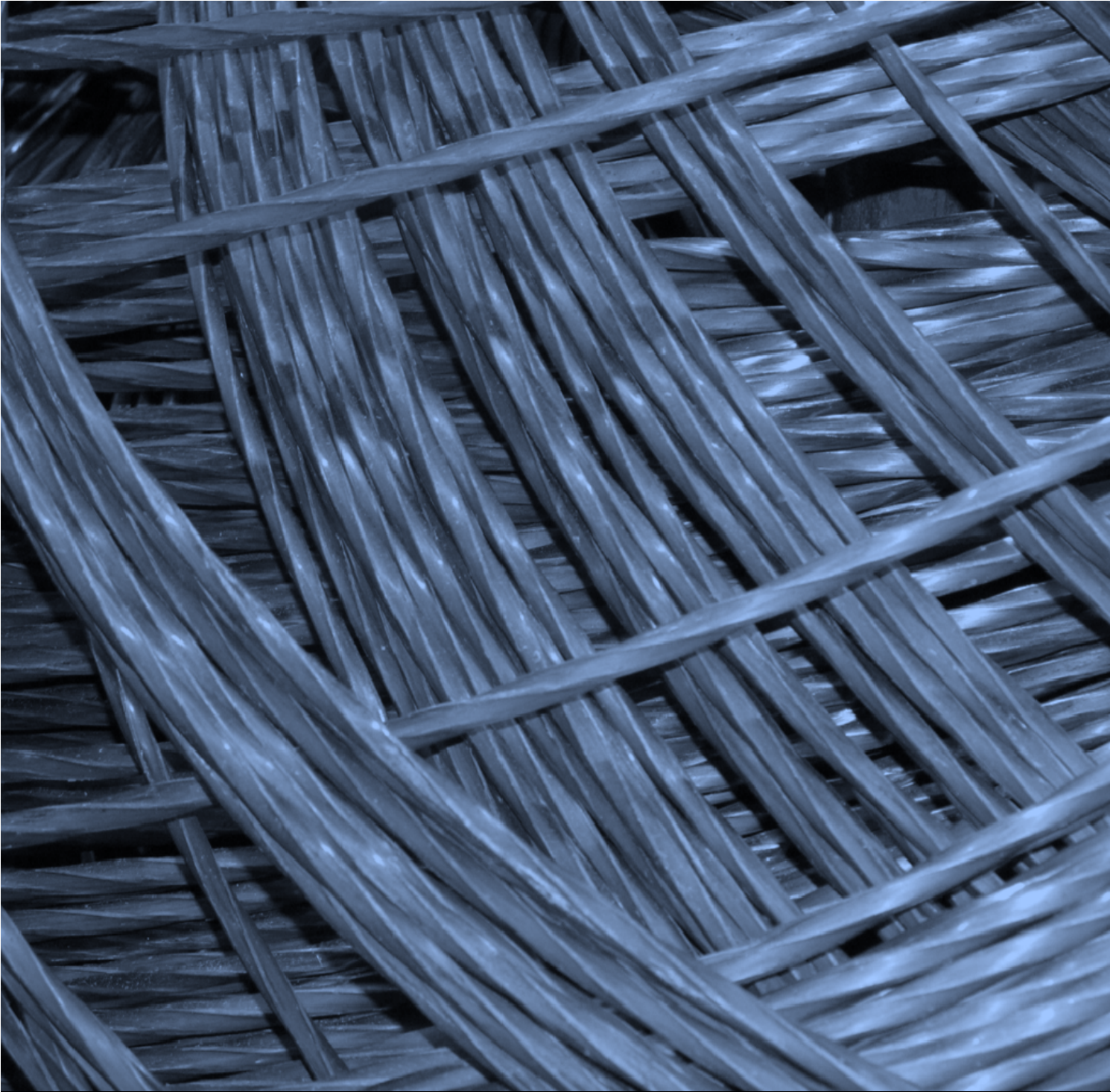


Q3 2013



TREE ISLAND STEEL LTD.

Report to Shareholders
for the three and nine month periods ended September 30, 2013

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

Our products include galvanized wire, bright wire, a broad array of fasteners, including packaged, collated and bulk nails, stucco reinforcing products, concrete reinforcing mesh, fencing, and other fabricated wire products. We market these products under the Tree Island, Halsteel, K-Lath, Industrial Alloys, TI Wire, Tough Strand, and Select 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 and our convertible debentures trade under the symbol TSL.DB.

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TO OUR SHAREHOLDERS

Our third quarter results continue to demonstrate improvement and strengthening in our key financial metrics despite the continued volatility in raw materials prices, modest economic growth in our key markets and ongoing competitive pressures. We remain confident that the steps taken thus far, combined with the steady improvements in many of our key end markets, will allow us to further demonstrate Tree Island's potential for revenue growth and earning power in due course.

For the third quarter of 2013, our revenues increased by 14.8% to \$39.0 million compared to \$34.0 million during the same period last year. Volumes also continued to move in the right direction with a 21.1% year-over-year increase amounting to 29,345 tons, primarily due to increasing demand for industrial and construction products. Gross profit continued to strengthen in the quarter, amounting to \$3.9 million, representing a 11.7% improvement when compared to \$3.5 million in the corresponding period in 2012. These improvements resulted in EBITDA increasing 55.3% to \$1.6 million, or \$53 per ton compared to \$1.0 million and \$41 per ton during the same period in 2012.

Continued modest growth in the US economy, particularly the industrial and construction sectors along with stability in our other key end markets allowed for expanded demand during the third quarter. Looking ahead, we continue to be cautiously optimistic as we navigate through the ongoing volatility in raw material and selling prices, to which we have grown accustomed. As always, we remain focused on strategies to selectively grow revenues by leveraging our brands, providing best in class product and service quality, and optimizing operational efficiencies.

In closing, I would like to thank our employees for continuing to build Tree Island Steel's reputation for product quality and service leadership and 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.

MANAGEMENT'S DISCUSSION AND ANALYSIS

September 30, 2013 and 2012

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 November 7, 2013 and should be read in conjunction with the unaudited interim condensed consolidated financial statements for the three and nine month periods ended September 30, 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. And 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, 2012 as well as Section 14 of this MD&A.

The forward looking statements reflect management's current beliefs and are based upon certain assumptions that management believes to be reasonable based on the information currently available. A number of factors could cause actual events or results to differ materially from the forward looking statements. 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 income (loss) per IFRS adjusted for certain non-cash items including non-cash financing expenses, changes in fair value of convertible instruments and deferred tax expense/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

The Company was incorporated 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, 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 the Company 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 23,975,150 Shares outstanding as of September 30, 2013 and 24,105,150 as of November 7, 2013. The par value of Debentures remaining outstanding as at September 30, 2013 was \$18,429,600 and November 7, 2013 was \$18,364,600. Regarding the Warrants, as at September 30, 2013 and November 7, 2013 there were 4,575,000 outstanding and unexercised.

Organizational Structure

Our corporate structure has the following primary entities: TIIL which is our Canadian operating company as well as the parent company for 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.

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 the vast majority of our products at our own manufacturing facilities, while outsourcing a small proportion from qualified manufacturers. We market these products to customers in Canada, the United States and internationally.

