



WIRE & WIRE PRODUCTS

ESTABLISHED IN 1964



Q1 2014 Quarterly Results

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

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

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

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TO OUR SHAREHOLDERS

Letter to Shareholders

2014 is off to a promising start, with continued demand in certain of our growing key end-markets, resulting in strong operational and financial performance during the first quarter. The pace and momentum we had in 2013, has carried itself into the first quarter of 2014 with growth in revenue, gross profit, EBITDA and net earnings. The first quarter results and our outlook are indicative of the successful execution of the strategies and steps we undertook during the past quarters, which have resulted in a fundamentally stronger business, able to deliver sustainable revenue growth and profitability.

In the first quarter we took advantage of growing sales, established new customer relationships and continued to grow Tree Island's footprint while leveraging our brand, quality and service, to maximize profitability. The Company generated revenue of \$45.9 million, compared to \$38.1 million during the same period in 2013, and sales volumes of 35,136 tons, compared to 27,601 tons in 2013. During this period, gross profit improved by 25 percent to \$5.3 million. As a result of increased competition in certain of our growing recovering end-markets, gross profit per ton remained relatively unchanged at \$151 per ton versus the \$153 per ton achieved in 2013. The improvement in gross profit, together with our ongoing focus on cost management, resulted in an 18 percent increase in EBITDA to \$2.1 million versus EBITDA of \$1.8 million during the same period last year.

Tree Island's financial performance is a clear indication of measurable year-over-year growth and demonstrative of a stronger company in an improved marketplace. Strength and demand in the US residential and commercial construction markets continue to fuel our growth and profitability. At the same time, we are closely monitoring other recovering growth markets as they regain strength and momentum. We are encouraged with the early pace of activity in the marketplace and as such maintain a positive view for the remainder of 2014, while we continue to further strengthen and expand our sustainable platform for growth and profitability for years to come.

We remain cautiously optimistic with our prospects for growth and demand in our end markets leading to firmer pricing and increased volume sales. In closing, I would like to thank our employees for continuing to build Tree Island's reputation for product quality and service leadership, to our customers, suppliers and investors, I extend my sincere appreciation for your ongoing support and working with us.

Sincerely,

Amar S. Doman
Chairman of the Board of Directors

Dale R. MacLean
Director, President and Chief Executive Officer

MANAGEMENT'S DISCUSSION AND ANALYSIS

March 31, 2014 and 2013

The following is a discussion of the financial condition and results of operations of Tree Island Steel Ltd. ("Tree Island Steel" or the "Company") and its wholly owned operating subsidiary Tree Island Industries Limited ("TII") (together with Tree Island Steel, referred to as "Tree Island"). This discussion is current to May 13, 2014 and should be read in conjunction with the unaudited interim condensed consolidated financial statements for the three months ended March 31, 2014. 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, 2013, can be found at www.sedar.com or on Tree Island Steel's website at www.treeisland.com.

1. FORWARD-LOOKING STATEMENTS AND RISK

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

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

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

2. NON-IFRS MEASURES

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

3. TREE ISLAND

3.1. About Tree Island

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

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

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

There were 60,687,650 shares outstanding as of March 31, 2014 and as of May 13, 2014.

The Company announced on January 27, 2014 that it would redeem all outstanding convertible debentures by March 4, 2014. Between January 1, 2014 and March 3, 2014 \$15,969,400 Convertible Debentures were converted into Shares of the Company. On March 4, 2014 the Company redeemed the remaining \$174,600 principal on the outstanding convertible debentures.

On March 14, 2014 the Company announced a share consolidation on the basis of one post consolidation share for every two pre-consolidation shares. The Share consolidation is subject to TSX and shareholder approval.

As at March 31, 2014, the total number of Warrants remaining outstanding was 4,372,500. As at May 13, 2014 the total number of Warrants remaining outstanding is the same.

3.2. About TII

Organizational Structure

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

Products

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

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



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

Markets

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

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

Seasonality

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

4. DEVELOPMENTS AND FIRST QUARTER 2014 BUSINESS OVERVIEW

Business Overview

In Canada and US, we saw slower than expected economic growth, impacted by severe weather in the Prairies of Canada, and most of the Eastern Region of Canada and US. In response to these challenges, we continue to leverage our diversified product mix to strengthen our market position and focus on key end markets where we saw improved market demand for our products. While we can give no assurances, we remain cautiously optimistic that the economic and construction activity growth will return and accelerate through the remainder of the year. We should also see improvements in our other key markets.

For the three months ended March 31, 2014, revenues increased to \$45.9 million versus \$38.1 million for the first quarter in 2013. Volumes also increased by 27.3% in the first quarter, primarily due to increasing demand for industrial and to a lesser degree construction products. Gross profit also improved to \$5.3 million representing a 25.4% improvement when compared to \$4.2 million in the first quarter of 2013. Tree Island achieved EBITDA of \$2.1 million versus EBITDA of \$1.8 million for the same period in 2013. The improvements in revenues, gross profit and EBITDA are the result of our ongoing focus on profitable growth, cost management and operational efficiencies.

Senior Credit Facility

On April 21st, 2014, the Company renewed its senior banking facility with Wells Fargo Capital Finance Corporation Canada ("Wells Fargo"). The five year senior secured committed banking facility (the "Senior Credit Facility") has been increased from \$40.0 million to \$60.0 million and now matures in April of 2019. Under the terms of the Senior Credit Facility, up to \$60.0 million may be borrowed for Tree Island's financing requirements in Canadian and/or US dollars of which \$4.125 million has been advanced as a term loan. Interest is charged at variable rates based on the Canadian and/or US Prime rate and the Canadian B.A. rate and/or the Eurodollar rate. The amount advanced under the Senior Credit Facility at any time is limited to a defined percentage of inventories, accounts receivable and real estate, less certain reserves. The Senior Credit Facility is secured by a first charge over Tree Island's assets supported by the appropriate guarantees, pledges and assignments, and requires that certain covenants be met by Tree Island.

Share Consolidation

On March 14, 2014 the Company announced that it will consolidate its common shares on the basis of one post-consolidation Share for every two pre-consolidation Shares subject to the approval of the Toronto Stock Exchange and the Company's shareholders by special resolution at the Company's annual and special meeting of Shareholders currently scheduled to be held on May 13, 2014. The principal effects of the Consolidation will be that the number of Shares issued and outstanding will be reduced from 60,687,650 Shares outstanding as at May 13, 2014 to approximately 30,343,825 Shares. The Consolidation will not materially affect any Shareholder's percentage ownership in the Company or their proportionate voting rights.

There are currently 4,372,500 common share purchase warrants outstanding, each exercisable for one common share at an exercise price of \$0.57. Pursuant to the terms of the warrants, after giving effect to the Share Consolidation, the number of warrants outstanding will be adjusted by the same basis of one post-consolidation warrant for every two pre-consolidation warrants to 2,186,250 and each warrant will be exercisable for one common share. The exercise price will also be adjusted accordingly such that the post-consolidation exercise price is \$1.14.

