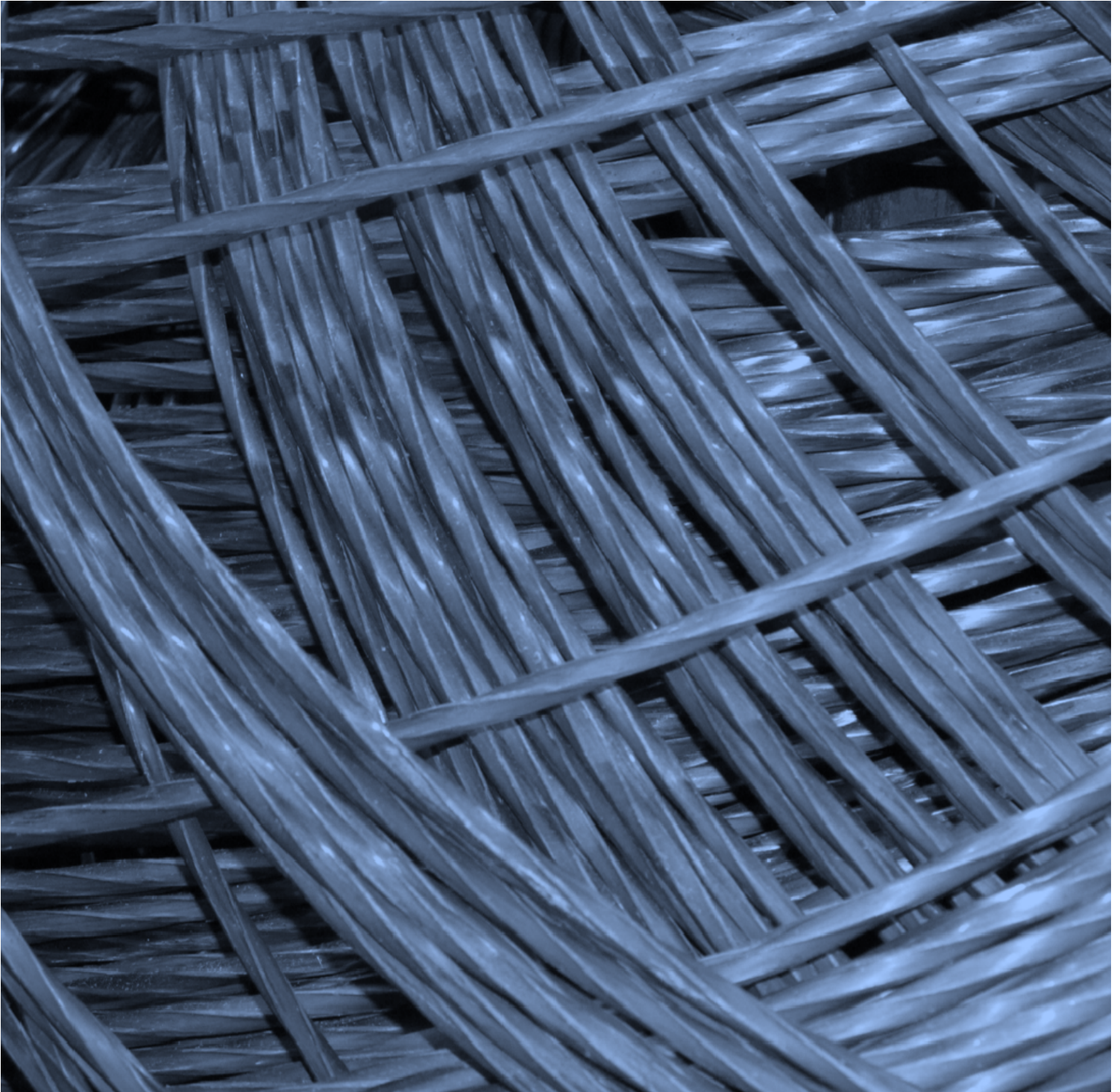


Q1 2013



TREE ISLAND STEEL LTD.

Report to Shareholders
for the three months ended March 31, 2013



TREE ISLAND STEEL PROFILE

Tree Island Steel Ltd. ("Tree Island Steel" or the "Company") owns 100% of Tree Island Industries Ltd. ("TIIL"). The common shares of Tree Island Steel are listed on the Toronto Stock Exchange (listing symbol TSL).

Tree Island Steel has Convertible Debentures listed on the Toronto Stock Exchange (listing symbol TSL.DB).

Tree Island Profile

Headquartered in Richmond, British Columbia, since 1964, Tree Island Steel produces wire products for a diverse range of industrial, residential construction, commercial construction, agricultural, and specialty applications. Its products include 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. The Company markets these products under the Tree Island, Halsteel, K-Lath, Industrial Alloys, TI Wire, Tough Strand, and Select Brand names. Tree Island also owns and operates a China-based company that assists the international sourcing of products.

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TREE ISLAND STEEL

TO OUR SHAREHOLDERS

President's Letter

During the first quarter the Company achieved higher gross margin dollars on lower revenues and sales volumes. Despite external pressures creating price volatility and slower demand in certain of our end markets we continue to demonstrate improvement in our key financial metrics with unwavering attention to operational efficiencies and cost management. These external pressures impacted our revenue line as well as total volume sales on a year-over-year basis. We remain confident that the steps taken thus far will allow us to build a fundamentally strong business with sustainable revenue growth and profitability.

For the quarter ended March 31, 2013, we reported revenue of \$38.1 million, compared to \$44.0 million during the same period in 2012, and sales volumes of 27,601 tons, compared to 30,618 tons in 2012. During this period, gross profit improved from \$4.0 million to \$4.2 million. Gross profit per ton also increased from \$130 per ton to \$153 per ton. The improvement in gross profit, together with our ongoing focus on cost management, resulted in an increase in EBITDA to \$1.8 million versus an EBITDA of \$1.7 million during the same period last year.

We continue to be cautiously optimistic. Further strength and demand in our end markets can position the Company to realize firmer pricing and increased sales volume. We are committed to operating the business profitably with tight control of costs, managing working capital effectively and managing capacity utilization in an effort to drive profitable growth as economic conditions improve.

In closing, I would like to thank our employees for continuing to build Tree Island Steel's reputation for product quality and service leadership, to our customers, suppliers and investors; I extend my sincere appreciation for your ongoing support and working with us.

Sincerely,

Dale R. MacLean
President and Chief Executive Officer
Tree Island Steel Ltd.



TREE ISLAND STEEL LTD.

MANAGEMENT'S DISCUSSION AND ANALYSIS

March 31, 2013 and 2012

The Management's Discussion and Analysis includes the following sections:

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The following is a discussion of the financial condition and results of operations of Tree Island Steel Ltd. (the "Company") and its wholly owned operating subsidiary Tree Island Industries Limited ("TIIL") (together with Tree Island Steel Ltd., referred to as "Tree Island Steel"). This discussion is current to May 10, 2013 and should be read in conjunction with the unaudited interim condensed consolidated financial statements for the three month period ended March 31, 2013. 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, 2012, 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 contained herein that are not statements of historical fact may be deemed to be forward-looking statements. Although we believe that expectations reflected in forward-looking statements are reasonable, such statements 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, 2012 as well as Section 14 of this MD&A.