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



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

Markets

The following summarizes the markets and 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	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, 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

Seasonality

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

4. DEVELOPMENTS AND THIRD QUARTER 2013 BUSINESS OVERVIEW

Business Overview

Modest economic growth, volatility of raw material costs, and competitive pressures continue to be a concern but the continued increase in economic activity and of construction activity in the US along with stable or modest improvements in our other key markets are starting to take hold. However, we can give no assurances that these improvements will continue and we believe that construction activity can still be impacted by the direction of the economy, the direction of interest rates, home prices, and new construction projects in the pipeline.

Our third quarter results demonstrated further improvement in our key financial metrics and we remain confident that the steps taken thus far will allow us to continue to build a fundamentally strong business with sustainable revenue growth and profitability. 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-month period ended September 30, 2013, revenues increased to \$39.0 million versus \$34.0 million during the third quarter in 2012. Volumes also increased by 21.1% in the third quarter, primarily due to increasing demand for industrial and to a lesser degree construction products. Gross profit continued to strengthen in the quarter, amounting to \$3.9 million, representing a 11.7% improvement when compared to \$3.5 million in the corresponding period in 2012. The improvements in revenues and gross profit together are the result of ongoing focus on profitable growth, cost management and operational efficiencies. These strategies resulted in EBITDA increasing 55.3% to \$1.6 million, or \$53 per ton compared, to \$1.0 million and \$41 per ton during the corresponding period in 2012.

Trade Action Reviews

January 2013, the Canada Border Services Agency (“CBSA”) initiated an investigation subsequent to a complaint filed by the Company and supported by most Canadian producers of galvanized steel wire. On April 22, 2013, the CBSA made a preliminary determination of dumping against galvanized steel wire imported into Canada from China, Spain and Israel, and made a further finding of subsidization against galvanized steel wire from China. On July 22, 2013, the CBSA issued a final determination of dumping respecting certain galvanized steel wire from China, Israel and Spain and made a final determination of subsidization in respect of certain galvanized steel wire from China. However, on August 20, 2013 the Canadian International Trade Tribunal found dumping and subsidizing from China, Israel and Spain did not cause injury to the Canadian galvanized wire industry, and therefore anti-dumping and countervailing duties will not be collected by the CBSA. Although we are disappointed in the ruling, our business strategies remain as they were before the trade action and the ruling does not have a material impact on our business going forward.

Outlook

While we continue to see moderate improvements in the economic environment we continue to remain cautious in our outlook due to the modest pace of recovery in the United States and slowing of economic activity in Canada. Our business strategies are focused 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. With all of these factors, we will maintain our diversified product mix and monitor the need for changes to that product mix, focus on profitable sales, manage our inventories to minimize the impact of volatility in steel costs, and continue to carefully manage costs. As a result, 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 September 30		Nine Months Ended September 30	
	2013	2012	2013	2012
Summary of Results (\$000's except for tonnage and per unit amounts)				
Sales Volumes – Tons ⁽¹⁾	29,345	24,242	86,107	80,825
Sales	\$ 39,003	\$ 33,962	\$ 117,690	\$ 117,581
Cost of sales	(34,379)	(29,697)	(101,990)	(103,564)
Depreciation	(728)	(778)	(2,172)	(2,299)
Gross profit	3,896	3,487	13,528	11,718
Selling, general and administrative expenses	(3,074)	(3,267)	(9,482)	(9,306)
Operating income	822	220	4,046	2,412
Foreign exchange gain (loss)	(23)	163	109	75
Gain (loss) on sale of property, plant and equipment	(42)	3	(42)	430
Gain on sale of subsidiary	231	-	231	-
Changes in financial liabilities recognized at fair value	(8)	(727)	12	(727)
Gain on renegotiated debt	-	-	-	17,805
Financing Expenses	(1,476)	(1,422)	(4,400)	(5,975)
Income (loss) before income taxes	(496)	(1,763)	(44)	14,020
Income tax recovery (expense)	453	(228)	54	(1,304)
Net Income (loss)	(43)	(1,991)	10	12,716
Operating income	822	220	4,046	2,412
Add back depreciation	728	778	2,172	2,299
EBITDA ⁽²⁾	1,550	998	6,218	4,711
Foreign exchange gain (loss)	(23)	163	109	75
EBITDA including foreign exchange	1,527	1,161	6,327	4,786
Net Income (loss)	(43)	(1,991)	10	12,716
Add back significant non-cash items				
Non-cash financing expenses	723	634	2,087	3,313
Non-cash gain on renegotiated debt	-	-	-	(17,805)
Changes in financial liabilities recognized at fair value	(8)	727	(12)	727
Deferred tax expense	(438)	224	(68)	1,407
Adjusted net income (loss) ⁽¹⁾	234	(406)	2,017	358
Per unit				
Net income (loss) per share / unit - basic	(0.00)	(0.09)	0.00	0.57
Net income (loss) per share / unit - diluted	(0.00)	(0.09)	0.00	0.27
Per ton				
Gross profit per ton	133	144	157	145
EBITDA per ton	53	41	72	58

As at September 30, 2013 As at December 31, 2012

Financial position	As at September 30, 2013	As at December 31, 2012
Total assets	84,639	81,102
Total non-current financial liabilities	29,977	29,790

⁽¹⁾ See definition of EBITDA and Adjusted Net Income in Section 2 - Non-IFRS Measures

6. COMPARISON OF RESULTS FOR THE THREE MONTHS ENDED SEPTEMBER 30, 2013 AND 2012

SALES	2013	2012
	\$39,003	\$33,962

During the three months ended September 30, 2013, we generated sales revenues of \$39.0 million, an increase of \$5.0 million, or 14.8%, from the same period in 2012. The increase in revenue primarily reflects increased volumes of 21.1%, primarily from our industrial markets in Canada and the US. This is offset by lower pricing per ton which is in part attributable to lower overall steel costs when compared to the prior period coupled with competitive factors.

Sales volumes by market were as follows:

Market	Three Months Ended September 30, 2013		Three Months Ended September 30, 2012	
	Tons	% of Sales Volumes	Tons	% of Sales Volumes
Industrial	13,901	47.4%	8,807	36.4%
Residential Construction	7,384	25.2%	7,018	29.0%
Commercial Construction	5,588	19.0%	5,656	23.3%
Agricultural	1,650	5.6%	1,623	6.7%
Specialty	822	2.8%	1,029	4.2%
International	-	0.0%	109	0.4%
Total	29,345	100.0%	24,242	100.0%

Industrial volumes increased primarily from sales of galvanized wire for the Canadian and US markets. The residential construction market saw increases coming from stucco products and other residential products into the US market.

Commercial and agricultural sales were fairly consistent with the same period in 2012. Sales to the specialty sector decreased because the prior period included custom processing that did not occur to the same extent in 2013. International trading sales decreased reflecting the discontinuation of certain projects in our Asian operation.

