



WIRE & WIRE PRODUCTS

ESTABLISHED IN 1964



Q3 2014 Quarterly Results

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, 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

We have experienced growth in our business during the past several quarters and the third quarter of 2014 is consistent with our run rate expectations. During the quarter we increased our volumes and revenues by 24.4% and 23.0%, respectively, when compared on a year-over-year basis. The key initiatives we undertook earlier this year to prepare ourselves for increased demand and sudden changes in product mix are starting to pay off and will allow Tree Island to adapt to evolving market conditions swiftly and seamlessly. Aside from the investments we made to our cost structure to achieve the above mentioned outcomes, we also successfully continued to expand our geographic reach into new markets with existing customers and by adding new ones to further diversify sales. We believe the strategy that we have implemented has positioned us to capitalize on and adjust to evolving market conditions.

Both domestic and international competitors have been aggressively pricing their products for the past year in an attempt to maintain market share. We have responded by leveraging our relationships with existing customers, building new customer relationships and leveraging our brand, quality and service. As a result, our volumes for the third quarter amounted to 36,491 tons while revenues amounted to \$48.0 million, an increase of 7,147 tons and \$9.0 million over the same period last year respectively.

In order to meet the growing demand, over the past several quarters we have invested in additional labour and maintenance. As expected, the introduction of new staff had an impact on our efficiency levels earlier in the year but this was offset by better operating leverage as a result of the growth in volumes.

Gross profit for the quarter was \$5.2 million on a margin of 10.9% compared to a gross profit of \$3.9 million and a margin of 10.0% for Q3 2013. The growth of our business this quarter when compared to last year has been fairly balanced between our five market segments (Residential, Commercial, Industrial, Agricultural and Specialty) with slightly higher growth from the segments with better profitability. The increase in volume, coupled with our expected operating efficiencies, delivered an improved profit margin which translated into a higher EBITDA for this quarter when compared to the same period last year. EBITDA for this quarter was \$2.4 million, an increase of \$0.8 million or 52.7% over the same period last year.

Year to date our volume has grown by 25.5% to 108,025 tons and revenues by 20.4% to \$141.7 million. Our growth in revenues was slightly less than the growth in volume due primarily to price competition and growth in categories with lower prices. Our strategy to increase volumes and improve operating leverage has delivered expected benefits. Gross profit for the year thus far has increased by \$1.6 million to \$15.2 million. Meanwhile, the lower selling price was partially offset by profitability gains attributable to better operating leverage, resulting in an overall gross profit margin of 10.7%.

We continue to work towards building a solid platform to leverage the Company forward in an improved marketplace and use what we learned through this most recent growth step to train and adapt more quickly to maintain a higher profitability for future stages of increased activity.

We look forward to the last quarter of 2014 and want to thank our employees for their diligence as we grow the company while maintaining Tree Island's reputation for product quality and service leadership. We also want to extend our sincere appreciation to our customers, suppliers and investors for your ongoing support.

Sincerely,

Amar S. Doman  
Chairman of the Board of Directors

Dale R. MacLean  
Director, President and Chief Executive Officer

## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

### **September 30, 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 November 6, 2014 and should be read in conjunction with the unaudited interim condensed consolidated financial statements for the three months and nine months ended September 30, 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](http://www.sedar.com) or on Tree Island Steel's website at [www.treeisland.com](http://www.treeisland.com).

### **1. FORWARD-LOOKING STATEMENTS AND RISK**

This management's discussion and analysis ("MD&A") includes forward-looking information with respect to Tree Island Steel, including our business, operations and strategies, as well as financial performance and conditions. The use of forward-looking words such as, "may," "will," "expect" or similar variations generally identify such statements. Any statements that are not statements of historical fact should be considered to be forward-looking statements. Although we believe that the forward-looking statements are reasonable, they involve risks and uncertainties, including the risks and uncertainties discussed under the heading "Risks Relating to the Company's Business" in the Company's AIF for the year ended December 31, 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 measures 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 established in 1964. In 2012, upon a corporate conversion from an income trust (the “Fund”), Tree Island Steel Ltd. was incorporated under the laws of Canada on August 2, 2012. Following this 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 its wholly owned operating subsidiary TII, and all obligations of the Fund have been assumed by Tree Island Steel. The trustees of the Fund became the directors of Tree Island Steel and the officers and management of the Fund became officers and management of Tree Island Steel.

In connection with the Arrangement, the Company assumed all of the covenants and obligations of the Fund relating to the convertible debentures (“Debentures”) and share purchase warrants (“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 Company announced on January 27, 2014 that it would redeem all outstanding Debentures by March 4, 2014. Between January 1, 2014 and March 3, 2014 \$15,969,400 of Debentures were converted into Shares of the Company. On March 4, 2014 the Company redeemed the remaining \$174,600 principal on the outstanding Debentures.

On March 14, 2014 the Company announced a share consolidation (“Share Consolidation”) on the basis of one post consolidation Share for every two pre-consolidation shares. At the Shareholders meeting on May 13, 2014, the Company's shareholders approved the Share Consolidation and the Company filed articles of amendment to give effect to the Share Consolidation on May 13, 2014. As at September 30, 2014, there were 30,343,823 shares outstanding and the same number outstanding as of November 6, 2014.

Prior to the Share Consolidation, there were 4,372,500 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 was adjusted by the same basis of one post-consolidation Warrant for every two pre-consolidation Warrants and each Warrant is exercisable for one Share. The exercise price was also adjusted accordingly such that the post-consolidation exercise price is \$1.14. As at September 30, 2014, after adjustment due to the Share Consolidation, the total number of Warrants that remain outstanding were 2,186,250 and no Warrants have been exercised between September 30, 2014 and November 6, 2014.