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. 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 the Company 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 Steel 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 plus depreciation and references to "Adjusted Net Income" are to net loss per IFRS adjusted for certain non-cash items including non-cash financing expenses, changes in fair value of convertible instruments, and deferred income recovery. EBITDA is a measure used by many investors to compare issuers on the basis of ability to generate cash flows from operations. Adjusted Net Income 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 are earnings measures recognized by IFRS and do not have a standardized meaning prescribed by IFRS. We believe that EBITDA and Adjusted Net Income are important supplemental measure for evaluating our performance. You are cautioned that EBITDA and Adjusted Net Income 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 may differ from methods used by other issuers and, accordingly, our EBITDA or Adjusted Net Income may not be comparable to similar measures presented by other issuers.

3. TREE ISLAND STEEL

3.1. About Tree Island Steel Ltd.

The Company is a corporation established under the laws of Canada on August 2, 2012. Prior to October 1, 2012, TIIL was wholly owned by Tree Island Wire Income Fund (the "Fund"). 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. 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 TIIL, and all obligations of the Fund have been assumed by the Company.

In connection with the Arrangement, the Company assumed all of the covenants and obligations of the Fund relating to the outstanding Convertible Debentures ("Debentures") and Warrants. The Debentures have become convertible subordinated debentures of Tree Island Steel and holders are 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 will continue to be convertible, but 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.

There were 23,821,350 Shares of outstanding as of March 31, 2013 and 23,855,150 Shares outstanding as of May 10, 2013.

As at March 31, 2013, the total number of Debentures remaining outstanding was 185,065. As at May 10, 2013, the total number of Debentures remaining outstanding is 184,896.

As at March 31, 2013 the total number of Warrants remaining outstanding was 4,575,000. As at May 10, 2013, the total number of Warrants remaining outstanding is 4,575,000.

3.2. About TIIL

Organizational Structure

Our corporate structure has the following primary entities: TIIL 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. In addition, we have a China based sourcing operation.

Markets

Our customers are in five key product markets: industrial and original equipment manufacturers (“OEM”), residential construction, commercial construction, agricultural, and specialty applications.

Products

We manufacture and supply 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 (Premium), while outsourcing others from qualified manufacturers (Select Brand and Direct Ship). We market these products to customers in Canada, the United States and internationally.

Premium Brands

We manufacture our premium brand products internally in our North American facilities, targeting them to customers that seek value, reliability, and high performance. Our premium brands 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. Our premium brands are:



Select Brand

Most of our select brand products are externally manufactured, and are limited to high-volume commodity items. Products within this group meet general industry specifications but are not customized to individual customer requirements. Select brand products allow us to enhance our relationship with those customers that require a diverse product line including competitively priced commodity products. These products typically create complementary pull through for our premium brands.

Direct Ship

As a service to our customers, we use our network of suppliers world-wide to source commodity wire products and direct ship to our customers.

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

Markets	Premium Brand	Key Product Groups	Specific End-Use Markets	Regions
Industrial/OEM	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, and baling 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 industry	North America

Seasonality

Our operations are impacted by the seasonal nature of the various industries we serve, primarily the residential construction, commercial 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 FIRST QUARTER 2013 BUSINESS OVERVIEW

Business Overview

Although rising home prices, reduced inventories, and low mortgage rates have led to improved levels of housing starts in the United States, our traditional markets in the residential construction industry remain below historical levels. We believe that construction activity will continue to be impacted by concerns over the direction of the economy, the direction of home prices, and the ability for homeowners to sell their existing home.

A full recovery of the business depends on sustained stabilization of the financial markets and the economy in general. In response to these challenges, we continue to diversify and manage our product mix.

For the three months ended March 31, 2013 gross profit improved to \$4.2 million from \$4.0 million in the three months ended March 31, 2012. As a result, gross profit per ton increased to \$153 per ton from \$130 per ton. Tree Island achieved EBITDA of \$1.8 million versus EBITDA of \$1.7 million during 2012. The improvements in gross profit, gross profit per ton, and EBITDA were largely the result of closely managing costs, applying price discipline, and aligning price to costs as part of our strategy of profitable growth.

Trade Action Reviews

The Canada Border Services Agency (“CBSA”) initiated an investigation in January subsequent to a complaint filed by the Company and supported by most Canadian producers of galvanized steel wire. On April 23, 2013, the CBSA made a preliminary determination of dumping against galvanized steel wire into Canada from China, Spain and Israel, and has further made a finding of subsidization against galvanized steel wire from China. At this time, the Company cannot reasonably estimate the impact of this preliminary determination on our operating results.

Outlook

While there have been modest improvements in the economic environment we remain cautious in our outlook due to the slow pace of recovery in the United States and slowing of economic activity in Canada. Our focus remains on the alignment of pricing against volatile raw material costs balanced with closely managing costs and leveraging our capacity utilization as much as possible given uneven demand levels. Our priority is to achieve sustainable revenue growth and profitability for the long run. We expect that we will continue to see fluctuations in our primary raw material costs although likely less volatile than in the prior year. We will maintain our strategies of diversifying our product mix, focusing on profitable sales, managing our inventories to minimize the impact of volatility in steel costs, and continue to carefully manage costs. When there are meaningful improvements in demand fundamentals, we expect to be well positioned with a solid platform for growth.

5. RESULTS FROM OPERATIONS

	Three Months Ended March 31	
	2013	2012
Summary of Results (\$000's except for tonnage and per unit amounts)		
Sales Volumes – Tons ⁽¹⁾	27,601	30,618
Sales	\$ 38,093	\$ 43,997
Cost of sales	(33,137)	(39,237)
Depreciation	(720)	(768)
Gross profit	4,236	3,992
Selling, general and administrative expenses	(3,147)	(3,032)
Operating income	1,089	960
Foreign exchange gain	26	309
Gain on sale of property, plant and equipment	-	426
Changes in financial liabilities recognized at fair value	20	-
Financing Expenses	(1,439)	(2,261)
Loss before income taxes	(304)	(566)
Income tax recovery	167	148
Net loss	(137)	(418)
Operating income	1,089	960
Add back depreciation	720	768
EBITDA ⁽²⁾	1,809	1,728
Foreign exchange gain	26	309
EBITDA including foreign exchange gain	1,835	2,037
Net loss	(137)	(418)
Add back significant non-cash items		
Non-cash financing expenses	654	1,404
Changes in financial liabilities recognized at fair value	20	-
Deferred tax recovery	(179)	(157)
Adjusted net income ⁽²⁾	358	829
Per unit		
Net loss per unit - basic	(0.01)	(0.02)
Net loss per unit - fully diluted	(0.01)	(0.02)
Per ton		
Gross profit per ton	153	130
EBITDA per ton	66	56
	As at March 31,	As at December 31,
Financial position	2013	2012
Total assets	91,348	81,102
Total non-current financial liabilities	29,553	29,790

(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, 2013 AND 2012

	2013	2012
SALES	\$38,093	\$43,997

During the three months ended March 31, 2013, we generated sales revenues of \$38.1 million, a decrease of \$5.9 million, or 13.4%, from the same period in 2012. The decrease in revenue primarily reflects a 9.9% decrease in sales volumes resulting from our continued focus on profitability and a 4.0% decrease in revenue per ton as a result of a reduction in the cost of carbon rod as noted below.