Redemption of Debentures

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

Trade Action Reviews

During the first quarter of 2014, U.S. Department of Commerce announced an antidumping and countervailing duty petition against carbon and certain steel alloy wire rod from The People's Republic of China. The preliminary determinations are due in

the second quarter of 2014, or later. We are monitoring the case closely and are in the process of evaluating any potential impact for Tree Island.

Outlook

We remain cautiously optimistic with the moderate improvements in the economic environment. Our outlook is for continuing improvement following along with the modest pace of recovery in the United States and economic activity in Canada. Our strategies are focused on matching competitive pricing with raw material costs, closely managing costs and leveraging our capacity utilization. Our priority continues to be for sustainable revenue growth and profitability for the long run. We will implement any changes to our diverse product, so as to focus on profitable sales, manage our inventories to minimize the impact in steel costs fluctuations, carefully manage costs, and continue to drive profitable growth in an improved economic environment.

5. RESULTS FROM OPERATIONS

Three Months Ended March 31

	2014	2013
Summary of Results (\$000's except for tonnage and per unit amounts)		
Sales Volumes – Tons ⁽¹⁾	35,136	27,601
Sales	\$ 45,923	\$ 38,093
Cost of sales	(39,913)	(33,137)
Depreciation	(698)	(720)
Gross profit	5,312	4,236
Selling, general and administrative expenses	(3,875)	(3,147)
Operating income	1,437	1,089
Foreign exchange gain	524	26
Loss on sale of property, plant and equipment	(10)	-
Changes in financial liabilities recognized at fair value	(138)	20
Financing Expenses	(1,240)	(1,439)
Income (loss) before income taxes	573	(304)
Income tax (expense) recovery	(212)	167
Net income (loss)	361	(137)
Operating income	1,437	1,089
Add back depreciation	698	720
EBITDA ⁽²⁾	2,135	1,809
Foreign exchange gain	524	26
EBITDA including foreign exchange gain	2,659	1,835
Net income (loss)	361	(137)
Add back significant non-cash items		
Non-cash financing expenses	263	654
Changes in financial liabilities recognized at fair value	138	(20)
Deferred tax	203	(179)
Adjusted net income ⁽²⁾	965	318
Per share		
Net income (loss) per share - basic	0.01	(0.01)
Net income (loss) per share - fully diluted	0.01	(0.01)
Per ton		
Gross profit per ton	151	153
EBITDA per ton	61	66

	As at March 31, 2014	As at December 31, 2013
Financial position		
Total assets	102,940	85,635
Total non-current financial liabilities	13,594	13,536

(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, 2014 AND 2013

	Q1 2014	Q1 2013	Variance	
SALES	\$45,923	\$38,093	\$7,830	20.6%

During the three months ended March 31, 2014, we generated sales revenue of \$45.9 million, an increase of \$7.8 million, or 20.6%, from the same period in 2013. The increase in revenue primarily reflects increased volumes of 27.3%, largely from our industrial markets in Canada and the US, and our residential markets in the US. The increase in volume is offset by lower price per ton when compared to the prior period.

Sales revenues and volumes by market were as follows:

Market	Three Months Ended March 31, 2014				Three Months Ended March 31, 2013			
	Revenue	% of Revenue	Tons	% of Sales Volumes	Revenue	% of Revenue	Tons	% of Sales Volumes
Industrial	\$ 17,395	37.8%	15,379	43.8%	\$ 11,195	29.4%	9,378	34.0%
Residential	12,746	27.8%	8,737	24.9%	10,632	27.9%	6,963	25.2%
Commercial	6,889	15.0%	5,988	17.0%	6,682	17.5%	5,695	20.6%
Agricultural	5,174	11.3%	4,143	11.8%	5,826	15.3%	4,445	16.1%
Specialty	3,719	8.1%	889	2.5%	3,758	9.9%	1,120	4.1%
Total	\$ 45,923	100.0%	35,136	100.0%	\$ 38,093	100.0%	27,601	100.0%

Industrial volumes increased 64% primarily from sales of galvanized chain link, low and high carbon galvanized wire for the Canadian industrial markets and high carbon bright wire for the US industrial markets. The residential construction market saw increases of 25% coming from stucco products and other residential products into the US market. Commercial construction saw increases of 5%, while Agricultural saw decreases of 7% due to unfavourable weather conditions. Sales to the specialty sector decreased in volume compared to the prior period due to custom processing that did not occur to the same extent in 2014. However, with the sale of higher value products in this sector, revenue tracked similarly to the prior period.

The company's sales by currency converted to Canadian dollars is as follows:

	Three Months Ended March 31					
	2014	% of Total	2013	% of Total	Variance \$	Variance %
Sales denominated in US\$ (2014 - US\$ 26,547, 2013 - US\$21,399)	\$ 29,294	63.8%	\$ 21,589	56.7%	\$ 7,705	35.7%
Sales in Cdn\$	16,629	36.2%	16,504	43.3%	125	0.8%
Total Sales	\$ 45,923	100.0%	\$ 38,093	100.0%	\$ 7,830	20.6%
<i>Average Canadian dollar exchange rate in the period for one US dollar</i>	<i>1.1035</i>		<i>1.0089</i>			

The company's sales by geographic area is as follows:

	Three Months Ended March 31					
	2014	% of Total	2013	% of Total	Variance \$	Variance %
Canada	\$ 16,558	36.0%	\$ 16,448	43.2%	\$ 110	0.7%
United States	28,184	61.4%	20,582	54.0%	7,602	36.9%
International	1,181	2.6%	1,063	2.8%	118	11.1%
Total Sales	\$ 45,923	100.0%	\$ 38,093	100.0%	\$ 7,830	20.6%

During the first quarter of 2014, 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.

	Q1 2014	Q1 2013	Variance	
COST OF SALES	\$39,913	\$33,137	\$6,776	20.4%

For the three months ended March 31, 2014, cost of sales increased by \$6.8 million or 20.4% from the same period last year. This increase in cost of sales reflects 27.3% increase in volumes sold in the period offset by lower overall raw material costs, which came in 5.7% lower than the prior year after taking into effect the negative impact of the weakening Canadian dollar.

	Q1 2014	Q1 2013	Variance	
GROSS PROFIT	\$5,312	\$4,236	\$1,076	25.4%

As a result of the increased volume during the three months ended March 31, 2014, gross profit increased \$1.1 million or 25.4%. The gross profit margin was 11.6% versus 11.1% in the prior period. The increase in volumes compared to prior period, resulted in the increased total gross profit.