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

COST OF SALES	2013	2012
	\$34,379	\$29,697

For the three months ended September 30, 2013, cost of sales increased by \$4.7 million or 15.8% from the same period last year. This increase in cost of sales reflects 21.1% increase in volumes sold in the period. The increase in cost of sales was lower than the increase in volume due to lower overall raw material costs of both carbon and stainless steel. Our average cost of carbon rod decreased when compared to 2012. However, because carbon rod is usually transacted in US dollars, the cost of carbon rod for our Canadian operations was negatively impacted by the weakening of the Canadian dollar which resulted in increasing costs of goods sold by 4.1%. As well, our cost of stainless steel decreased due to lower stainless steel surcharges and the cost of zinc decreased due to lower market zinc prices.

GROSS PROFIT	2013	2012
	\$3,896	\$3,487

As a result of the increased volume, higher revenues and lower raw material costs noted above, during the three months ended September 30, 2013, gross profit increased \$0.4 million or 11.7%. The gross profit margin was 10.0% versus 10.3% in the prior period and gross profit per ton was \$133 per ton, compared to \$144 per ton in 2012. The declines in gross profit margin and gross profit per ton are from pricing in certain of our markets due to competitive reasons.

	2013	2012
SELLING, GENERAL, AND ADMINISTRATIVE EXPENSES	\$3,074	\$3,267

SG&A expenses decreased by \$0.2 million, or 5.9% due to the fact that in 2012, we incurred costs associated with the conversion from an income trust to a corporate structure.

	2013	2012
EBITDA	\$1,550	\$998

EBITDA for the three months ended September 30, 2013 increased by \$0.6 million. The 55.3% improvement reflects profitability gains coming from higher volumes, higher revenues and lower raw material costs.

	2013	2012
FINANCING EXPENSES	\$1,476	\$1,422

For the three months ended September 30, 2013, financing expenses increased by \$54 thousand resulting from lower cash interest on the Convertible Debentures and Senior Credit Facility offset by increases in the non-cash accretion. The components of financing expense are below:

	<u>Three months ended September 30</u>	
	<u>2013</u>	<u>2012</u>
Non-cash accretion of debt discount and interest on long term debt and Convertible Debentures	\$ 723	\$ 634
Cash interest on Convertible Debentures	460	482
Interest on Senior Credit Facility	171	200
Other interest and financing costs	106	96
Financing transaction costs and amortization of deferred financing costs	16	10
	<u>\$ 1,476</u>	<u>\$ 1,422</u>

	2013	2012
FOREIGN EXCHANGE GAIN (LOSS)	\$(23)	\$163

Our Canadian operation, whose functional currency is the Canadian dollar, has a portion of its assets, liabilities, sales and expenses denominated in currencies other than the Canadian dollar, in particular the US dollar. Foreign exchange gains and losses are unpredictable in nature and therefore can be expected to vary significantly from period-to-period and over time. During the period, the Company recognized a loss on foreign exchange of \$23 thousand.

	2013	2012
INCOME TAX RECOVERY (EXPENSE)	\$453	\$(228)

The income tax expense for both the current and prior period relates to deferred income tax. Current income tax recovery represents \$15 thousand (2012 – \$4 thousand expense) and deferred income tax recovery represents \$0.4 million (2012 - \$0.2 million expense). The income tax recovery was based on the statutory tax rate of 25.7% (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	\$ (43)	\$ (1,991)

For the third quarter of 2013 there was a net loss of \$43 thousand (2012 - net loss of \$2.0 million), or basic and diluted loss per share of \$0.00 (2012 - net loss of \$0.09 per unit basic and diluted).

	2013	2012
ADJUSTED NET INCOME (LOSS)	\$234	\$ (406)

Adjusted for the impact of certain non-cash items recognized in net income, Adjusted Net Income for the three months ended September 30, 2013 increased by \$0.6 million primarily due to an increase in operating income.

7. COMPARISON OF RESULTS FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2013 AND 2012

	2013	2012
SALES	\$117,690	\$117,581

During the nine months ended September 30, 2013, we generated sales revenues of \$117.7 million, which is consistent with the same period in 2012. Though revenues remained the same compared to prior year there was an increase in volumes of 5,281 tons or 6.5%. The increases in volumes were for products that are at lower prices than other items in our product mix. As a result, although volumes have increased, revenues remain consistent with the prior period.

Sales volumes by market were as follows:

Market	Nine Months Ended September 30, 2013		Nine Months Ended September 30, 2012	
	Tons	% of Sales Volumes	Tons	% of Sales Volumes
Industrial	34,883	40.5%	30,933	38.2%
Residential Construction	22,724	26.4%	23,498	29.1%
Commercial Construction	17,487	20.3%	15,097	18.7%
Agricultural	8,118	9.4%	7,754	9.6%
Specialty	2,842	3.3%	3,202	4.0%
International	52	0.1%	341	0.4%
Total	86,106	100.0%	80,825	100.0%

Overall sales volumes increased by 5,281 tons or 6.5% in the nine months and the product mix also changed from the prior period. Volumes in our industrial market are higher due to sales of galvanized wire in the third quarter resulting from targeted sales activities. In the construction markets, residential demand is lower than the prior period due to weakness in the first quarter, particularly in nails which are seeing competition in the US and Canada from imports from China, other Asian countries and the UAE. Some of the residential volumes have partly recovered in the second and third quarter due to strength in our US markets primarily for stucco product sales. In addition, the commercial construction market is showing strength in concrete reinforcing products. Agricultural volumes are slightly ahead of the prior period in part from strength in the first quarter offset by the second quarter weaker sales from the inclement weather. Specialty sales are slightly down year to date because, as noted above, custom processing did not occur to the same extent as in 2012.

	2013	2012
COST OF SALES	\$101,990	\$103,564

For the nine months ended September 30, 2013, cost of sales decreased by \$1.6 million or 1.5% from the same period last year. This decrease in cost of sales reflects a decrease in overall raw material costs of 9.4% when compared to 2012. Our input costs for carbon rod costs and stainless steel, primarily from falling surcharges, declined but the cost of zinc remained consistent with the same period in 2012. Because carbon rod is usually transacted in US dollars, the cost of carbon rod for our Canadian operations was negatively impacted by the weakening of the Canadian dollar which resulted in increasing costs of goods sold by 1.9%.

	2013	2012
GROSS PROFIT	\$13,528	\$11,718

During the nine months ended September 30, 2013, gross profit increased \$1.8 million or 15.5%. Gross profit margin increased to 11.5% versus 10.0% in the prior period and gross profit per ton increased to \$157 per ton compared to \$145 per ton in 2012. The increase in gross profit and gross profit per ton are the result of stronger volumes and margin, lower overall raw materials costs and our focus on the profitability of our sales mix.

	2013	2012
SELLING, GENERAL, AND ADMINISTRATIVE EXPENSES	\$9,482	\$9,306

SG&A expenses increased \$0.2 million, or 1.9% due largely to an increase in retirement and severance allowances, and legal expenses related to the Canadian galvanized wire trade action.

	2013	2012
EBITDA	\$6,218	\$4,711

EBITDA for the nine months ended September 30, 2013 increased by \$1.5 million or 32.0% due to operating income.