Sales volumes by market were as follows:

Market	Three Months Ended Mar 31, 2013		Three Months Ended Mar 31, 2012	
	Tons	% of Sales Volumes	Tons	% of Sales Volumes
Industrial/OEM	9,326	33.8%	11,774	38.5%
Residential Construction	6,963	25.2%	9,042	29.5%
Commercial Construction	5,695	20.6%	5,455	17.8%
Agricultural	4,445	16.1%	3,154	10.3%
Specialty	1,120	4.1%	1,026	3.4%
International Trading ⁽¹⁾	52	0.2%	167	0.5%
Total	27,601	100.0%	30,618	100.0%

(1) International includes Tree Island International trading sales and does not include North American import sales, which are reflected in our sales volumes to other markets

Though overall sales volumes declined quarter-over-quarter, sales volumes to the commercial construction, agricultural, and specialty sectors improved. Sales to the commercial construction sector improved driven by more welded wire fabric sales as a result of our efforts to redefine our product mix. Sales to the specialty sector increased as a result of increased demand for spring wire. Sales to the agricultural sector were driven by growth in vineyard and barbed wire sales due in part to more favourable weather conditions in the prairies during the first quarter of 2013 as compared to 2012.

Our sales volume to the industrial/OEM, residential construction, and international sectors declined as compared to the same period in 2012. Industrial/OEM sales volumes declined due to competitiveness in the galvanized chain link markets and the residential construction market remains highly competitive. Our reduced sales volume to this market was driven by our continuing focus on margin improvements in our product mix. International trading sales decreased reflecting the discontinuation of certain projects in our Asian subsidiaries.

	Three Months Ended Mar 31, 2013		Three Months Ended Mar 31, 2012	
	Tons	% of Sales Volumes	Tons	% of Sales Volumes
North American Manufactured	26,740	96.9%	28,900	94.4%
Imported & Trading	861	3.1%	1,718	5.6%
Total	27,601	100.0%	30,618	100.0%

During the three months ended March 31, 2013, sales volumes of our North American manufactured products increased as a percentage of total sales volumes resulting from our increased 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.

	2013	2012
COST OF SALES	\$33,137	\$39,237

For the three months ended March 31, 2013, cost of sales decreased by \$6.1 million or 15.5% from the same period last year. This decrease in cost of sales reflects our lower sales volumes and lower overall raw material costs. Our average cost of carbon rod (representing 54.3% of total cost of sales) decreased by 12.7% when compared to 2012. Because carbon rod is usually transacted in US dollars, the cost of carbon rod for our Canadian operations was negatively impacted by the 0.7% weakening of the Canadian dollar during the period. In addition to the decrease in the cost of carbon rod, we observed decreases in the cost of both stainless steel and zinc. Stainless steel costs (representing 7.9% of total cost of sales) decreased 8.6% on a per-ton basis, compared to 2012 and the cost of zinc (representing 2.9% of total cost of sales) decreased 2.9%.

	2013	2012
GROSS PROFIT	\$4,236	\$3,992

During the three months ended March 31, 2013, gross profit increased to \$4.2 million in 2013 from \$4.0 million in 2012, an increase of \$0.2 million or 6.1%. Gross profit per ton increased to \$153 per ton, compared to \$130 per ton in 2012. The increase in gross profit and gross profit per ton, despite the decrease in tons sold and sales revenues, primarily reflects our focus on profitability of sales and improving our sales mix.

	2013	2012
SELLING, GENERAL, AND ADMINISTRATIVE EXPENSES	\$3,147	\$3,032

SG&A expenses increased from \$3.0 million in 2012 to \$3.1 million in 2013, an increase of \$0.1 million, or 3.8% due largely to an increase in bad debt expense.

	2013	2012
EBITDA	\$1,809	\$1,728

EBITDA for the three months ended March 31, 2013 increased to \$1.8 million from EBITDA of \$1.7 million in 2012. The \$0.1 million improvement reflects profitability gains.

	2013	2012
FINANCING EXPENSES	\$1,439	\$2,261

For the three months ended March 31, 2013, financing expenses decreased by \$0.8 million to \$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:

	<u>Three months ended March 31</u>	
	2013	2012
Non-cash accretion of debt discount and interest on long term debt and Convertible Debentures	\$ 654	\$ 1,404
Cash interest on Convertible Debentures	482	489
Interest on Senior Credit Facility	182	201
Other interest and financing costs	105	98
Financing transaction costs and amortization of deferred financing costs	16	69
	<u>\$ 1,439</u>	<u>\$ 2,261</u>

	2013	2012
CHANGE IN FAIR VALUE OF FINANCIAL LIABILITIES MEASURED AT FAIR VALUE	\$20	\$-

Prior to the completion of the Corporate Conversion, the change in control option, conversion feature and Warrants associated with the Debentures, and an early payment option on long-term debt were recorded at fair market value and were re-measured each period. The fair market value of the conversion feature and Warrants associated with the Debentures incorporated the market value of the Fund's units and the risk-free interest rate and as such, the fair value of these instruments fluctuated inversely with the changes in the Fund's unit price or in the risk-free rate. Subsequent to the Corporate Conversion the conversion feature and Warrants associated with the Debentures were reclassified to equity and are no longer be re-measured at period end.

The change in fair value for the three months ended March 31, 2013 was a gain of \$20 thousand versus \$nil in 2012. The gain is due to the amortization of the change in control option as the Debentures near maturity.

	2013	2012
FOREIGN EXCHANGE GAIN	\$26	\$309

During the three months ended March 31, 2013 we recorded a gain on foreign exchange of \$26 thousand, compared to a gain of \$309 thousand in 2012. As a portion of TIIL's assets, liabilities, sales and expenses are denominated in currencies other than the Canadian dollar, its functional currency, TIIL has exposure to fluctuations in the values of these currencies, in particular the US

dollar, relative to the Canadian 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	\$167	\$148

For the three months ended March 31, 2013, we recorded an income tax recovery of \$167 thousand, compared to an income tax recovery of \$148 thousand in 2012. The income tax recovery represents a current income tax expense of \$12 thousand (2012 - \$9 thousand expense) and a deferred income tax recovery of \$179 thousand (2012 - \$157 thousand recovery). The income tax expense was based on the statutory tax rate of 25.0% (2012 – 25.0%) applied to the income of subsidiaries before taxes, with adjustments for permanent differences between accounting and taxable income.