The company's gross profit by currency converted to Canadian dollars is as follows:

	Three Months Ended March 31					
	2014	% of Total	2013	% of Total	Variance \$	Variance %
Gross Profit denominated in US\$ (2014 - US\$2,733, 2013 - US\$ 1,950)	\$ 3,016	56.8%	\$ 1,967	46.4%	\$ 1,049	53.3%
Gross Profit in Cdn\$	2,296	43.2%	2,269	53.6%	27	1.2%
Total Gross Profit	\$ 5,312	100.0%	\$ 4,236	100.0%	\$ 1,076	25.4%
Average Canadian dollar exchange rate in the period for one US dollar	1.1035		1.0089			

	Q1 2014	Q1 2013	Variance	
SELLING, GENERAL, AND ADMINISTRATIVE EXPENSES	\$3,875	\$3,147	\$728	23.1%

SG&A expenses increased largely due to \$0.5 million for compensation related amounts, \$0.1 million for travel expenses, and \$0.1 million for increasing our sales force. Additional travel expense and salaries expense were incurred to support additional sales efforts in 2014.

	Q1 2014	Q1 2013	Variance	
EBITDA	\$2,135	\$1,809	\$326	18.0%

EBITDA for the three months ended March 31, 2014 increased by \$0.3 million. The 18% improvement comes from growth in volumes and slightly lower raw material costs.

	Q1 2014	Q1 2013	Variance	
FINANCING EXPENSES	\$1,240	\$1,439	\$(199)	(13.8)%

For the three months ended March 31, 2014, financing expenses decreased largely the result of a decrease in non cash interest on the convertible debentures which were all converted or redeemed in Q1, 2014, offset by an increase in other interest related to interest costs on offshore inventory purchases. The components of financing expense are below:

	Three months ended March 31			
	2014		2013	
Non-cash accretion of debt discount and interest on long term debt and Convertible Debentures	\$	263	\$	654
Cash interest on Convertible Debentures		534		482
Interest on Senior Credit Facility		196		182
Other interest and financing costs		231		105
Financing transaction costs and amortization of deferred financing costs		16		16
	\$	1,240	\$	1,439

	Q1 2014	Q1 2013	Variance	
FOREIGN EXCHANGE GAIN	\$524	\$26	\$498	1915.4%

For the three months ended March 31, 2014 we recorded a gain on foreign exchange primarily the result of gains realized on forward currency contracts. 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.

	Q1 2014	Q1 2013	Variance	
INCOME TAX (EXPENSE) RECOVERY	\$(212)	\$167	\$379	226.9%

Current income tax expense represents \$9 thousand (2013 – \$12 thousand expense) and deferred income tax expense represents \$203 thousand (2013 - \$179 thousand recovery). The deferred income tax expense in the current period is the result of a decrease of loss carry forward balances to offset taxable income being generated from our Canadian operation. The income tax expense was based on the statutory tax rate of 26.0% (2013 – 25.0%) applied to the income of subsidiaries before taxes, with adjustments for permanent differences between accounting and taxable income.

	Q1 2014	Q1 2013	Variance	
NET INCOME (LOSS)	\$361	\$(137)	\$498	363.5%

The increase in income for the three months ended March 31, 2014 of \$0.5 million was the result of increase in operating income of \$0.3 million, and decrease in financing expenses of \$0.2 million.

	Q1 2014	Q1 2013	Variance	
ADJUSTED NET INCOME (LOSS)	\$965	\$318	\$647	203.5%

Adjusted for the impact of certain non-cash items recognized in net income, Adjusted Net Income for the three months ended March 31, 2014 increased by \$0.6 million due to an increase in deferred taxes which was the result of decreased loss carry forward balances to apply against taxable income being generated from our Canadian operation, and a loss on financial liabilities recognized at fair value. These items were offset by a decrease in non-cash financing expenses related to the convertible debentures, which were converted or redeemed in the first quarter thereby reducing accretion expenses.

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 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 March 31, 2014 compared to 2013 is provided below (\$000's):

	March 31 2014	March 31 2013
Investment in working capital assets		
Cash	\$ 1,571	\$ 2,569
Accounts receivable	24,502	21,616
Inventories	43,946	34,618
Other current assets	2,805	1,108
	<u>\$ 72,824</u>	<u>\$ 59,911</u>
Less current liabilities		
Senior Revolving Facility	(26,325)	(16,981)
Accounts payable and accrued liabilities	(14,441)	(13,331)
Other current liabilities	(331)	(1,714)
Current portion of long-term debt	(1,918)	(1,774)
	<u>(43,015)</u>	<u>(33,800)</u>
Net investment in working capital	<u>\$ 29,809</u>	<u>\$ 26,111</u>

As at March 31, 2014 there was a significant increase in accounts receivable as a result of the higher volumes in the first quarter of 2014 compared to first quarter of 2013. Inventories increased in total mainly due to an increase in raw material purchases to service the additional volumes projected in both Canadian and US operations. Finished goods inventory increased to support demand sales volume in Q2 2014. 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 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.

7.2. Liquidity and Capital

Cash Flow

Following is a summary of our cash flow for the three months ended March 31, 2014 and 2013 (\$000's – bracketed figures indicate use of cash):

	Three Months Ended March 31	
	2014	2013
Cash provided by (used in) operating activities	\$ 3,086	\$ 2,049
Working capital adjustments	(10,255)	(6,730)
Net cash (used in) provided by operating activities	\$ (7,169)	\$ (4,681)
Net cash (used in) provided by investing activities	\$ (95)	\$ (215)
Cash flows from financing activities		
Repayment of Senior Term Loan	(125)	(125)
Repayment of long-term debt	(502)	(386)
Conversion of Warrants	115	171
Interest paid	(947)	(778)
Redemption of Debentures	(175)	-
Advance on Senior Revolving Facility	9,197	6,196
Net cash provided by (used in) financing activities	\$ 7,563	\$ 5,078
Exchange rate changes on foreign cash balances	8	16
Increase in cash balances	\$ 307	\$ 198

During the three months ended March 31, 2014, cash flow provided by operating activities was \$3.1 million compared to \$2.0 million in 2013 with the increases resulting mainly from increased EBITDA.

During the three months ended March 31, 2014 working capital adjustments had a negative impact on cash flow mainly due to increase in inventories.

Cash flows used in investing activities were primarily the result of maintenance capital expenditure during the three month period ended March 31, 2014 and 2013.

In regards to the long-term debt, during the three months ended March 31, 2014 we made payments of \$0.5 million compared to \$0.4 million in 2013. The increase was due to additional payments being made under an early payment option.

During the three month period we drew \$9.2 million (2013 - \$6.2 million draw) on the Senior Revolving Facility to support working capital needs in the first quarter of 2014.

Senior Credit Facility

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

As at March 31, 2014 the availability was in excess of the Availability Test and the Company was in compliance with its covenants on the Senior Credit Facility.

