</u>	<u>71,645</u>	<u>51,286</u>	<u>4,123</u>	<u>16,236</u>

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.

**15.3.3 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:

*(\$'000 unless otherwise stated)*

	<u>March 31, 2015</u>
Increase (decrease) to net comprehensive income of a \$0.01 increase (decrease) In the Canadian dollar to US dollar exchange rate	<u>68</u>

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. As of March 31, 2015, the Company had no outstanding US dollar currency forward contracts.

## NOTES TO THE INTERIM UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

### March 31, 2015 and 2014

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#### 15.3.4 INTEREST RATE RISK

Tree Island is exposed to interest rate risk on its Senior Credit Facility, which is further discussed in Note 8. A 1% increase in the interest rates charged on the Senior Credit Facility would increase financing expenses by \$0.4 million. Tree Island does not use derivative instruments to manage the interest rate risk.

#### 15.3.5 RAW MATERIAL PRICE RISK

Tree Island is exposed to changes in the price of the materials used in its production process and enters into forward contracts to purchase a portion of the zinc used. These are not designated as cash flow, fair value or net investment hedges. The fair value of forward contracts as at December 31, 2014 was a notional amount of \$1.9 million and the mark to market liability on those contracts was \$0.2 million.

## 16 MANAGEMENT OF CAPITAL

The Company's objectives when managing its capital are:

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;

To manage capital in a manner that will comply with the financial covenants on the Senior Credit Facility, term loan and long-term debt agreements as described further in Notes 8.1, 8.2, 9 and 10.

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:

*(\$'000 unless otherwise stated)*

	As at March 31, 2015	As at December 31, 2014
	<u>                    </u>	<u>                    </u>
Total shareholders' equity	45,349	44,098
Senior Revolving Facility	44,813	30,553
Senior Term Loan	3,747	3,850
Long-term debt	<u>11,897</u>	<u>11,143</u>
Total Capital	<u>105,806</u>	<u>89,644</u>

## 17 NET INCOME PER SHARE

Basic earnings per Share amounts are calculated by dividing net income for the year by the weighted average number of Shares outstanding during the year.

Diluted earnings per Share amounts are calculated by dividing the net income for the year (after adjusting for interest and accretion, net of tax) by the weighted average number of Shares outstanding during the year plus the weighted average number of Shares that would be issued on conversion of all the dilutive potential units into Shares. As at March 31, 2015 the Company does not have any instruments issued that could be dilutive.

As a result of the Share Consolidation, all Shares and per Share amounts have been restated to retroactively reflect the Share Consolidation.

**NOTES TO THE INTERIM UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
**March 31, 2015 and 2014**

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The following reflects the income and Share data used in the basic and diluted earnings per Share computations:

*(\$'000 unless otherwise stated)*

	Three Months Ended March 31,	
	2015	2014
Net income for the year	<u>2,117</u>	<u>361</u>
Weighted average number of Shares outstanding for the period - basic (units)	31,142,573	25,111,091
Dilutive effect of Warrants (units)	-	1,054,330
Weighted average number of Shares outstanding for the period - diluted (units)	<u>31,142,573</u>	<u>26,165,421</u>
Net income per Share - basic (\$/share)	0.07	0.01

There have been no transactions involving Shares during the three months ended March 31, 2015 and between the reporting period date May 7, 2015.

## **18 PROVISIONS AND COMMITMENTS**

### **18.1 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.

### **18.2 PURCHASE COMMITMENTS**

As at March 31, 2015, Tree Island's wholly owned subsidiaries have committed to rod purchases totalling \$18.0 million (US\$53.0 million – March 31, 2014) and imported finished goods purchases totalling \$1.9 million (US\$2.2 million – March 31, 2014).

**NOTES TO THE INTERIM UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
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**18.3 FINANCE LEASE COMMITMENTS**

Tree Island has finance leases for certain machinery and equipment of which one bears interest at 5.5% per annum and matures in May 2015 and the other bears interest at 7.4% and matures in September 2019. Future minimum lease payments under the finance lease with the present value of the net minimum lease payments are as follows:

*(\$'000 unless otherwise stated)*

	Minimum Payments	2015 Present Value of Payments	Minimum Payments	2014 Present Value of Payments
Less than 1 year	17	15	65	61
1 to 5 years	32	28	11	11
Total minimum lease payments	49	43	76	72
Less amounts representing finance charges	(6)	-	(4)	-
Present value of minimum lease payments	43	43	72	72

**19 SEGMENTED INFORMATION**

**19.1 MARKET SEGMENTS**

Revenues for each group for the years ended March 31, 2015 and 2014 were as follows:

*(\$'000 unless otherwise stated)*

	Three Months Ended March 31,	
	2015	2014
Industrial	20,468	17,397
Residential	17,908	12,741
Commercial	8,188	6,888
Agricultural	7,456	5,177
Specialty	5,023	3,719
Total Revenue	59,043	45,922

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

**NOTES TO THE INTERIM UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
**March 31, 2015 and 2014**

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**19.2 GEOGRAPHIC SEGMENTS**

The products are sold primarily to customers in the United States and Canada and are attributed to geographic areas based on the location of customers:

*(\$'000 unless otherwise stated)*

	Three Months Ended March 31,	
	2015	2014
United States	39,032	28,185
Canada	18,523	16,556
International	1,488	1,181
Total Revenue	<u>59,043</u>	<u>45,922</u>

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.

*(\$'000 unless otherwise stated)*

	As at March 31,	
	2015	2014
United States	8,662	7,444
Canada	22,176	22,670
China	2	2
Total Non-Current Assets	<u>30,840</u>	<u>30,116</u>

## SHAREHOLDER INFORMATION

TREE ISLAND STEEL  
LTD.

### 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*

Tree Island Steel Ltd., is  
listed on the Toronto Stock  
Exchange trading symbol:  
TSL.

#### *Registrar and Transfer Agent*

Computershare Investor  
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