	2013	2012
NET LOSS	\$(137)	\$(418)

We reported net loss of \$0.1 million for the three months ended March 31, 2013 (2012 - net loss of \$0.4 million), or basic and diluted loss per share / unit of \$0.01 (2012 - net loss of \$0.02 per share / unit basic and diluted). The decrease in the net loss primarily reflects an increase in operating income to \$1.1 million (2012 – \$1.0 million), and a decrease in financing expense to \$1.4 million (2012 - \$2.3 million). These amounts were partially offset by a decrease in foreign exchange gain to \$26 thousand (2012 – gain of 309 thousand), and a decrease in the gain on sale of property, plant and equipment to \$nil (2012 – gain of \$0.4 million).

	2013	2012
ADJUSTED NET INCOME	\$358	\$829

Adjusted for the impact of certain non-cash items recognized in net loss, Adjusted Net Income for the three months ended March 31, 2013 decreased to \$0.4 million from \$0.8 million during the same period in 2012. The \$0.4 million decrease in Adjusted Net Income is primarily due to a \$0.4 million decrease in the gain on sale of property, plant, and equipment.

7. FINANCIAL CONDITION AND LIQUIDITY

7.1. 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 commercial construction, residential construction, and agricultural markets are seasonal in nature. As a result, sales and working capital requirements may be higher in the first and second quarters when demand is historically highest.

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

	March 31	December 31
	2013	2012
Investment in working capital assets		
Cash	\$ 2,569	\$ 2,371
Accounts receivable	21,616	11,984
Inventories	34,618	32,732
Other current assets	1,108	2,200
	\$ 59,911	\$ 49,287
Less current liabilities		
Senior Revolving Facility	(16,981)	(10,785)
Accounts payable and accrued liabilities	(13,331)	(9,649)
Other current liabilities	(1,714)	(1,741)
Current portion of long-term debt	(1,774)	(1,748)
	(33,800)	(23,923)
Net investment in working capital	\$ 26,111	\$ 25,364

As at March 31, 2013 inventories and accounts receivable increased in comparison to year-end 2012. The increase in accounts receivable is the result of higher seasonal sales during the first quarter of 2013 as compared to the fourth quarter of 2012. Inventories increased to service the additional sales volumes. Offsetting these increases were increases in the Senior Revolving Facility and accounts payable and accrued liabilities to fund the inventory purchases until cash is collected on our accounts receivable.

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 avail ourselves of vendor credit where possible and on advantageous terms.

We manage our inventories with an emphasis on a continuous inflow of inventories 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.

7.2. Liquidity and Capital

Cash Flow

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

	2013		2012	
Net cash provided by operating activities	\$	2,049	\$	1,485
Working capital adjustments	\$	(6,737)	\$	(7,090)
Net cash (used in) provided by investing activities	\$	(215)	\$	341
Cash flows from financing activities				
Repayment of Senior Term Loan		(125)		-
Repayment of long-term debt		(386)		(598)
Conversion of Warrants		171		-
Interest paid		(778)		(857)
Normal Course Issuer Bid		-		(205)
Advance on Senior Revolving Facility		6,196		6,354
Net cash provided by financing activities	\$	5,078	\$	4,694
Exchange rate changes on foreign cash balances		16		(14)
Increase (decrease) in cash balances	\$	191	\$	(584)

During the three months ended March 31, 2013, cash flow provided by operating activities was \$2.0 million compared to \$1.5 million in 2012. The \$0.5 million increase in cash provided by operating activities for the three months ended March 31, 2013 was primarily the result of increased EBITDA.

During the three months ended March 31, 2013, working capital adjustments decreased by \$0.4 million primarily as a result of the timing of collections on our accounts receivable and reduction in inventories as compared to March 31, 2012.

During the three months ended March 31, 2013 investing activities consumed \$0.2 million in cash (2012 – provided \$0.3 million) which was comprised of \$0.2 million (2012 - \$0.1 million) in maintenance capital expenditures. In 2012 we received \$0.5 million in cash from the sale of surplus land.

In regards to the long-term debt, during the three months ended March 31, 2013 we made payments of \$0.4 million compared to \$0.6 million during 2012. The decrease is the result of the renegotiation and settlement of long-term debt in June 2012. The settlement was funded through proceeds received from the Senior Term Loan (described under “Senior Credit Facility”). During the three months ended March 31, 2013 we made payments of \$0.1 million towards the term loan (2012 - \$nil).

During the three months ended March 31, 2013, we advanced \$6.2 million from our Senior Revolving Facility (2012 - \$6.4 million in advances) to support working capital needs in the first quarter of 2013.

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 this 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.

The Senior Revolving Facility has defined covenants, primarily a quarterly test whereby Tree Island Steel 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 March 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 8 of the Company’s interim condensed consolidated financial statements for the three month period ended March 31, 2013.

8. CAPITAL EXPENDITURES AND CAPACITY

For the three months ended March 31, 2013, we made capital expenditures of \$215 thousand (2012 - \$129 thousand) made up primarily of maintenance capital. We have planned capital expenditures for the 2013 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.

9. CONTRACTUAL OBLIGATIONS AND COMMITMENTS

As of March 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.

	2013	2014	2015	2016	2017	Thereafter	Total
Commitments							
Wire Rod Purchases	\$ 16,040	\$ -	\$ -	\$ -	\$ -	\$ -	16,040
Finished Goods	1,953	-	-	-	-	-	1,953
Operating Lease Agreements	1,052	900	841	747	9	-	3,549
	19,045	900	841	747	9	-	21,542
Financial Liabilities							
Senior Revolving Facility	16,981	-	-	-	-	-	16,981
Accounts Payable and accrued liabilities	13,331	-	-	-	-	-	13,331
Finance Lease	49	65	27	-	-	-	141
Senior Term Loan	375	500	500	500	500	2,292	4,667
Long-term debt	919	1,295	1,346	1,418	1,469	12,799	19,246
Debentures	1,384	20,646	-	-	-	-	22,030
Total	\$ 52,084	\$ 23,406	\$ 2,714	\$ 2,665	\$ 1,978	\$ 15,091	\$ 97,937

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 first half of 2013.

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 statement of financial position. During the second quarter of 2012 we entered into a new lease for equipment which is considered a finance lease for accounting purposes and as such the lease obligation was recorded on the statement of financial position with the leased asset included in property, plant, and equipment.

We have ongoing and renewing tolling agreements for contract manufacturing whereby our customers retain ownership of the raw materials and finished goods and we charge the customers a tolling fee for processing the raw material into finished goods. During the three months ended March 31, 2013 tolling generated revenues of \$0.8 million (2012 - \$1.4 million).

10. SUMMARY OF QUARTERLY FINANCIAL INFORMATION

The table below provides selected quarterly financial information for the eight most recent fiscal quarters to March 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.