On April 21, 2014, the Company announced the renewal of its senior banking facility with Wells Fargo. The five year senior secured committed banking facility has been increased from \$40.0 million to \$60.0 million and now matures April 2019. Under the terms of the Senior Credit Facility, up to \$60.0 million may be borrowed for Tree Island's financing requirements in Canadian and/or US dollars of which \$4.125 million has been advanced as a term loan. Additionally, a \$10.0 million Letter of Credit sub-facility will enable Tree Island to open documentary letters of credit for raw material purchases. Interest is charged at variable rates based on the Canadian and/or US Prime rate and the Canadian B.A. rate and/or the Eurodollar rate. The amount advanced under the Senior Credit Facility at any time is limited to a defined percentage of inventories, accounts receivable and real estate,

less certain reserves. The Senior Credit Facility is secured by a first charge over Tree Island's assets supported by the appropriate guarantees, pledges and assignments, and requires that certain covenants be met by Tree Island.

Long-Term Debt Agreements

Tree Island entered into a Second Amendment to the long-term debt agreement ("Agreement") on June 11, 2012. Under the terms of this Agreement 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.

8. CAPITAL EXPENDITURES AND CAPACITY

For the three months ended March 31, 2014, we made capital expenditures of \$95 thousand (2013 - \$215 thousand) made up primarily of maintenance capital. We have planned capital expenditures for the 2014 fiscal year to a level which we believe will be sufficient to maintain the existing productive capacity of our manufacturing operations. Non-maintenance capital is funded out of our Senior Credit Facility and maintenance capital is funded from cash generated by operations. We anticipate that we will continue to have sufficient capacity to meet projected future demand.

9. CONTRACTUAL OBLIGATIONS AND COMMITMENTS

As of March 31, 2014, we were committed to the contracts, operating leases and debt repayments (including scheduled interest payments on interest bearing debt) set out below, which will be financed through working capital and our Senior Revolving Facility.

	2014	2015	2016	2017	2018	Thereafter	Total
Commitments							
Wire Rod Purchases	\$ 52,990	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 52,990
Finished Goods	2,229	-	-	-	-	-	2,229
Operating Lease Agreements	1,187	1,305	1,194	32	22	43	3,783
	56,406	1,305	1,194	32	22	43	59,002
Financial Liabilities							
Senior Revolving Facility	26,325	-	-	-	-	-	26,325
Accounts Payable and accrued liabilities	14,441	-	-	-	-	-	14,441
Finance Lease	52	29	-	-	-	-	81
Senior Term Loan	317	413	413	413	413	2,198	4,167
Long-term debt	1,072	1,459	1,536	1,592	1,592	11,814	19,065
	42,207	1,901	1,949	2,005	2,005	14,012	64,079
Total	\$ 98,613	\$ 3,206	\$ 3,143	\$ 2,037	\$ 2,027	\$ 14,055	\$ 123,081

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

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

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 March 31, 2014 was for notional \$8.6 million and the mark-to-market loss on those contracts was \$27 thousand.

10. SUMMARY OF QUARTERLY FINANCIAL INFORMATION

The table below provides selected quarterly financial information for the eight most recent fiscal quarters to March 31, 2014 (\$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 2014	Dec-31 2013	Sep-30 2013	Jun-30 2013	Mar-31 2013	Dec-31 2012	Sept-30 2012	Jun-30 2012
Sales Volumes – Tons	35,136	27,295	29,345	29,160	27,601	21,583	24,242	25,965
Revenue	\$ 45,923	\$ 35,748	\$ 39,003	\$ 40,594	\$ 38,093	\$ 28,657	\$ 33,962	\$ 39,622
Gross Profit	\$ 5,312	\$ 3,769	\$ 3,896	\$ 5,396	\$ 4,236	\$ 1,314	\$ 3,487	\$ 4,239
EBITDA	\$ 2,135	\$ 1,000	\$ 1,550	\$ 2,859	\$ 1,809	\$ (1,132)	\$ 998	\$ 1,985
Foreign exchange gain (loss)	\$ 524	\$ 5	\$ (23)	\$ 106	\$ 26	\$ 12	\$ 163	\$ (397)
EBITDA including foreign exchange	\$ 2,659	\$ 1,005	\$ 1,527	\$ 2,965	\$ 1,835	\$ (1,120)	\$ 1,161	\$ 1,588
Net Income (Loss)	\$ 361	\$ (665)	\$ (43)	\$ 190	\$ (137)	\$ (2,345)	\$ (1,991)	\$ 15,125
Net Income (Loss) per Unit – Basic	\$ 0.01	\$ (0.03)	\$ (0.00)	\$ 0.01	\$ (0.01)	\$ (0.11)	\$ (0.09)	\$ 0.69
Gross Profit per Ton	\$ 151	\$ 138	\$ 133	\$ 185	\$ 153	\$ 61	\$ 144	\$ 163
EBITDA per Ton	\$ 61	\$ 37	\$ 53	\$ 98	\$ 66	\$ (52)	\$ 41	\$ 76

- 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).

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 significant accounting policies are described in Note 3 of the December 31, 2013 audited consolidated financial statements, note 3 to the March 31, 2014 interim condensed consolidated financial statements and the Annual Information Form for the year ended December 31, 2013.

Critical Accounting Estimates

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

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 share ownership interest and the fact that Mr. Doman, the sole shareholder and president of Futura, and Mr. Rosenfeld, the Executive Vice President of Futura, sit on the Board of Directors. Futura had purchased \$5.0 million of Debentures and was issued 1,875,000 Warrants. Subsequent to December 31, 2013, Futura converted \$5.0 million of Debentures into 10.0 million shares of the Company. Based on Tree Island Steel’s fully diluted common shares as at March 31, 2014, Futura owns 29.1% of the fully diluted common shares of the Company.

In addition, the Company 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, \$1.2 million (2013 - \$1.3 million) during the three months ended March 31, 2014 and trade accounts receivable owing from CanWel as at March 31, 2014 were \$0.5 million (2013 - \$1.1 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. Amounts for key management personnel for the three months ended March 31, 2014 were \$0.5 million (2013 - \$0.4 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 wire products business, which is susceptible to a number of risks. A detailed discussion of our significant business risks is provided in the 2013 Annual Information Form under the heading “Risk Factors” which can be found at www.sedar.com. 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, 2014. 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, 2014 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, 2014 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, 2014 and 2013

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 13, 2014

Tree Island Steel Ltd.