	2013	2012
FINANCING EXPENSES	\$4,400	\$5,975

For the nine months ended September 30, 2013, financing expenses decreased by \$1.6 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>Nine Months Ended September 30</u>	
	<u>2013</u>	<u>2012</u>
Non-cash accretion of debt discount and interest on long term debt and Convertible Debentures	\$ 2,088	\$ 3,313
Cash interest on Convertible Debentures	1,399	1,453
Interest on Senior Credit Facility	466	521
Other interest and financing costs	400	323
Financing transaction costs and a mortization of deferred financing costs	47	365
	<u>\$ 4,400</u>	<u>\$ 5,975</u>

	2013	2012
FOREIGN EXCHANGE GAIN (LOSS)	\$109	\$75

During the nine months ended September 30, 2013 we recorded a gain on foreign exchange of \$109 thousand, compared to a gain of \$75 thousand in 2012, despite the weakening of the Canadian dollar during that period, as a result of holding more US dollar financial assets than liabilities.

	2013	2012
INCOME TAX RECOVERY (EXPENSE)	\$54	\$(1,304)

The income tax expense for both the current and prior period primarily relates to deferred income tax. Current income tax expense represents \$14 thousand (2012 - \$0.1 million recovery) and a deferred income tax recovery represents \$68 thousand (2012 - \$1.4 million expense). The income tax expense was based on the statutory tax rate of 25.7% (2012 - 25.0%) applied to the income of subsidiaries before taxes, with adjustments for permanent differences between accounting and taxable income. The income tax expense for the prior year was largely due to deferred tax from the gain on renegotiation of debt.

NET INCOME	2013	2012
	\$10	\$12,716

In the prior year, net income included \$17.8 million relating to the renegotiation of long-term debt which is described further in section 8.2 of this MD&A.

ADJUSTED NET INCOME	2013	2012
	\$2,017	\$358

Adjusted for the impact of certain non-cash items recognized in net income, Adjusted Net Income for the nine months ended September 30, 2013 increased by \$1.7 million due to higher operating income.

8. FINANCIAL CONDITION AND LIQUIDITY

8.1. Working Capital

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

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

A summary of the composition of our working capital as at September 30, 2013 compared to 2012 is provided below (\$000's):

	September 30	September 30
	2013	2012
Investment in working capital assets		
Cash	\$ 2,114	\$ 2,850
Accounts receivable	18,153	14,410
Inventories	32,807	43,021
Other current assets	1,422	1,435
	\$ 54,496	\$ 61,716
Less current liabilities		
Senior Revolving Facility	(14,299)	(16,631)
Accounts payable and accrued liabilities	(8,863)	(13,909)
Other current liabilities	(1,193)	(3,169)
Current portion of long-term debt	(1,834)	(1,734)
	(26,189)	(35,443)
Net investment in working capital	\$ 28,307	\$ 26,273

As at September 30, 2013 there was a significant increase in accounts receivable as a result of the higher volumes in the third quarter of 2013 compared to third quarter 2012. Inventories declined in part due to higher sales volumes in 2013, overall lower raw material costs, and improving the alignment of inventories against sales levels.

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

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

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

8.2. Liquidity and Capital

Cash Flow

Following is a summary of our cash flow for the three and nine month periods ended September 30, 2013 and 2012 (\$000's – bracketed figures indicate use of cash):

	Three Months Ended September		Nine Months Ended September 30	
	2013	2012	2013	2012
Cash provided by operating activities	\$ 1,283	\$ 816	\$ 6,675	\$ 4,441
Working capital adjustments	1,597	(810)	(6,927)	(6,795)
Net cash provided by (used in) operating activities	\$ 2,880	\$ 6	\$ (252)	\$ (2,354)
Net cash (used in) provided by investing activities	\$ 331	\$ (8)	\$ 57	\$ 255
Cash flows from financing activities				
Advance on (Repayment of) Senior Term Loan	(125)	(125)	(375)	4,875
Repayment of long-term debt	(367)	(297)	(1,112)	(6,514)
Conversion of Warrants	-	-	171	-
Interest paid	(749)	(813)	(2,286)	(2,321)
Normal Course Issuer Bid	-	(39)	-	(301)
Advance on (Repayment of) Senior Revolving Facility	(2,307)	(47)	3,514	5,384
Net cash (used in) provided by financing activities	\$ (3,548)	\$ (1,321)	\$ (88)	\$ 1,123
Exchange rate changes on foreign cash balances	(18)	(28)	26	(26)
(Decrease) increase in cash balances	\$ (355)	\$ (1,351)	\$ (257)	\$ (1,002)

During the three and nine month periods ended September 30, 2013, cash flow provided by operating activities was \$1.3 million and \$6.7 million respectively, compared to \$0.8 million and \$4.4 million over the same periods in the prior year with the increases resulting from increased EBITDA and lower cash financing costs.

During the three months ended September 30, 2013 working capital adjustments had a positive impact on cash flow mainly due to improved collections on accounts receivable. During the nine months ended September 30, 2013, working capital adjustments negatively impacted cash flow primarily as a result of the timing of collections on our accounts receivable as compared to the prior periods.

Cash flows provided by investing activities resulted from the disposition of a subsidiary, while cash flows used in investing activities were primarily the result of maintenance capital expenditure during the three and nine month periods ended September 30, 2013 and 2012. The nine month period in 2012 includes proceeds on \$0.5 million receipt in cash from the holdback from the sale of surplus land in 2009.

In regards to the long-term debt, during the three and nine months ended September 30, 2013 we made payments of \$0.4 million and \$1.1 million respectively compared to \$0.3 million and \$6.5 million during the same periods in the prior year. The decrease is the result of the renegotiation and settlement of long-term debt in June 2012. The settlement was funded through the \$5 million in proceeds received from the Senior Term Loan (described below under the section *Senior Credit Facility*).

During the three month period we repaid \$2.3 million (2012 - \$0.05 million) drawn on the Senior Revolving Facility and during the nine months ended September 30, 2013, we drew \$3.5 million from our Senior Revolving Facility (2012 - \$5.4 million in advances) to support working capital needs earlier in the year.

Senior Credit Facility

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

The Senior Credit Facility consists of a Senior Revolving Facility and a \$5.0 million Senior Term Loan. Management expects that 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 September 30, 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 and nine month periods ended September 30, 2013.

Long-Term Debt Agreements

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

9. CAPITAL EXPENDITURES AND CAPACITY

For the three and nine month periods ended September 30, 2013, we made capital expenditures of \$108 thousand and \$382 thousand respectively (2012 - \$23 thousand and \$232 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.

10. CONTRACTUAL OBLIGATIONS AND COMMITMENTS

As of September 30, 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	\$ 14,263	\$ 18,536	\$ -	\$ -	\$ -	\$ -	\$ 32,799
Finished Goods	954	30	-	-	-	-	984
Operating Lease Agreements	361	1,326	1,282	1,144	11	1	4,125
	15,578	19,892	1,282	1,144	11	1	37,908
Financial Liabilities							
Senior Revolving Facility	14,299	-	-	-	-	-	14,299
Accounts Payable and accrued liabilities	8,863	-	-	-	-	-	8,863
Finance Lease	16	65	27	-	-	-	108
Senior Term Loan	125	500	500	500	500	2,292	4,417
Long-term debt	306	1,296	1,346	1,418	1,469	12,777	18,612
Debentures	465	20,095	-	-	-	-	20,560
	24,074	21,956	1,873	1,918	1,969	15,069	66,859
Total	\$ 39,652	\$ 41,848	\$ 3,155	\$ 3,062	\$ 1,980	\$ 15,070	\$ 104,767

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

We have leases for facilities and equipment that are considered to be operating leases for accounting purposes and as such are not recorded on the statement of financial position.