	Mar-31 2013	Dec-31 2012	Sept-30 2012	Jun-30 2012	Mar-31 2012	Dec-31 2011	Sep-30 2011	Jun-30 2011
Sales Volumes – Tons ⁽¹⁾	27,601	21,583	24,242	25,965	30,618	25,282	27,408	27,676
Revenue	\$ 38,093	\$ 28,657	\$ 33,962	\$ 39,622	\$ 43,997	\$ 35,081	\$ 38,005	\$ 38,000
Gross Profit	\$ 4,236	\$ 1,314	\$ 3,487	\$ 4,239	\$ 3,992	\$ 1,103	\$ 1,411	\$ 3,564
EBITDA	\$ 1,809	\$ (1,132)	\$ 998	\$ 1,985	\$ 1,728	\$ (1,133)	\$ (1,276)	\$ 1,725
Foreign exchange gain (loss)	\$ 26	\$ 12	\$ 163	\$ (397)	\$ 309	\$ 517	\$ (1,817)	\$ 160
EBITDA including foreign exchange	\$ 1,835	\$ (1,120)	\$ 1,161	\$ 1,588	\$ 2,037	\$ (616)	\$ (3,093)	\$ 1,885
Net Income (Loss)	\$ (137)	\$ (2,345)	\$ (1,991)	\$ 15,125	\$ (418)	\$ (4,257)	\$ (4,594)	\$ 29
Net Income (Loss) per Unit – Basic	\$ (0.01)	\$ (0.11)	\$ (0.09)	\$ 0.69	\$ (0.02)	\$ (0.19)	\$ (0.20)	\$ 0.00
Gross Profit per Ton	\$ 153	\$ 61	\$ 144	\$ 163	\$ 130	\$ 44	\$ 51	\$ 129
EBITDA per Ton	\$ 66	\$ (52)	\$ 41	\$ 76	\$ 56	\$ (45)	\$ (47)	\$ 62

(1) Sales volumes exclude tons which are part of tolling arrangements

- 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.

11. ACCOUNTING POLICIES AND ESTIMATES

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 critical accounting policies remain unchanged from December 31, 2012. For further information regarding these policies, refer to Note 4 to the December 31, 2012 audited consolidated financial statements and the Annual Information Form for the year ended December 31, 2012.

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, 2012 (Note 4).

12. RELATED PARTY TRANSACTIONS

Transactions with associated companies

The Futura Corporation (“Futura”), is considered to be a related party to the Company, because of its 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 has purchased \$5.0 million of Debentures and was issued 1,875,000 warrants. During the three months ended March 31, 2013, Futura received interest settled in cash of \$123 thousand (2012 - \$125 thousand) on the Debentures at the stated rate of interest.

As well, TIIL sells products to subsidiaries of a company of which Mr. Doman is Chairman and CEO, CanWel Building Materials Division (“CanWel”), which amounted to, net of rebates, \$1.3 million (2012 - \$1.8 million) during the three months ended March 31, 2013 and trade accounts receivable owing from CanWel as at March 31, 2013 were \$1.1 million (2012 - \$1.3 million). 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. Short term employee benefits for key management personnel for the three months ended March 31, 2013 were \$0.4 million (2012 - \$0.5 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.

13. RISKS AND UNCERTAINTIES

Investment in Tree Island Steel is subject to a number of risks. Our income is dependent upon the fabricated wire products business, which is susceptible to a number of risks. A detailed discussion of our significant business risks is provided in the 2012 Annual Information Form under the heading “Risk Factors” which can be found at www.sedar.com. There was no change in the risks as disclosed in the AIF during the first quarter.

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, 2013. 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, 2013 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, 2013 unaudited interim condensed consolidated financial statements and this MD&A prior to its release.



TREE ISLAND STEEL LTD.

INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2013 and 2012

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 10, 2013

Tree Island Steel Ltd.

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

(in thousands of Canadian dollars - unaudited)

	March 31 2013	December 31 2012
Assets		
<i>Current</i>		
Cash	\$ 2,569	\$ 2,371
Accounts receivable (Note 5)	21,616	11,984
Inventories (Note 6)	34,618	32,732
Prepaid expenses	1,108	2,200
	59,911	49,287
<i>Property, plant and equipment (Note 7)</i>	31,229	31,592
<i>Other non-current assets</i>	208	223
	\$ 91,348	\$ 81,102
Liabilities		
<i>Current</i>		
Senior Revolving Facility (Note 8.1)	\$ 16,981	\$ 10,785
Accounts payable and accrued liabilities	13,331	9,649
Income taxes payable	1,352	1,346
Other current liabilities	92	83
Fair value of convertible instruments (Note 9)	276	312
Current portion of long term borrowings (Notes 8.2, 10, 17.3)	1,774	1,748
	33,806	23,923
<i>Convertible Debentures (Note 9)</i>	15,471	15,634
<i>Senior Term Loan (Note 8.2)</i>	4,167	4,292
<i>Long-term debt (Note 10)</i>	9,705	9,639
<i>Finance lease (Note 17.3)</i>	72	87
<i>Other non-current liabilities (Note 10)</i>	441	449
<i>Deferred income taxes</i>	1,794	1,973
	65,456	55,997
Shareholders' Equity	25,892	25,105
	\$ 91,348	\$ 81,102

Approved on behalf of Tree Island Steel Ltd.

[Signed]

"Amar S. Doman"

Director

[Signed]

"Dale R. MacLean"

Director

See accompanying Notes to the Interim Condensed Consolidated Financial Statements

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

	Three Months Ended March 31	
	2013	2012
Sales	\$ 38,093	\$ 43,997
Cost of goods sold (Note 6)	33,137	39,237
Depreciation (Note 7)	720	768
Gross profit	4,236	3,992
Selling, general and administrative expenses	3,147	3,032
Operating income	1,089	960
Foreign exchange gain	26	309
Gain on sale of property, plant and equipment	-	426
Changes in financial liabilities recognized at fair value	20	-
Financing expenses (Note 11)	(1,439)	(2,261)
Loss before income taxes	(304)	(566)
Income tax recovery (Note 14)	167	148
Net loss for the period	\$ (137)	\$ (418)
Net loss per share / unit (Note 16)		
Basic	\$ (0.01)	\$ (0.02)
Diluted	\$ (0.01)	\$ (0.02)
Weighted-average number of shares / units (Note 16)		
Basic	23,113,661	22,337,889
Diluted	23,113,661	22,337,889

See accompanying Notes to the Interim Condensed Consolidated Financial Statements

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

	Three Months Ended March 31	
	2013	2012
Net loss for the period	(137)	(418)
Other comprehensive income (loss)		
Unrealized income (loss) on translating financial statements of subsidiary operations, net of tax	171	(214)
Comprehensive income (loss) for the period	\$ 34	\$ (632)

See accompanying Notes to the Interim Condensed Consolidated Financial Statements

Tree Island Steel Ltd.