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

(in thousands of Canadian dollars - unaudited)

	March 31	December 31
	2014	2013
Assets		
<i>Current</i>		
Cash	\$ 1,571	\$ 1,264
Accounts receivable (Note 5)	24,502	16,960
Inventories (Note 6)	43,946	35,307
Prepaid expenses	2,805	1,691
	72,824	55,222
<i>Property, plant and equipment (Note 7)</i>	29,970	30,255
<i>Other non-current assets</i>	146	158
	\$ 102,940	\$ 85,635
Liabilities		
<i>Current</i>		
Senior Revolving Facility (Note 8.1)	\$ 26,325	\$ 16,370
Accounts payable and accrued liabilities	14,441	7,619
Income taxes payable	198	201
Other current liabilities	133	119
Fair value of convertible instruments (Note 9)	-	241
Convertible Debentures (Note 9)	-	14,696
Current portion of long term borrowings (Notes 8.2,10,17.3)	1,918	1,911
	43,015	41,157
<i>Senior Term Loan (Note 8.2)</i>	3,747	3,792
<i>Long-term debt (Note 10)</i>	9,836	9,718
<i>Finance lease (Note 17.3)</i>	11	26
<i>Other non-current liabilities (Note 10)</i>	589	675
<i>Deferred income taxes (Note 14)</i>	2,690	2,487
	59,888	57,855
Shareholders' Equity	43,052	27,780
	\$ 102,940	\$ 85,635

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 and per-share amounts - unaudited)*

	Three Months Ended March 31	
	2014	2013
Sales	\$ 45,923	\$ 38,093
Cost of goods sold (Note 6)	39,913	33,137
Depreciation	698	720
Gross profit	5,312	4,236
Selling, general and administrative expenses	3,875	3,147
Operating income	1,437	1,089
Foreign exchange gain	524	26
Loss on sale of property, plant and equipment	(10)	-
Changes in financial liabilities recognized at fair value	(138)	20
Financing expenses (Note 11)	(1,240)	(1,439)
Income (loss) before income taxes	573	(304)
Income tax (expense) recovery (Note 14)	(212)	167
Net income (loss) for the year	\$ 361	\$ (137)
Net income (loss) per share (Note 16)		
Basic	\$ 0.01	\$ (0.01)
Diluted	\$ 0.01	\$ (0.01)
Weighted-average number of shares (Note 16)		
Basic	50,222,183	23,113,661
Diluted	52,330,843	23,113,661

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 - unaudited)*

	Three Months Ended March 31	
	2014	2013
Net income (loss) for the year	361	(137)
Other comprehensive income		
Unrealized income on translating financial statements of subsidiary operations	41	171
Comprehensive income for the year	\$ 402	\$ 34

See accompanying Notes to the Interim Condensed Consolidated Financial Statements

Tree Island Steel Ltd.

INTERIM CONDENSED CONSOLIDATED STATEMENT OF SHAREHOLDERS EQUITY

(in thousands of Canadian dollars - unaudited)

	Shareholders' Capital (Note 12)	Warrants and Equity Component of Convertible Debentures	Accumulated Deficit	Accumulated Other Comprehensive Income (loss)	Total
Balance as at December 31, 2013	\$ 214,307	\$ 606	\$ (187,431)	\$ 298	\$ 27,780
Conversion of Convertible Debentures (Note 9)	15,340	(585)	-	-	14,755
Conversion of Warrants (Note 12)	115	-	-	-	115
Net Income	-	-	361	-	361
Other comprehensive income	-	-	-	41	41
Balance as at March 31, 2014	\$ 229,762	\$ 21	\$ (187,070)	\$ 339	\$ 43,052
Balance as at December 31, 2012	\$ 211,311	\$ 720	\$ (186,776)	\$ (150)	\$ 25,105
Conversion of Convertible Debentures	607	(25)	-	-	582
Conversion of Warrants	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

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 - unaudited)

	Three Months Ended March 31	
	2014	2013
Cash flows from operating activities		
Net income (loss) for the year	\$ 361	\$ (137)
Adjustments for		
Depreciation	698	720
Changes in financial liabilities recognized at fair value	138	(20)
Loss on sale of property, plant and equipment	10	-
Amortization of deferred financing	16	16
Net finance costs	1,224	1,423
Deferred income tax expense (recovery)	203	(179)
Exchange revaluation on foreign denominated debt	436	226
Working capital adjustments:		
Accounts Receivable	(7,316)	(9,526)
Inventories	(8,088)	(1,648)
Accounts payable and accrued liabilities	6,563	3,595
Prepaid expenses	(1,085)	1,099
Income and other taxes	9	12
Other	(338)	(262)
Net cash used in operating activities	(7,169)	(4,681)
Cash flows from investing activities		
Purchase of property, plant and equipment	(95)	(215)
Net cash used in investing activities	(95)	(215)
Cash flows from financing activities		
Repayment of Senior Term Loan	(125)	(125)
Repayment of long-term debt	(502)	(386)
Conversion of warrants	115	171
Interest paid	(947)	(778)
Redemption of debentures	(175)	-
Advance on Senior Revolving Facility	9,197	6,196
Net cash used in provided by financing activities	7,563	5,078
Effect of exchange rate changes on cash	8	16
Increase in cash	307	198
Cash, beginning of period	1,264	2,371
Cash, end of year	\$ 1,571	\$ 2,569

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, 2014 and 2013

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

1. NATURE OF BUSINESS

These consolidated financial statements of Tree Island Steel Ltd. ("Tree Island Steel" or the "Company") for the three months ended March 31, 2014 were authorized for issue in accordance with a resolution of the Board of Directors on May 13, 2014.

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

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

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

2. BASIS OF PREPARATION

The interim condensed consolidated financial statements as at and for the three months ended March 31, 2014 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, 2013 and do not include all information required for the full annual financial statements. Certain comparative information has been reclassified to conform to the presentation adopted during the period.

3. SIGNIFICANT ACCOUNTING POLICIES, CRITICAL ACCOUNTING JUDGEMENTS AND ESTIMATES

The accounting policies, methods of application, and critical judgements and estimates used in the preparation of these interim condensed consolidated financial statements are consistent with those disclosed in the annual consolidated financial statements as at December 31, 2013 except as noted below:

Investment Entities (Amendments to IFRS 10, IFRS 12 and IAS 27)

These amendments provide an exception to the consolidation requirement for entities that meet the definition of an investment entity under IFRS 10 Consolidated Financial Statements. The exception to consolidation requires investment entities to account for subsidiaries at fair value through profit or loss. These amendments have no impact to the Company, since none of the entities in the Company qualifies to be an investment entity under IFRS 10.

Offsetting Financial Assets and Financial Liabilities - Amendments to IAS 32

These amendments clarify the meaning of 'currently has a legally enforceable right to set-off' and the criteria for non-simultaneous settlement mechanisms of clearing houses to qualify for offsetting. These amendments have no impact on the Company.

Tree Island Steel Ltd.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the three months ended March 31, 2014 and 2013

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

Novation of Derivatives and Continuation of Hedge Accounting – Amendments to IAS 39

These amendments provide relief from discontinuing hedge accounting when novation of a derivative designated as a hedging instrument meets certain criteria. These amendments have no impact to the Company.

Recoverable Amount Disclosures for Non-Financial Assets – Amendments to IAS 36

These amendments remove the unintended consequences of IFRS 13 Fair Value Measurement on the disclosures required under IAS 36 Impairment of Assets. In addition, these amendments require disclosure of the recoverable amounts for the assets or cash-generating units (CGUs) for which an impairment loss has been recognized or reversed during the period. These amendments have no impact to the Company.