The Company enters into US dollar currency forward contracts for periods consistent with a portion of US dollar currency transaction exposures, generally from one to three months. These are not designated as cash flow, fair value or net investment hedges. The fair value of outstanding US dollar currency forwards as at September 30, 2013 was for notional \$1.6 million.

11. SUMMARY OF QUARTERLY FINANCIAL INFORMATION

The table below provides selected quarterly financial information for the eight most recent fiscal quarters to September 30, 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.

	Sep-30 2013	Jun-30 2013	Mar-31 2013	Dec-31 2012	Sept-30 2012	Jun-30 2012	Mar-31 2012	Dec-31 2011
Sales Volumes – Tons	29,345	29,160	27,601	21,583	24,242	25,965	30,618	25,282
Revenue	\$ 39,003	\$ 40,594	\$ 38,093	\$ 28,657	\$ 33,962	\$ 39,622	\$ 43,997	\$ 35,081
Gross Profit	\$ 3,896	\$ 5,396	\$ 4,236	\$ 1,314	\$ 3,487	\$ 4,239	\$ 3,992	\$ 1,103
EBITDA	\$ 1,550	\$ 2,859	\$ 1,809	\$ (1,132)	\$ 998	\$ 1,985	\$ 1,728	\$ (1,133)
Foreign exchange gain (loss)	\$ (23)	\$ 106	\$ 26	\$ 12	\$ 163	\$ (397)	\$ 309	\$ 517
EBITDA including foreign exchange	\$ 1,527	\$ 2,965	\$ 1,835	\$ (1,120)	\$ 1,161	\$ 1,588	\$ 2,037	\$ (616)
Net Income (Loss)	\$ (43)	\$ 190	\$ (137)	\$ (2,345)	\$ (1,991)	\$ 15,125	\$ (418)	\$ (4,257)
Net Income (Loss) per Unit – Basic	\$ (0.00)	\$ 0.01	\$ (0.01)	\$ (0.11)	\$ (0.09)	\$ 0.69	\$ (0.02)	\$ (0.19)
Gross Profit per Ton	\$ 133	\$ 185	\$ 153	\$ 61	\$ 144	\$ 163	\$ 130	\$ 44
EBITDA per Ton	\$ 53	\$ 98	\$ 66	\$ (52)	\$ 41	\$ 76	\$ 56	\$ (45)

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

12. ACCOUNTING POLICIES AND ESTIMATES

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).

13. RELATED PARTY TRANSACTIONS

Transactions with associated companies

The Futura Corporation (“Futura”) is considered to be a related party to the Company, because of its share ownership interest and the fact that Mr. Doman, the sole shareholder and president of Futura, and Mr. Rosenfeld, the Executive Vice President of Futura, sit on the Board of Directors. Futura has purchased \$5.0 million of Debentures and was issued 1,875,000 Warrants. During the three and nine month periods ended September 30, 2013, Futura received interest settled in cash of \$126 thousand and \$374 thousand (2012 - \$126 thousand and \$374 thousand) on the Debentures at the stated rate of interest.

In addition, TIIL sells products to subsidiaries of a company of which Mr. Doman is Chairman and CEO, CanWel Building Materials Group Ltd. (“CanWel”), which amounted to, net of rebates, \$0.5 million and \$2.4 million (2012 - \$0.8 million and \$3.5 million) during the three and nine month periods ended September 30, 2013 and trade accounts receivable owing from CanWel as at September 30, 2013 were \$110 thousand (2012 - \$135 thousand). Outstanding trade accounts receivable from CanWel at period end are unsecured, interest free and settlement occurs in cash.

Transactions with key management personnel

Included in the definition of key management for purposes of disclosure of related party transactions are members of Board of Directors and officers of Tree Island Steel. Amounts for key management personnel for the three and nine month periods ended September 30, 2013 were \$0.4 million and \$1.4 million (2012 - \$0.6 million and \$1.7 million) which includes wages, salaries, share-based compensation (if any) and social security contributions, paid annual and sick leave, vehicle costs and bonuses. It also includes directors’ fees paid to members of the Board.

14. RISKS AND UNCERTAINTIES

Investment in Tree Island Steel is subject to a number of risks. Our income is dependent upon the wire and 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.

15. 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 September 30, 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 September 30, 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 September 30, 2013 unaudited interim condensed consolidated financial statements and this MD&A prior to its release.

TREE ISLAND STEEL LTD.

INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

September 30, 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.

November 7, 2013

Tree Island Steel Ltd.

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

(in thousands of Canadian dollars - unaudited)

	September 30	December 31
	2013	2012
Assets		
<i>Current</i>		
Cash	\$ 2,114	\$ 2,371
Accounts receivable (Note 5)	18,153	11,984
Inventories (Note 6)	32,807	32,732
Prepaid expenses	1,422	2,200
	54,496	49,287
<i>Property, plant and equipment (Note 7)</i>	29,968	31,592
<i>Other non-current assets</i>	175	223
	\$ 84,639	\$ 81,102
Liabilities		
<i>Current</i>		
Senior Revolving Facility (Note 8.1)	\$ 14,299	\$ 10,785
Accounts payable and accrued liabilities	8,863	9,649
Income taxes payable	814	1,346
Other current liabilities	104	83
Fair value of convertible instruments (Note 9)	275	312
Current portion of long term borrowings (Notes 8.2, 10, 17.3)	1,834	1,748
	26,189	23,923
<i>Convertible Debentures (Note 9)</i>	16,315	15,634
<i>Senior Term Loan (Note 8.2)</i>	3,917	4,292
<i>Long-term debt (Note 10)</i>	9,563	9,639
<i>Finance lease (Note 17.3)</i>	42	87
<i>Other non-current liabilities (Note 10)</i>	415	449
<i>Deferred income taxes</i>	1,905	1,973
	58,346	55,997
Shareholders' Equity	26,293	25,105
	\$ 84,639	\$ 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 September 30		Nine Months Ended September 30	
	2013	2012	2013	2012
Sales	\$ 39,003	\$ 33,962	\$ 117,690	\$ 117,581
Cost of goods sold (Note 6)	34,379	29,697	101,990	103,564
Depreciation (Note 7)	728	778	2,172	2,299
Gross profit	3,896	3,487	13,528	11,718
Selling, general and administrative expenses	3,074	3,267	9,482	9,306
Operating income	822	220	4,046	2,412
Foreign exchange gain (loss)	(23)	163	109	75
Gain (loss) on sale of property, plant and equipment	(42)	3	(42)	430
Gain on sale of subsidiary	231	-	231	-
Changes in financial liabilities recognized at fair value	(8)	(727)	12	(727)
Gain on renegotiated debt	-	-	-	17,805
Financing expenses (Note 11)	(1,476)	(1,422)	(4,400)	(5,975)
Income (loss) before income taxes	(496)	(1,763)	(44)	14,020
Income tax recovery (expense) (Note 14)	453	(228)	54	(1,304)
Net income (loss) for the period	\$ (43)	\$ (1,991)	\$ 10	\$ 12,716
Net income (loss) per share / unit (Note 16)				
Basic	\$ (0.00)	\$ (0.09)	\$ 0.00	\$ 0.57
Diluted	\$ (0.00)	\$ (0.09)	\$ 0.00	\$ 0.27
Weighted-average number of shares / units (Note 16)				
Basic	23,888,215	21,846,714	23,627,867	22,293,598
Diluted	23,888,215	21,846,714	24,406,130	61,365,072