INTERIM CONDENSED CONSOLIDATED STATEMENT OF SHAREHOLDERS / UNITHOLDERS EQUITY

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

	Shareholders' Capital (Note 12)	Unitholders' Capital (Note 1)	Warrants and Equity Component of Convertible Debentures	Accumulated Deficit	Distributions	Accumulated Other Comprehensive Income	Total
Balance as at December 31, 2012	\$ 211,311	\$ -	\$ 720	\$ (186,776)	\$ -	\$ (150)	\$ 25,105
Conversion of Convertible Debentures (Note 9)	607	-	(25)	-	-	-	582
Conversion of Warrants (Note 12)	173	-	(2)	-	-	-	171
Net loss	-	-	-	(137)	-	-	(137)
Other comprehensive income	-	-	-	-	-	171	171
Balance as at March 31, 2013	\$ 212,091	\$ -	\$ 693	\$ (186,913)	\$ -	\$ 21	\$ 25,892
Balance as at December 31, 2011	\$ -	\$ 211,450	\$ -	\$ (37,899)	\$ (159,248)	\$ 336	\$ 14,639
Conversion of phantom units	-	2	-	-	-	-	2
Normal course issuer bid	-	(205)	-	-	-	-	(205)
Net loss	-	-	-	(418)	-	-	(418)
Other comprehensive loss	-	-	-	-	-	(214)	(214)
Balance as at March 31, 2012	\$ -	\$ 211,247	\$ -	\$ (38,317)	\$ (159,248)	\$ 122	\$ 13,804

See accompanying Notes to the Interim Condensed Consolidated Financial Statements

Tree Island Steel Ltd.

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

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

	Three Months Ended March 31	
	2013	2012
Cash flows from operating activities		
Net loss for the year	\$ (137)	\$ (418)
Adjustments for:		
Depreciation	720	768
Changes in financial liabilities recognized at fair value	(20)	-
Gain on sale of property, plant and equipment	-	(426)
Amortization of deferred financing	16	70
Net finance costs	1,423	2,191
Deferred income tax recovery	(179)	(157)
Fair value change on Phantom Units	-	22
Exchange revaluation on foreign denominated debt	226	(565)
Working capital adjustments:		
Accounts Receivable	(9,526)	(7,908)
Inventories	(1,648)	(1,645)
Accounts payable and accrued liabilities	3,595	916
Prepaid expenses	1,099	1,260
Income and other taxes	12	9
Other	(268)	278
Net cash used in operating activities	(4,688)	(5,605)
Cash flows from investing activities		
Proceeds on disposal of property, plant and equipment	-	470
Purchase of property, plant and equipment	(215)	(129)
Net cash (used in) provided by investing activities	(215)	341
Cash flows from financing activities		
Repayment of Senior Term Loan	(125)	-
Repayment of long-term debt	(386)	(598)
Conversion of warrants	171	-
Interest paid	(778)	(857)
Normal course issuer bid	-	(205)
Advance on Senior Revolving Facility	6,196	6,354
Net cash provided by financing activities	5,078	4,694
Effect of exchange rate changes on cash	16	(14)
Increase (decrease) in cash	191	(584)
Cash, beginning of year	2,371	3,852
Cash, end of year	\$ 2,562	\$ 3,268

See accompanying Notes to the Interim Condensed Consolidated Financial Statements

Tree Island Steel Ltd.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the three months ended March 31, 2013 and 2012

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

1. NATURE OF BUSINESS

These interim condensed consolidated financial statements of Tree Island Steel Ltd. ("Tree Island Steel" or the "Company") for the three months ended March 31, 2013 were authorized for issue in accordance with a resolution of the Board of Directors on May 10, 2013.

Tree Island Steel is a corporation established under the laws of Canada on August 2, 2012 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 owns 100% of the common shares of Tree Island Industries Ltd. ("TIIL") (collectively "Tree Island"). TIIL supplies a diverse range of steel wire and fabricated steel wire products to customers in Canada, the United States, and internationally.

Prior to October 1, 2012, TIIL was owned by Tree Island Wire Income Fund (the "Fund"). 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 have become debentures of Tree Island Steel. The Convertible Debentures will continue to be 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 have become warrants of Tree Island Steel. The Warrants will 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.

Tree Island Steel's operations are impacted by the seasonal nature of the various industries to which it sells its products, primarily the construction and agricultural industries. Accordingly, revenues, sales volumes, and operating results for the 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 the other quarters.

2. BASIS OF PREPARATION

The interim condensed consolidated financial statements as at and for the three months ended March 31, 2013 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, 2012 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 JUDGMENTS AND ESTIMATES

The accounting policies, methods of application, and critical judgments and estimates used in the preparation of these interim condensed consolidated financial statements are consistent with those disclosed in the annual consolidated financial statements as at December 31, 2012 except as noted below:

IAS 1 Presentation of Items of other Comprehensive Income

The Company adopted IAS 1 *Presentation of Items of other Comprehensive Income* on January 1, 2013. The mandatory adoption of the accounting policy had no impact on the interim condensed consolidated financial statements as at March 31, 2013.

IFRS 10 Consolidated Financial Statements

The Company adopted IFRS 10 *Consolidated Financial Statements* on January 1, 2013. The mandatory adoption of the accounting policy had no impact on the interim condensed consolidated financial statements as at March 31, 2013.

Tree Island Steel Ltd.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the three months ended March 31, 2013 and 2012

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

IFRS 12 Disclosure of Interests in Other Entities

The Company adopted IFRS 12 *Disclosure of Interests in Other Entities* on January 1, 2013. The mandatory adoption of the accounting policy had no impact on the interim condensed consolidated financial statements as at March 31, 2013.

IFRS 13 Fair Value Measurement

The Company adopted IFRS 13 *Fair Value Measurement* on January 1, 2013. The mandatory adoption of the accounting policy had no impact on the interim condensed consolidated financial statements as at March 31, 2013.

4. FUTURE IFRS STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE

Unless otherwise indicated below, the Company 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, the Company 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 the Company's accounting for its financial assets. The standard is required to be adopted for annual periods beginning on or after January 1, 2015.

5. ACCOUNTS RECEIVABLE

	March 31	December 31
	2013	2012
Accounts Receivable		
Up to date	\$ 16,615	\$ 8,092
Under 30 days past due	4,231	2,936
30-60 days past due	600	816
61-90 days past due	229	121
Over 91 days past due	273	314
	21,948	12,279
Allowance for doubtful accounts	(332)	(295)
Balance, end of period	\$ 21,616	\$ 11,984

The maximum credit risk exposure by way of accounts receivable is equal to the gross amount of \$21,948 as at March 31, 2013.

6. INVENTORIES

	March 31	December 31
	2013	2012
Raw materials	\$ 10,463	\$ 6,562
Finished and semi finished products	16,055	18,360
Consumable supplies and spare parts	8,100	7,810
	\$ 34,618	\$ 32,732

At each period end, the ending inventories on hand are reviewed to determine if a write down to net realizable value is required. Write-downs were not considered necessary in either the current or prior period.