Levies - IFRIC 21

In May 2013, the IASB issued IFRIC Interpretation 21 Levies, which was developed by the IFRS Interpretations Committee. The interpretation clarifies that an entity recognizes a liability for a levy when the activity that triggers payment, as identified by the relevant legislation, occurs. It also clarifies that a levy liability is accrued progressively only if the activity that triggers payment occurs over a period of time, in accordance with the relevant legislation. For a levy that is triggered upon reaching a minimum threshold, the interpretation clarifies that no liability should be recognized before the specified minimum threshold is reached. The interpretation is applicable for annual periods beginning on or after January 1, 2014. The adoption of IFRIC 21 has had no material impact on the Company's financial statements

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

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

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

5. ACCOUNTS RECEIVABLE

	March 31	December 31
	2014	2013
Accounts Receivable		
Current	\$ 23,516	\$ 15,451
30-60 days past due	606	1,011
61-90 days past due	180	426
Over 91 days past due	391	261
	24,693	17,149
Allowance for doubtful accounts	(191)	(189)
Balance, end of period	\$ 24,502	\$ 16,960

The maximum credit risk that Tree Island was exposed to by way of its accounts receivable is equal to the net amount of \$24,502 as at March 31, 2014.

Tree Island Steel Ltd.**NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

For the three months ended March 31, 2014 and 2013

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

6. INVENTORIES

	March 31	December 31
	2014	2013
Raw materials	\$ 17,587	\$ 10,282
Finished and semi finished products	17,918	17,349
Consumable supplies and spare parts	8,441	7,676
	<u>\$ 43,946</u>	<u>\$ 35,307</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 months ended March 31, 2014 and 2013, cost of goods sold was recognized for the following:

	Three Months Ended March 31	
	2014	2013
Opening inventory	\$ 35,307	\$ 32,732
Raw material purchases	35,881	25,859
Finished goods purchased for resale	1,787	737
Conversion costs	10,884	8,427
Inventories, closing	(43,946)	(34,618)
Cost of goods sold	<u>\$ 39,913</u>	<u>\$ 33,137</u>

7. PROPERTY, PLANT, AND EQUIPMENT

	Land & Improvements	Building & Improvements	Machinery & Equipment	Construction in progress	Total
Cost					
As at December 31, 2013	\$ 9,201	\$ 39,376	\$ 17,517	\$ 243	\$ 66,337
Additions	-	-	12	132	144
Disposals	-	-	(15)	-	(15)
Foreign currency translation	59	219	236	-	514
As at March 31, 2014	<u>\$ 9,260</u>	<u>\$ 39,595</u>	<u>\$ 17,750</u>	<u>\$ 375</u>	<u>\$ 66,980</u>
Accumulated depreciation and impairment					
As at December 31, 2013	\$ -	\$ 28,236	\$ 7,846	\$ -	\$ 36,082
Depreciation charge for the period	-	330	368	-	698
Disposals	-	-	(5)	-	(5)
Foreign currency translation	-	154	81	-	235
As at March 31, 2014	<u>\$ -</u>	<u>\$ 28,720</u>	<u>\$ 8,290</u>	<u>\$ -</u>	<u>\$ 37,010</u>
Net book values as at:					
December 31, 2013	\$ 9,201	\$ 11,140	\$ 9,671	\$ 243	\$ 30,255
March 31, 2014	<u>\$ 9,260</u>	<u>\$ 10,875</u>	<u>\$ 9,460</u>	<u>\$ 375</u>	<u>\$ 29,970</u>

Tree Island Steel Ltd.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the three months ended March 31, 2014 and 2013

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

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.

On April 21, 2014, the Company renewed its senior banking facility with Wells Fargo Capital Finance Corporation Canada ("Wells Fargo"). The five year senior secured committed banking facility (the "Senior Credit Facility") has been increased to \$60 million and now matures on April 21, 2019. Under the terms of the Senior Credit Facility, up to \$60 million may be borrowed for Tree Island's financing requirements in Canadian and/or US dollars of which \$4.125 million has been advanced as a term loan. Additionally, a \$10 million Letter of Credit sub-facility will enable Tree Island to open documentary letters of credit for raw material purchases. Interest is charged at variable rates based on the Canadian and/or US Prime rate and the Canadian B.A. rate and/or the Eurodollar rate. The amount advanced under the Senior Credit Facility at any time is limited to a defined percentage of inventories, accounts receivable and real estate, less certain reserves. The Senior Credit Facility is secured by a first charge over Tree Island's assets supported by the appropriate guarantees, pledges and assignments, and requires that certain covenants be met by Tree Island.

8.1 Senior Revolving Facility

As at March 31, 2014 the Company was in compliance with both the financial and non-financial covenants on the Senior Revolving Facility.

8.2 Senior Term Loan

The following amounts are outstanding under the Senior Term Loan:

	March 31 2014	December 31 2013
Senior Term Loan, beginning of period	\$ 4,292	\$ 4,792
Payments	(125)	(500)
Senior Term Loan, end of period	4,167	4,292
Less current portion	(420)	(500)
	\$ 3,747	\$ 3,792

9. CONVERTIBLE DEBENTURES

	March 31 2014 (3 Months)	December 31 2013 (12 Months)
Convertible Debentures, beginning of period	\$ 14,696	\$ 15,634
Accretion of debt discount for the period	527	3,626
Payment of interest in cash	(534)	(1,899)
Conversion of debentures to Tree Island shares	(14,514)	(2,665)
Redemption of debentures	(175)	-
Convertible Debentures, end of period	\$ -	\$ 14,696

Tree Island Steel Ltd.

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

On the Redemption Date, the Company completed the redemption of its Convertible Debentures scheduled to mature on November 26, 2014 for an aggregate principal amount of \$174,600.

Between January 1, 2014 and the Redemption Date, \$15,969,400 Convertible Debentures were converted into 31,938,800 shares. As a result, the issued and outstanding shares as at the date of these Financial Statements are 60,687,500 shares. The redemption and conversions subsequent to year end have resulted in the following approximate changes to the consolidated statement of financial position: \$15.3 million increase to equity (net of proportionate issuance costs), \$14.7 million decrease to Convertible Debentures, \$0.6 million decrease to conversion feature and a decrease to the change of control premium of \$0.2 million.

10. LONG-TERM DEBT

	Year of Maturity	March 31	2014	December 31	2013
Beginning of period	2028	\$	11,069	\$	10,833
Payments			(502)		(1,519)
Foreign exchange revaluation			437		732
Accretion of debt discount			269		1,023
End of period			11,273		11,069
Less current portion			(1,437)		(1,351)
		\$	9,836	\$	9,718

A provision exists for early payment of a portion of the principal outstanding if certain conditions are met. As at March 31, 2014 a provision of \$426 thousand (2013 - \$138 thousand) has been accrued and is included in other noncurrent liabilities.