See accompanying Notes to the Interim Condensed Consolidated Financial Statements

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

	Three Months Ended September 30		Nine Months Ended September 30	
	2013	2012	2013	2012
Net income (loss) for the period	(43)	(1,991)	10	12,716
Other comprehensive income (loss)				
Unrealized income (loss) on translating financial statements of subsidiary operations, net of tax	(69)	(633)	358	(590)
Comprehensive income (loss) for the period	\$ (112)	\$ (2,624)	\$ 368	\$ 12,126

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 (loss)	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
Conversion of Convertible Debentures (Note 9)	23	-	(1)	-	-	-	22
Net income	-	-	-	190	-	-	190
Other comprehensive income	-	-	-	-	-	256	256
Balance as at June 30, 2013	\$ 212,114	\$ -	\$ 692	\$ (186,723)	\$ -	\$ 277	\$ 26,360
Conversion of Convertible Debentures (Note 9)	47	-	(2)	-	-	-	45
Net loss	-	-	-	(43)	-	-	(43)
Other comprehensive loss	-	-	-	-	-	(69)	(69)
Balance as at September 30, 2013	\$ 212,161	\$ -	\$ 690	\$ (186,766)	\$ -	\$ 208	\$ 26,293
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
Conversion of phantom units	-	4	-	-	-	-	4
Normal course issuer bid	-	(57)	-	-	-	-	(57)
Net income	-	-	-	15,125	-	-	15,125
Other comprehensive income	-	-	-	-	-	257	257
Balance as at June 30, 2012	\$ -	\$ 211,194	\$ -	\$ (23,192)	\$ (159,248)	\$ 379	\$ 29,133
Conversion of phantom units	-	3	-	-	-	-	3
Normal course issuer bid	-	(39)	-	-	-	-	(39)
Net loss	-	-	-	(1,991)	-	-	(1,991)
Other comprehensive loss	-	-	-	-	-	(633)	(633)
Balance as at September 30, 2012	\$ -	\$ 211,158	\$ -	\$ (25,183)	\$ (159,248)	\$ (254)	\$ 26,473

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 September 30		Nine Months Ended September 30	
	2013	2012	2013	2012
Cash flows from operating activities				
Net income (loss) for the year	\$ (43)	\$ (1,991)	\$ 10	\$ 12,716
Adjustments for:				
Depreciation	728	778	2,172	2,299
Changes in financial liabilities recognized at fair value	(8)	727	(12)	727
(Gain) loss on sale of property, plant and equipment	42	(3)	42	(430)
Amortization of deferred financing	16	-	47	-
Gain on renegotiated debt	-	-	-	(17,805)
Net finance costs	1,460	1,422	4,353	5,975
Deferred income tax (recovery) expense	(438)	224	(68)	1,407
Fair value change on Phantom Units	-	47	-	64
Exchange revaluation on foreign denominated debt	(243)	(388)	362	(512)
Gain on sale of subsidiary	(231)	-	(231)	-
Working capital adjustments:				
Accounts Receivable	2,477	2,942	(5,948)	(770)
Inventories	2,038	(3,237)	373	(7,395)
Accounts payable and accrued liabilities	(2,168)	(444)	(893)	324
Prepaid expenses	(374)	-	796	-
Income and other taxes	(15)	3	14	(103)
Other	(361)	(74)	(1,269)	1,149
Net cash provided by (used in) operating activities	2,880	6	(252)	(2,354)
Cash flows from investing activities				
Proceeds from sale of subsidiary, net of costs	439	-	439	-
Proceeds on disposal of property, plant and equipment	-	15	-	487
Purchase of property, plant and equipment	(108)	(23)	(382)	(232)
Net cash provided by (used in) investing activities	331	(8)	57	255
Cash flows from financing activities				
(Repayment of) advance on Senior Term Loan	(125)	(125)	(375)	4,875
Repayment of long-term debt	(367)	(297)	(1,112)	(6,514)
Conversion of warrants	-	-	171	-
Interest paid	(749)	(813)	(2,286)	(2,321)
Normal course issuer bid	-	(39)	-	(301)
(Repayment) advance on Senior Revolving Facility	(2,307)	(47)	3,514	5,384
Net cash provided by (used in) financing activities	(3,548)	(1,321)	(88)	1,123
Effect of exchange rate changes on cash	(18)	(28)	26	(26)
Decrease in cash	(355)	(1,351)	(257)	(1,002)
Cash, beginning of period	2,469	4,201	2,371	3,852
Cash, end of period	\$ 2,114	\$ 2,850	\$ 2,114	\$ 2,850

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 and nine months ended September 30, 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 and nine month periods ended September 30, 2013 were authorized for issue in accordance with a resolution of the Board of Directors on November 7, 2013.

Tree Island Steel was incorporated 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 and its subsidiaries supply 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, 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 and nine month periods ended September 30, 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 and for the three and nine month period ended September 30, 2013.

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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 and for the three and nine month periods ended September 30, 2013.

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 and for the three and nine month periods ended September 30, 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 and for the three and nine month periods ended September 30, 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

	September 30		December 31
	2013		2012
Accounts Receivable			
Up to date	\$ 12,866	\$	8,092
Under 30 days past due	4,044		2,936
30-60 days past due	814		816
61-90 days past due	442		121
Over 91 days past due	169		314
	18,335		12,279
Allowance for doubtful accounts	(182)		(295)
Balance, end of period	\$ 18,153	\$	11,984

The maximum credit risk exposure by way of accounts receivable is equal to the gross amount of \$18,153 as at September 30, 2013.

Tree Island Steel Ltd.

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6. INVENTORIES

	September 30 2013	December 31 2012
Raw materials	\$ 8,931	\$ 6,562
Finished and semi finished products	16,128	18,360
Consumable supplies and spare parts	7,748	7,810
	<u>\$ 32,807</u>	<u>\$ 32,732</u>

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.