Tree Island Steel Ltd.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the three months ended March 31, 2013 and 2012

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

In the three months ended March 31, 2013 and 2012, cost of goods sold was recognized for the following:

	Three Months Ended March 31	
	2013	2012
Opening inventory	\$ 32,732	\$ 36,123
Raw material purchases	25,859	29,467
Finished goods purchased for resale	737	1,635
Conversion costs	8,427	9,531
Inventories, closing	(34,618)	(37,519)
Cost of goods sold	\$ 33,137	\$ 39,237

7. PROPERTY, PLANT, AND EQUIPMENT

	Land & Improvements	Building & Improvements	Machinery & Equipment	Construction in progress	Total
Cost					
As at December 31, 2012	\$ 9,105	\$ 38,801	\$ 17,111	\$ 148	\$ 65,165
Additions	-	13	128	79	220
Foreign currency translation	29	110	126	-	265
As at March 31, 2013	\$ 9,134	\$ 38,924	\$ 17,365	\$ 227	\$ 65,650
Accumulated depreciation and impairment					
As at December 31, 2012	\$ -	\$ 26,636	\$ 6,937	\$ -	\$ 33,573
Depreciation charge for the period	-	337	383	-	720
Foreign currency translation	-	72	56	-	128
As at March 31, 2013	\$ -	\$ 27,045	\$ 7,376	\$ -	\$ 34,421
Net book values as at:					
December 31, 2012	\$ 9,105	\$ 12,165	\$ 10,174	\$ 148	\$ 31,592
March 31, 2013	\$ 9,134	\$ 11,879	\$ 9,989	\$ 227	\$ 31,229

8. 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 million may be borrowed in Canadian and US currency under a revolving credit facility ("Senior Revolving Facility") and a \$5 million 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.

8.1 Senior Revolving Facility

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

Tree Island Steel Ltd.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the three months ended March 31, 2013 and 2012

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

8.2 Senior Term Loan

The following amounts are outstanding under the Senior Term Loan:

	Year of Maturity	March 31 2013	December 31 2012
Senior Term Loan, beginning of period	2016	\$ 4,792	\$ -
Advances		-	5,000
Payments		(125)	(208)
Senior Term Loan, end of period		4,667	4,792
Less current portion		(500)	(500)
		\$ 4,167	\$ 4,292

9. CONVERTIBLE DEBENTURES

The carrying value of the Convertible Debentures at period end is:

	March 31 2013	December 31 2012
Convertible Debentures, beginning of period	\$ 15,634	\$ 14,298
Accretion of debt discount for the period	885	3,435
Payment of interest in cash	(482)	(1,940)
Conversion of debentures to Tree Island shares	(566)	(159)
Convertible Debentures, end of period	\$ 15,471	\$ 15,634

During the three months ended March 31, 2013, \$683 principal value of Convertible Debentures were converted into 1,366,200 Shares resulting in an increase to shareholders capital of \$607 (net of proportionate issuance costs of \$80) offset by charges of \$566 to the Convertible Debentures, \$16 to the change of control premium, and \$25 to the conversion option. As at March 31, 2013, there were 185,065 (2012 – 191,896) Convertible Debentures outstanding. Each Convertible Debenture has a face value of \$100. Subsequent to March 31, 2013, 169 Convertible Debentures were converted into 33,800 Shares.

The fair value of the change of control premium as at March 31, 2013 was \$276 (2012 - \$312).

10. LONG-TERM DEBT

	Year of Maturity ⁽¹⁾	March 31, 2013	December 31, 2012
Beginning of period	2028	\$ 10,833	\$ 33,373
Gain on renegotiated debt		-	(17,805)
Payments		(386)	(6,812)
Foreign exchange revaluation		226	(389)
Accretion of debt discount		251	2,466
End of period		10,924	10,833
Less current portion ⁽¹⁾		(1,219)	(1,194)
		\$ 9,705	\$ 9,639

A provision exists for early payment of a portion of the principal outstanding if certain conditions are met. As at March 31, 2013 a provision of \$138 (2012 - \$138) has been accrued and is included in other noncurrent liabilities.

Tree Island Steel Ltd.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the three months ended March 31, 2013 and 2012

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

11. FINANCING EXPENSES

	Three Months Ended March 31	
	2013	2012
Non-cash accretion of debt discount and interest on long-term debt and Convertible Debentures	\$ 654	\$ 1,404
Cash interest on debentures	482	489
Interest on Senior Credit Facility	182	201
Other interest and financing costs	105	97
Amortization of deferred financing costs	16	70
	\$ 1,439	\$ 2,261

12. SHAREHOLDERS' CAPITAL

During the period Tree Island Steel had the following Share transactions:

	Shares	Gross	Issuance Costs ⁽¹⁾	Net
Shareholders' capital - December 31, 2012	22,155,150	\$ 222,711	\$ 11,400	\$ 211,311
Conversion of Convertible Debentures	1,366,200	607	-	607
Conversion of Warrants	300,000	173	-	173
Shareholders' capital - March 31, 2013	23,821,350	\$ 223,491	\$ 11,400	\$ 212,091

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

Warrants

4,875,000 Warrants were issued to certain investors. The Warrants have an exercise price of \$0.57 and expire November 26, 2014. As at and for the three months ended March 31, 2013, 300,000 Warrants were exercised for proceeds of \$171 resulting in an increase in shareholders capital of \$173 and decrease in Warrants and Equity Components of Convertible Debentures of \$2.

13. RELATED PARTY TRANSACTIONS

Transactions with associated companies

The Futura Corporation ("Futura"), is considered to be a related party of Tree Island Steel 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 three months ended March 31, 2013, Futura received interest settled in cash of \$123 (2012 - \$125) on the Convertible Debentures at the stated rate of interest.

As well, Tree Island Steel sells products to subsidiaries of a company of which Mr. Doman is Chairman and CEO, CanWel Building Materials Division ("CanWel"), which amounted to, net of rebates, \$1,291 (2012 - \$1,775) during the three months ended March 31, 2013 and trade accounts receivable owing from CanWel as at March 31, 2013 was \$1,051 (2012 - \$1,335). 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 Steel. Short-term employee benefits for key management personnel for the three months ended March 31, 2013 were \$436 (2012 - \$495) 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.

Tree Island Steel Ltd.

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14. INCOME TAXES

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

	Three Months Ended March 31			
	2013		2012	
<i>Recorded in the statement of operations</i>				
Current tax expense	\$	(12)	\$	(9)
Deferred tax recovery		179		157
	\$	167	\$	148

15. FINANCIAL INSTRUMENTS

15.1 Fair value of financial instruments

The Company 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.

Below is a comparison by class of the carrying amounts and fair value of the Company's financial instruments that are carried in the interim condensed consolidated financial statements.