11. FINANCING EXPENSES

	Three months ended March 31	
	2014	2013
Non-cash accretion of debt discount and interest on long-term debt and Convertible Debentures	\$ 263	\$ 654
Cash interest on debentures	534	482
Interest on Senior Credit Facility	196	182
Other interest and financing costs	231	105
Amortization of deferred financing costs	16	16
	\$ 1,240	\$ 1,439

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12. SHAREHOLDERS' CAPITAL

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

	Shares	Gross	Issuance Costs ⁽¹⁾	Net
Shareholders' capital - December 31, 2013	28,546,350	\$ 225,707	\$ 11,400	\$ 214,307
Conversion of Convertible Debentures	31,938,800	15,340	-	15,340
Conversion of Warrants	202,500	115	-	115
Shareholders' capital - March 31, 2014	60,687,650	\$ 241,162	\$ 11,400	\$ 229,762

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

The Company has announced a proposed share consolidation subsequent to period end, see note 19 for further details.

Warrants

In 2009, the Fund issued 4,875,000 Warrants to certain investors. The Warrants have an exercise price of \$0.57 and expire November 26, 2014. During the three months ended March 31, 2014, 202,500 Warrants were exercised for proceeds of \$115 thousand. As at March 31, 2014 there were 4,372,500 warrants outstanding (see note 19).

13. RELATED PARTY TRANSACTIONS

Transactions with associated companies

The Futura Corporation ("Futura"), is considered to be a related party of Tree Island because of its ownership interest and holding two positions on the Board of Directors. Futura has purchased \$5.0 million of the Convertible Debentures and was issued 1,875,000 Warrants. Subsequent to year end, Futura converted \$5.0 million in Convertible Debentures to 10.0 million shares of Tree Island Steel. Based on Tree Island Steel's fully diluted common shares as at March 31, 2014, Futura owns 29.1% of the fully diluted common shares of the Company.

As well, Tree Island sells products to subsidiaries of a company of which Mr. Doman is Chairman and CEO, CanWel Building Materials Group Ltd. ("CanWel"), which amounted to, net of rebates, \$1.2 million (2013 - \$1.3 million) during the three months ended March 31, 2014 and trade accounts receivable owing from CanWel as at March 31, 2014 was \$0.5 million (2013 - \$1.1 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. Short-term employee benefits for key management personnel for the three months ended March 31, 2014 were \$0.45 million (2013 - \$0.44 million) which includes wages, salaries, unit-based compensation and social security contributions, paid annual and sick leave, vehicle costs and bonuses. It also includes Directors fees paid to members of the Board.

Tree Island Steel Ltd.

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14. INCOME TAXES

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

	Three Months Ended March 31	
	2014	2013
<i>Recorded in the statement of operations</i>		
Current tax expense	\$ (9)	\$ (12)
Deferred tax (expense) recovery	(203)	179
	\$ (212)	\$ 167

15. FINANCIAL INSTRUMENTS

15.1 Fair value of financial instruments

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

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

	March 31, 2014		December 31, 2013	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial assets				
Cash	\$ 1,571	\$ 1,571	\$ 1,264	\$ 1,264
Accounts receivable	24,502	24,502	16,960	16,960
Foreign exchange forward contracts	27	27	111	111
Total financial assets	\$ 26,100	\$ 26,100	\$ 18,335	\$ 18,335
Financial liabilities				
Senior Revolving Facility	\$ 26,325	\$ 26,325	\$ 16,370	\$ 16,370
Accounts payable and accrued liabilities	14,441	14,441	7,619	7,619
Finance lease	72	72	86	86
Senior Term Loan	4,167	4,167	4,292	4,292
Long-term debt	11,273	13,066	11,069	11,834
Convertible debentures	-	-	14,696	16,534
Change of control premium	-	-	241	241
Early payment option	426	426	410	410
Total financial liabilities	\$ 56,704	\$ 58,497	\$ 54,783	\$ 57,386

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

- Cash, accounts receivable, Senior Revolving Facility, and accounts payable and accrued liabilities approximate their carrying amounts largely due to the short-term nature of these instruments.
- Fair value on the Company's finance lease, Senior Term Loan, and long-term debt are based on estimated market interest rate on similar borrowings. The fair value of the finance lease and Senior Term Loan approximate fair value as the interest

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For the three months ended March 31, 2014 and 2013

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rates approximate market. A 1% change in the market interest rate would change the fair value of long term debt by \$725 thousand.

- Convertible Debentures were traded on the TSX and the fair value disclosed is based on the closing price at period end less the fair values of the change of control premium, conversion feature, and Warrants. Fair value of the conversion feature and Warrants were estimated using the Black-Scholes Option Pricing Model
- Fair value of the change of control premium was estimated using the Black-Scholes Option Pricing Model.
- Fair value of the early payment option is estimated using a discounted cash flow analysis and a discount rate of 9%.
- Fair value of the forward exchange forward contracts are estimated using observable foreign exchange spot and forward rates. The Company does not consider interest rates or the credit quality of counterparties as significant inputs to the valuation.

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 (unadjusted) market prices in active markets for identical assets or liabilities.

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

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

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

	March 31,		Level 1	Level 2	Level 3
	2014				
Accounts receivable	\$ 24,502	\$	-	\$ -	\$ 24,502
Senior revolving facility	26,325		-	26,325	-
Accounts payable and accrued liabilities	14,441		-	-	14,441
Finance lease	72		-	72	-
Senior term loan	4,167		-	4,167	-
Long-term debt	11,273		-	-	11,273
Early payment option	426		-	-	426
Foreign Exchange Forward Contracts	27		-	27	-
	\$ 81,233	\$	-	\$ 30,591	\$ 50,642

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

	Valuation technique	Significant unobservable inputs	Sensitivity of the input to fair value
Early payment option	DCF	% of purchase qualifying for early payment	5% increase(decrease) in the percentage of qualifying purchases for early payment would result in an increase (decrease) in fair value of \$21 thousand
	DCF	Change in discount rate	1% increase in the discount rate would result in an increase in fair value of \$11 thousand, while 1% decrease in the discount rate would result in a \$12 thousand decrease

15.3 Risk exposure and management

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

Credit risk

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

Liquidity risk

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

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

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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, 2014 and December 31, 2013:

March 31, 2014	Carrying Amount	Contractual Cash Flow	Less than 1 Year	1 - 2 Years	Greater than 2 Years
Senior Revolving Facility	\$ 26,325	\$ 26,325	\$ 26,325	\$ -	\$ -
Accounts payable and accrued liabilities	14,441	14,441	14,441	-	-
Finance lease (Note 22.5)	72	76	65	11	-
Senior Term Loan (Note 9.2)	4,167	4,167	420	825	2,922
Long-term debt (Note 11)	11,273	19,567	1,574	2,995	14,998
Convertible debentures (Note 10)	-	-	-	-	-
	\$ 56,278	\$ 64,576	\$ 42,825	\$ 3,831	\$ 17,920

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

Liquidity requirements are met through a variety of sources including cash balances on hand, cash generated from operations, existing credit facilities, and debt and equity capital markets. Management monitors and manages liquidity risk by preparing annual budgets, monthly projections to the end of the fiscal year and regular monitoring of financial liabilities against the constraints of the available revolving credit facilities.