In the three and nine month periods ended September 30, 2013 and 2012, cost of goods sold was recognized for the following:

	Three Months Ended September 30		Nine Months Ended September 30	
	2013	2012	2013	2012
Opening inventory	\$ 35,161	\$ 40,355	\$ 32,732	\$ 36,123
Raw material purchases	21,735	22,809	71,532	78,686
Finished goods purchased for resale	1,304	1,351	3,799	4,740
Conversion costs	8,986	8,203	26,734	27,036
Inventories, closing	(32,807)	(43,021)	(32,807)	(43,021)
Cost of goods sold	<u>\$ 34,379</u>	<u>\$ 29,697</u>	<u>\$ 101,990</u>	<u>\$ 103,564</u>

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	216	164	393
Disposals			(194)		(194)
Foreign currency translation	47	177	185		409
As at September 30, 2013	<u>\$ 9,152</u>	<u>\$ 38,991</u>	<u>\$ 17,318</u>	<u>\$ 312</u>	<u>\$ 65,774</u>
Accumulated depreciation and impairment					
As at December 31, 2012	\$ -	\$ 26,636	\$ 6,937	\$ -	\$ 33,573
Depreciation charge for the period		1,014	1,157		2,171
Disposals			(128)		(128)
Foreign currency translation		116	73		189
As at September 30, 2013	<u>\$ -</u>	<u>\$ 27,766</u>	<u>\$ 8,039</u>	<u>\$ -</u>	<u>\$ 35,805</u>
Net book values as at:					
December 31, 2012	\$ 9,105	\$ 12,165	\$ 10,174	\$ 148	\$ 31,592
September 30, 2013	<u>\$ 9,152</u>	<u>\$ 11,225</u>	<u>\$ 9,278</u>	<u>\$ 312</u>	<u>\$ 29,968</u>

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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 September 30, 2013 the Company was in compliance with the covenants on the Senior Credit Facility.

8.2 Senior Term Loan

The following amounts are outstanding under the Senior Term Loan:

	Year of Maturity	September 30 2013	December 31 2012
Senior Term Loan, beginning of period	2016	\$ 4,792	\$ -
Advances		-	5,000
Payments		(375)	(208)
Senior Term Loan, end of period		4,417	4,792
Less current portion		(500)	(500)
		\$ 3,917	\$ 4,292

9. CONVERTIBLE DEBENTURES

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

	September 30 2013	December 31 2012
Convertible Debentures, beginning of period	\$ 15,634	\$ 14,298
Accretion of debt discount for the period	2,713	3,435
Payment of interest in cash	(1,399)	(1,940)
Conversion of debentures to Tree Island shares	(633)	(159)
Convertible Debentures, end of period	\$ 16,315	\$ 15,634

During the three months ended September 30, 2013 \$51 in principal value of Convertible Debentures were converted into 102,000 Shares resulting in an increase to shareholders capital of \$47 (net of proportionate issuance costs of \$4) offset by charges of \$44 to the Convertible Debentures, \$1 to the change of control premium, and \$2 to the conversion option.

During the nine months ended September 30, 2013, \$760 principal value of Convertible Debentures were converted into 1,520,000 Shares resulting in an increase to shareholders capital of \$677 (net of proportionate issuance costs of \$87) offset by charges of \$633 to the Convertible Debentures, \$16 to the change of control premium, and \$28 to the conversion option.

As at September 30, 2013 there was \$18,430 in principal value of Convertible Debentures outstanding (2012 – \$19,190). Each Convertible Debenture has a face value of \$100. Between September 30, 2013 and November 7, 2013, \$65,000 in Convertible Debentures were converted into 130,000 shares.

The fair value of the change of control premium as at September 30, 2013 was \$275 (2012 - \$312).

Tree Island Steel Ltd.

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10. LONG-TERM DEBT

	Year of Maturity	September 30 2013	December 31 2012
Beginning of period	2028	\$ 10,833	\$ 33,373
Gain on renegotiated debt		-	(17,805)
Payments		(1,112)	(6,812)
Foreign exchange revaluation		362	(389)
Accretion of debt discount		755	2,466
End of period		10,838	10,833
Less current portion		(1,275)	(1,194)
		\$ 9,563	\$ 9,639

A provision exists for early payment of a portion of the principal outstanding if certain conditions are met. As at September 30, 2013 a provision of \$140 (2012 - \$138) has been accrued and is included in other noncurrent liabilities.

11. FINANCING EXPENSES

	Three months ended September 30		Nine Months Ended September 30	
	2013	2012	2013	2012
Non-cash accretion of debt discount and interest on long-term debt and Convertible Debentures	\$ 723	\$ 634	\$ 2,088	\$ 3,313
Cash interest on debentures	460	482	1,399	1,453
Interest on Senior Credit Facility	171	200	466	521
Other interest and financing costs	106	96	400	323
Amortization of deferred financing costs	16	10	47	365
	\$ 1,476	\$ 1,422	\$ 4,400	\$ 5,975

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
Conversion of Convertible Debentures	51,800	23	-	23
Conversion of Warrants	-	-	-	-
Shareholders' capital - June 30, 2013	23,873,150	\$ 223,514	\$ 11,400	\$ 212,114
Conversion of Convertible Debentures	102,000	47	-	47
Conversion of Warrants	-	-	-	-
Shareholders' capital - September 30, 2013	23,975,150	\$ 223,561	\$ 11,400	\$ 212,161

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

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Warrants

4,875,000 Warrants were issued to certain investors. The Warrants have an exercise price of \$0.57 and expire November 26, 2014. No warrants were exercised for the three months ended September 30, 2013. For the nine month period ended September 30, 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 purchased \$5.0 million in principal value of Convertible Debentures and was issued 1,875,000 Warrants. During the three and nine month periods ended September 30, 2013, Futura received interest settled in cash of \$126 thousand and \$374 thousand (2012 - \$126 thousand and \$374 thousand) 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 Group Ltd. ("CanWel"), which amounted to, net of rebates, \$0.5 million and \$2.4 million (2012 - \$0.8 million and \$3.5 million) during the three and nine month periods ended September 30, 2013 and trade accounts receivable owing from CanWel as at September 30, 2013 were \$110 thousand (2012 - \$135 thousand). Outstanding trade accounts receivable from CanWel at period end are unsecured, interest free and settlement occurs in cash.

Transactions with key management personnel

Included in the definition of key management for purposes of disclosure of related party transactions are members of Board of Trustees / Directors and officers of Tree Island Steel. Amounts for key management personnel for the three and nine month periods ended September 30, 2013 were \$0.4 million and \$1.4 million (2012 - \$0.6 million and \$1.7 million) which includes wages, salaries, Share-based compensation (if any) and social security contributions, paid annual and sick leave, vehicle costs and bonuses. It also includes Directors fees paid to members of the Board.

14. INCOME TAXES

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

	Three Months Ended September 30		Nine Months Ended September 30	
	2013	2012	2013	2012
<i>Recorded in the statement of operations</i>				
Current tax (expense) recovery	\$ 15	\$ (4)	\$ (14)	\$ 103
Deferred tax expense	438	(224)	68	(1,407)
	<u>\$ 453</u>	<u>\$ (228)</u>	<u>\$ 54</u>	<u>\$ (1,304)</u>

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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.