	March 31, 2013		December 31, 2012	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial assets				
Cash	\$ 2,569	\$ 2,569	\$ 2,371	\$ 2,371
Accounts receivable	21,616	21,616	11,984	11,984
Total financial assets	\$ 24,185	\$ 24,185	\$ 14,355	\$ 14,355
Financial liabilities				
Senior Revolving Facility	\$ 16,981	\$ 16,981	\$ 10,785	\$ 10,785
Accounts payable and accrued liabilities	13,331	13,331	9,649	9,649
Finance lease	127	127	141	141
Senior Term Loan	4,667	4,667	4,792	4,792
Long-term debt	10,833	12,375	10,833	11,543
Convertible debentures	15,471	17,566	15,634	17,916
Change of control premium	276	276	312	312
Early payment option	138	138	138	138
Total financial liabilities	\$ 61,824	\$ 65,461	\$ 52,284	\$ 55,276

The fair values of the financial assets and financial liabilities is 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 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 \$745.
- 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.

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- Fair value of the change of control premium is estimated using the Black-Scholes Option Pricing Model.
- Prior to the Corporate Conversion, fair value of the conversion feature and Warrants were 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%.

15.2 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 prices in active markets for identical instruments.

Level 2 – quoted prices for similar instruments in active markets; quoted prices for identical or similar instruments in markets that are not active; and model-derived valuations in which all significant inputs and significant value drivers are observable in active markets.

Level 3 – valuations derived from valuation techniques in which one or more significant inputs or significant value drivers are unobservable.

The following tables summarize the bases used to measure certain financial liabilities at fair value through profit and loss. The Company does not have any financial assets valued at fair value through profit and loss. Financial liabilities carried at fair value have been classified into three levels based upon a fair value hierarchy that reflects the significance of the inputs used in making the measurements.

	Classification ⁽¹⁾	March 31,		Level 1	Level 2	Level 3
		2013				
Change of control premium	HFT	\$ 276	\$	-	\$ -	\$ 276
Conversion feature	HFT	\$ 138		-	-	138
		\$ 414	\$	-	\$ -	\$ 414

	Classification ⁽¹⁾	December 31,		Level 1	Level 2	Level 3
		2012				
Change of control premium	HFT	\$ 312	\$	-	\$ -	\$ 312
Early payment option	HFT	138		-	-	138
		\$ 450	\$	-	\$ -	\$ 450

(1) Held for Trading ("HFT")

15.3 Risk exposure and management

The Company 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.

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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 March 31, 2013 and December 31, 2012:

March 31, 2013	Carrying Amount	Contractual Cash Flow	Less than 1 Year	1 - 2 Years	Greater than 2 Years
Senior Revolving Facility (Note 9.1)	\$ 16,981	\$ 16,981	\$ 16,981	\$ -	\$ -
Accounts payable and accrued liabilities	13,331	13,331	13,331	-	-
Finance lease (Note 22.6)	127	141	65	75	-
Senior Term Loan (Note 9.2)	4,667	4,667	500	1,000	3,167
Long-term debt (Note 11)	10,971	19,246	1,224	2,672	15,349
Convertible debentures (Note 10)	15,471	22,030	1,851	20,180	-
	\$ 61,548	\$ 76,396	\$ 33,952	\$ 23,927	\$ 18,516

December 31, 2012	Carrying Amount	Contractual Cash Flow	Less than 1 Year	1 - 2 Years	Greater than 2 Years
Senior Revolving Facility (Note 9.1)	\$ 10,785	\$ 10,785	\$ 10,785	\$ -	\$ -
Accounts payable and accrued liabilities	9,649	9,649	9,649	-	-
Finance lease (Note 22.6)	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 Senior Credit Facility.

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:

	March 31, 2013
Increase (decrease) to net comprehensive loss of a \$0.01 increase in Cdn\$ to US\$ exchange rate	151
Increase (decrease) to net comprehensive loss of a \$0.01 increase in Cdn\$ to RMB exchange rate	27

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. The Company'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.

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Interest rate risk

The Company 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 \$216. The Company does not use derivative instruments to manage the interest rate risk.

16. NET LOSS PER SHARE / UNIT

	Three Months Ended March 31	
	2013 ⁽¹⁾	2012 ⁽¹⁾
Weighted average number of shares / units outstanding during the period - basic	23,113,661	22,337,889
Dilutive effect of:		
Convertible Debentures	-	-
Phantom units	-	-
Warrants	-	-
Weighted average number of shares / units outstanding during the period - diluted	23,113,661	22,337,889

(1) There was a loss for the three month periods ended March 31, 2013 and 2012; therefore all Convertible Debentures, Phantom units, and Warrants have been excluded from the calculation of diluted loss per Share / unit because they would be anti-dilutive.

Between March 31, 2013 and May 10, 2013, 169 Convertible Debentures were converted into 33,800 Shares. These transactions would have a nominal impact on the both the basic and diluted loss per Share. There have been no additional transactions involving Shares or potential Shares between the reporting date and the date of completion of these interim condensed consolidated financial statements.

17. PROVISIONS AND COMMITMENTS

17.1 Litigation and claims

The Company 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.

17.2 Purchase commitments

The Company's wholly owned subsidiaries have committed to rod purchases totaling \$16,040 (US\$15,793) at March 31, 2013 and imported finished goods purchases of \$1,953 (US\$1,923).

17.3 Finance lease commitments

TIIIL 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	\$ 65	\$ 56	\$ 65	\$ 54
1 to 5 years	76	71	93	87
More than 5 years	-	-	-	-
Total minimum lease payments	141	127	158	141
Less amounts representing finance charges	(14)	-	(17)	-
Present value of minimum lease payments	\$ 127	\$ 127	\$ 141	\$ 141

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18. SEGMENTED INFORMATION

The Company operates primarily within one industry, the steel wire and fabricated wire products industry, with no separately reportable operating segments. The Company groups its products into the following: industrial / Original Equipment Manufacturer ("OEM"), residential construction, commercial construction, agricultural, and specialty. Revenues for each group for the three months ended March 31, 2013 and 2012 were as follows:

	Three Months Ended March 31	
	2013	2012
Industrial / OEM ⁽¹⁾	\$ 11,195	\$ 15,344
Residential construction	10,632	13,237
Commercial construction	6,682	6,813
Agricultural	5,826	4,493
Specialty	3,758	4,110
	\$ 38,093	\$ 43,997

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.

	Three Months Ended March 31	
	2013	2012
Sales ⁽¹⁾		
Canada	\$ 16,448	\$ 19,037
United States	20,582	23,652
China	-	34
Other	1,063	1,274
	\$ 38,093	\$ 43,997

⁽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.

	March 31	December 31
	2013	2012
Non-current assets		
Canada	\$ 24,498	\$ 24,948
United States	6,872	6,801
China	67	66
	\$ 31,437	\$ 31,815

**SHAREHOLDER
INFORMATION
TREE ISLAND
STEEL LTD.**

Board of Directors:

Amar S. Doman – Chair 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

Toronto Stock Exchange
trading symbol: TSL.

*Registrar and Transfer
Agent*

Computershare Investor
Services Inc.

**Convertible
Debentures:**

Market Information

Toronto Stock Exchange
trading symbol: TSL.DB.

Debenture Trustee

Valiant Trust Company

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Vice President, Finance
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