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. An increase of \$0.01 increase (decrease) in the Canadian dollar to US dollar exchange rate would result in a \$264 thousand dollar increase (decrease) in comprehensive income.

Tree Island's US dollar-denominated cash, accounts receivable, accounts payable and accrued liabilities, Senior Credit Facility and long-term debt are exposed to foreign currency exchange rate risk because the value of these financial instruments will fluctuate with changes in the US/Canadian dollar exchange rate. Tree Island's RMB denominated cash, accounts receivable, accounts payable and accrued liabilities are exposed to foreign currency exchange rate risk because the value of these financial instruments will fluctuate with changes in the RMB/Canadian dollar exchange rate. The Company enters into US dollar currency forward contracts for periods consistent with a portion of US dollar currency transaction exposures, generally from one to three months. These are not designated as cash flow, fair value or net investment hedges. The fair value of outstanding US dollar currency forwards as at March 31, 2014 was for notional \$8.6 million and the mark-to-market loss on those contracts was \$27 thousand.

Interest rate risk

Tree Island is exposed to interest rate risk on its Senior Credit Facility, which is further discussed in Note 9. A 1% increase in the interest rates charged on the Senior Credit Facility would increase financing expenses by \$263 thousand. Tree Island does not use derivative instruments to manage the interest rate risk.

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16. NET INCOME (LOSS) PER SHARE

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

	Three Months Ended March 31	
	2014	2013
Net income (loss) for the period	361	(137)
Dilutive effect of:		
Convertible Debentures ⁽¹⁾	-	-
Warrants	-	-
Net income (loss) for the period adjusted for the effect of dilution	361	(137)

	Three Months Ended March 31	
	2014	2013
Weighted average number of shares outstanding during the period - basic	50,222,183	23,113,661
Dilutive effect of:		
Convertible Debentures ⁽¹⁾	-	-
Warrants	2,108,660	-
Weighted average number of shares outstanding during the period - diluted	52,330,843	23,113,661

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

	Three Months Ended March 31	
	2013 ⁽¹⁾	2012
Net income (loss) per share		
Basic	0.01	(0.01)
Diluted	0.01	(0.01)

There have been no additional transactions involving Shares or potential Shares between the reporting date and the date of completion of these consolidated financial statements.

17. PROVISIONS AND COMMITMENTS

17.1 Litigation and claims

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

17.2 Purchase commitments

Tree Island's wholly owned subsidiaries have committed to rod purchases totaling \$52.99 million (US\$47.94 million) at March 31, 2014 and imported finished goods purchases of \$2.23 million (US\$2.02 million).

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17.3 Finance lease commitments

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

	Minimum Payments	2014 Present Value of Payments	Minimum Payments	2013 Present Value of Payments
Less than 1 year	\$ 65	\$ 61	\$ 66	\$ 60
1 to 5 years	11	11	26	26
More than 5 years	-	-	-	-
Total minimum lease payments	76	72	92	86
Less amounts representing finance charges	(4)	-	(6)	-
Present value of minimum lease payments	\$ 72	\$ 72	\$ 86	\$ 86

18. SEGMENTED INFORMATION

Tree Island operates primarily within one industry, the steel wire products industry, with no separately reportable operating segments. Tree Island groups its products into the following: industrial, residential construction, commercial construction, agricultural, and specialty. Revenues for each group for the three months ended March 31, 2014 and 2013 were as follows:

	Three Months Ended March 31	
	2014	2013
Industrial	\$ 17,395	\$ 11,195
Residential construction	12,746	10,632
Commercial construction	6,889	6,682
Agricultural	5,174	5,826
Specialty	3,719	3,758
	\$ 45,923	\$ 38,093

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	
	2014	2013
Sales ⁽¹⁾		
Canada	\$ 16,558	\$ 16,448
United States	28,184	20,582
Other	1,181	1,063
	\$ 45,923	\$ 38,093

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

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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
	2014		2013
Non-current assets			
Canada	\$ 22,670	\$	23,054
United States	7,444		7,357
China	2		2
	<u>\$ 30,116</u>	<u>\$</u>	<u>30,413</u>

19. SUBSEQUENT EVENTS

On April 21, 2014, the Company renewed its senior banking facility with Wells Fargo. The five year senior secured committed banking facility, "Senior Credit Facility", has been increased from \$40.0 million to \$60.0 million and now matures in April of 2019. Under the terms of the Senior Credit Facility, up to \$60.0 million may be borrowed for Tree Island's financing requirements in Canadian and/or US dollars of which \$4.125 million has been advanced as a term loan. Interest is charged at variable rates based on the Canadian and/or US Prime rate and the Canadian B.A. rate and/or the Eurodollar rate. The amount advanced under the Senior Credit Facility at any time is limited to a defined percentage of inventories, accounts receivable and real estate, less certain reserves. The Senior Credit Facility is secured by a first charge over Tree Island's assets supported by the appropriate guarantees, pledges and assignments, and requires that certain covenants be met by Tree Island.

On March 14, 2014 the Company announced that it will consolidate its common shares on the basis of one post-consolidation Share for every two pre-consolidation Shares subject to the approval of the Toronto Stock Exchange and the Company's shareholders by special resolution at the Company's annual and special meeting of Shareholders currently scheduled to be held on May 13, 2014. The principal effects of the Consolidation will be that the number of Shares issued and outstanding will be reduced from 60,687,650 Shares outstanding as at May 13, 2014 to approximately 30,343,825 Shares. The Consolidation will not materially affect any Shareholder's percentage ownership in the Company or their proportionate voting rights.

There are currently 4,372,500 common share purchase warrants outstanding, each exercisable for one common share at an exercise price of \$0.57. Pursuant to the terms of the warrants, after giving effect to the Share Consolidation, the number of warrants outstanding will be adjusted by the same basis of one post-consolidation warrant for every two pre-consolidation warrants to 2,186,250 and each warrant will be exercisable for one common share. The exercise price will also be adjusted accordingly such that the post-consolidation exercise price is \$1.14.

SHAREHOLDER INFORMATION

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

Board of Directors:

Amar S. Doman –
Chairman of the Board

Dale R. MacLean

Harry Rosenfeld

Michael Fitch

Sam Fleiser

Theodore A. Leja



Leadership Team:

Dale R. MacLean
President and Chief Executive Officer

Nancy Davies
Chief Financial Officer and Vice President, Finance

Stephen Ogden
Vice President, Operations

Remy Stachowiak
Vice President, Sales and Marketing

James Miller
Vice President, Corporate Development and Procurement

Shares:

Market Information

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

Registrar and Transfer Agent

Computershare Investor Services Inc.

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Auditors:

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