	September 30, 2013		December 31, 2012	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial assets				
Cash	\$ 2,114	\$ 2,114	\$ 2,371	\$ 2,371
Accounts receivable	18,153	18,153	11,984	11,984
Total financial assets	\$ 20,267	\$ 20,267	\$ 14,355	\$ 14,355
Financial liabilities				
Senior Revolving Facility	\$ 14,299	\$ 14,299	\$ 10,785	\$ 10,785
Accounts payable and accrued liabilities	8,863	8,863	9,649	9,649
Finance lease	100	100	141	141
Senior Term Loan	4,417	4,417	4,792	4,792
Long-term debt	10,839	12,000	10,833	11,543
Convertible debentures	16,315	21,178	15,634	17,916
Change of control premium	275	275	312	312
Early payment option	140	140	138	138
Foreign Exchange Forward Contracts	8	8	-	-
Total financial liabilities	\$ 55,256	\$ 61,280	\$ 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 \$693.
- Convertible Debentures are traded on the TSX and the fair value disclosed is based on the closing price at period end less the fair values of the change of control premium, conversion feature, and Warrants.
- Fair value of the 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%.

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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⁾	September 30,		Level 1	Level 2	Level 3
		2013				
Change of control premium	HFT	\$ 275	\$	-	\$ -	\$ 275
Early payment option	HFT	\$ 140		-	-	140
Foreign Exchange Forward Contracts	HFT	\$ 8		8	-	-
		\$ 423	\$	8	\$ -	\$ 415

	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 September 30, 2013 and December 31, 2012:

September 30, 2013	Carrying		Contractual			Greater than 2 Years				
	Amount		Cash Flow	Less than 1 Year	1 - 2 Years					
Senior Revolving Facility	\$	14,299	\$	14,299	\$	14,299	\$	-	\$	-
Accounts payable and accrued liabilities		8,863		8,863		8,863		-		-
Finance lease (Note 17)		100		108		65		43		-
Senior Term Loan (Note 8.2)		4,417		4,417		500		1,000		2,917
Long-term debt (Note 10)		10,838		18,612		1,265		2,734		14,613
Convertible debentures (Note 9)		16,315		20,560		1,843		18,717		-
	\$	54,833	\$	66,859	\$	26,835	\$	22,494	\$	17,530

December 31, 2012	Carrying		Contractual			Greater than 2 Years				
	Amount		Cash Flow	Less than 1 Year	1 - 2 Years					
Senior Revolving Facility	\$	10,785	\$	10,785	\$	10,785	\$	-	\$	-
Accounts payable and accrued liabilities		9,649		9,649		9,649		-		-
Finance lease (Note 17)		141		158		65		93		-
Senior Term Loan (Note 8.2)		4,792		4,792		500		1,000		3,292
Long-term debt (Note 10)		10,833		19,151		1,194		2,577		15,380
Convertible debentures (Note 9)		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:

	September 30, 2013
Increase (decrease) to net comprehensive income of a \$0.01 increase in Cdn\$ to US\$ exchange rate	175

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 enters into US dollar currency forward contracts for periods consistent with a portion of US dollar currency transaction exposures, generally from one to three months. These are not designated as cash flow, fair value or net investment hedges. The fair value of outstanding US dollar currency forwards as at September 30, 2013 was \$8.

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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 \$143. The Company does not use derivative instruments to manage the interest rate risk.

16. NET INCOME PER SHARE / UNIT

The following reflects the income (Loss) and share / unit data used in the basic and diluted earnings per share / unit computations:

	Three Months Ended September 30		Nine Months Ended September 30	
	2013	2012	2013	2012
Net income (loss) for the year	(43)	(1,991)	10	12,716
Dilutive effect of:				
Convertible Debentures ⁽¹⁾	-	-	-	3,632
Phantom units ⁽²⁾	-	-	-	47
Warrants	-	-	-	-
Net income (loss) for the year adjusted for the effect of dilution	(43)	(1,991)	10	16,395

	Three Months Ended September 30		Nine Months Ended September 30	
	2013	2012	2013	2012
Weighted average number of shares / units outstanding during the period - basic	23,888,215	21,846,714	23,627,868	22,293,598
Dilutive effect of:				
Convertible Debentures ⁽¹⁾	-	-	-	38,769,200
Phantom units ⁽²⁾	-	-	-	302,274
Warrants	-	-	778,262	-
Weighted average number of shares / units outstanding during the period - diluted	23,888,215	21,846,714	24,406,130	61,365,072

(1) There was a loss for the three month periods ended September 30, 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.

(2) The Phantom Unit Plan was terminated in the third quarter of 2012.

	Three Months Ended September 30		Nine Months Ended September 30	
	2013 ⁽¹⁾	2012	2013 ⁽¹⁾	2012
Net income (loss) per share / unit				
Basic	(0.00)	(0.09)	0.00	0.57
Diluted	(0.00)	(0.09)	0.00	0.27

Between September 30, 2013 and November 7, 2013, \$65,000 in Convertible Debentures were converted into 130,000 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.

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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 \$33,057 (US\$32,141) at September 30, 2013 and imported finished goods purchases of \$983 (US\$956).

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	\$ 58	\$ 65	\$ 54
1 to 5 years	43	42	93	87
More than 5 years	-	-	-	-
Total minimum lease payments	108	100	158	141
Less amounts representing finance charges	(8)	-	(17)	-
Present value of minimum lease payments	\$ 100	\$ 100	\$ 141	\$ 141

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, residential construction, commercial construction, agricultural, and specialty. Revenues for each group for the three and nine month periods ended September 30, 2013 and 2012 were as follows:

	Three Months Ended September 30		Nine Months Ended September 30	
	2013	2012	2013	2012
Industrial	\$ 15,563	\$ 11,198	\$ 40,574	\$ 40,467
Residential construction	11,565	10,983	35,211	36,174
Commercial construction	6,336	6,622	20,100	18,466
Agricultural	2,253	2,252	10,959	11,041
Specialty	3,286	2,907	10,846	11,433
	\$ 39,003	\$ 33,962	\$ 117,690	\$ 117,581

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

Tree Island Steel Ltd.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the three and nine months ended September 30, 2013 and 2012

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

Geographic information

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

	Three Months Ended September 30		Nine Months Ended September 30	
	2013	2012	2013	2012
Sales ⁽¹⁾				
Canada	\$ 13,291	\$ 12,724	\$ 42,961	\$ 47,746
United States	24,721	20,380	71,484	66,561
Other	991	858	3,245	3,274
	\$ 39,003	\$ 33,962	\$ 117,690	\$ 117,581

⁽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.

	September 30		December 31	
	2013	2012	2013	2012
Non-current assets				
Canada	\$ 23,513	\$ 24,948		
United States	6,628	6,801		
China	2	66		
	\$ 30,143	\$ 31,815		

19. DISPOSITION OF SUBSIDIARY

In July, the Company entered into a share purchase agreement with an arm's length party. The Company has agreed to sell to the Purchaser its holding in GIP International, a wholly owned subsidiary, which represented a portion of the Company's international business, at a purchase price of \$510,240 (USD 493,606). At the time of completion of the sale, the shares had a net book value of \$207,761. After deducting \$71,292 in costs related to the sale, a gain of \$231,187 was realized. Currently, all the terms of the agreement have been met.

SHAREHOLDER INFORMATION

TREE ISLAND STEEL

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

Corporate Head Office:

3933 Boundary Road
Richmond, B.C.
Canada, V6V 1T8

Website:

www.treeisland.com

Investor Relations:

Nancy Davies
Chief Financial Officer and
Vice President, Finance
604-523-4587
ndavies@treeisland.com

Auditors:

Ernst & Young LLP
Vancouver, B.C.