#### **3.2. About Tree Island**

##### **Organizational Structure**

Our corporate structure has the following primary entities: Tree Island Steel which is the parent company, TII which is our Canadian operating company as well as the parent company to our operations in the United States, managed through our US operating subsidiary, Tree Island Wire (USA) Inc. (“TIW”), and our 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 create a complementary pull through for our manufactured products and meet general industry specifications but are not customized to individual customer requirements. 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
<b>Industrial</b>	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, forestry, recycling	North America and International
<b>Residential Construction</b>	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
<b>Commercial Construction</b>	Tree Island, TI Wire	Welded wire reinforcement mesh and concrete reinforcing products	Commercial construction, mining, infrastructure projects	North America and International
<b>Agricultural</b>	Tree Island, Tough Strand	Hi-tensile game fence, farm fence, vineyard wire, barbed wire	Agriculture, farming	North America
<b>Specialty Applications</b>	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 THIRD QUARTER 2014 BUSINESS OVERVIEW**

### **Business Overview**

Sales volumes for the third quarter benefited from stronger housing starts in the western United States, improving results with existing customers and the relationships we developed with new customers. This has helped us to strengthen our market position in many of our key sectors. As a result, we have seen another quarter of increasing sales volumes and revenues. The overall economic condition in the United States has moderately improved; less so in Canada. The movements in raw material costs, commodity markets, pricing activities from both North American and international competitors, and the fluctuating Canadian dollar exchange rate are factors we continue to monitor. Nonetheless, we continue our view of cautious optimism about the continued growth in the United States and improving demand fundamentals.

Gross profit in the quarter amounted to \$5.2 million, an increase of \$1.3 million over last year. The gross profit margin for the quarter improved to 10.9% this year from 10.0% in the third quarter of 2013. The improvement in the gross margin is attributable to the operating leverage gained from higher production which, in turn, was driven by the higher sales volumes. The benefits of the quarter's strong growth in sales volume and improving operating leverage, compared to last year, increased EBITDA by \$0.8 million over last year to \$2.4 million.

### **Senior Credit Facility**

On April 21, 2014, the Company renewed its senior banking facility with Wells Fargo Capital Finance Corporation Canada ("Wells Fargo"). The five year senior secured committed banking facility (the "Senior Credit Facility") was increased from \$40.0 million to \$60.0 million and matures in April of 2019. 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.

### **Trade Action Reviews**

During the first quarter of 2014, the 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. On July 8, 2014, the US Department of Commerce published its preliminary determination in the countervailing duty (CVD) investigation of wire rod from China in the range of between 10% to 81%. On September 8, 2014 it was announced that the antidumping duties on carbon wire rod from China range from 106% to 110% which are applied on top of the countervailing duties. The final determination of duties is scheduled to be decided on December 15, 2014.

On May 29, 2014, the U.S. Department of Commerce announced an antidumping and countervailing duty petition against imports of steel nails from Korea, Malaysia, Oman, Taiwan, and Vietnam. Subsequently on July 11, 2014, the U.S. International Trade Commission determined that there is a reasonable indication that the U.S. industry is materially injured by reason of imports of certain steel nails from Korea, Malaysia, Oman, Taiwan, and Vietnam that are allegedly subsidized and sold in the United States at less than fair value. The Department of Commerce has recommended anti-dumping duties ranging from 28% to over 300%. On October 28, 2014, the US Department of Commerce announced the preliminary determinations on the CVD which range from 0.0% to 8.35%. The final determination of duties is anticipated to be decided in mid-April 2015.

We are monitoring both cases closely and are in the process of evaluating any potential impacts either of the cases have on Tree Island.

### **Outlook**

The moderate growth in both the US and Canadian economies allow us to be optimistic regarding our prospects for growth and increases in demand in our end markets. However, we remain cautious in our optimism because of the potential of slowing global growth that could negatively impact the North American economies, the risk of further pricing pressure from competitors and changing market forces. Our strategies remain focused on matching competitive pricing with raw material costs, closely managing costs and leveraging our capacity utilization.

## 5. RESULTS FROM OPERATIONS

Summary of Results (\$'000's except for tonnage and per share amounts)	Three Months Ended September 30		Nine Months Ended September 30	
	2014	2013	2014	2013
<b>Sales Volumes – Tons</b>	<b>36,491</b>	<b>29,344</b>	<b>108,025</b>	<b>86,106</b>
Sales	\$ 47,974	\$ 39,003	\$ 141,679	\$ 117,690
Cost of sales	(42,059)	(34,379)	(124,429)	(101,990)
Depreciation	(700)	(728)	(2,097)	(2,172)
Gross profit	5,215	3,896	15,153	13,528
Selling, general and administrative expenses	(3,548)	(3,074)	(10,802)	(9,482)
Operating income	1,667	822	4,351	4,046
Foreign exchange gain (loss)	38	(23)	354	109
Loss on sale of property, plant and equipment	-	(42)	(10)	(42)
Gain on sale of subsidiary	-	231	-	231
Changes in financial liabilities recognized at fair value	154	(8)	(111)	12
Financing Expenses	(913)	(1,476)	(2,982)	(4,400)
Income before income taxes	946	(496)	1,602	(44)
Income tax (expense) recovery	(556)	453	(676)	54
<b>Net Income (Loss)</b>	<b>390</b>	<b>(43)</b>	<b>926</b>	<b>10</b>
<b>EBITDA</b>				
Operating income	1,667	822	4,351	4,046
Add back depreciation	700	728	2,097	2,172
<b>EBITDA<sup>(1)</sup></b>	<b>2,367</b>	<b>1,550</b>	<b>6,448</b>	<b>6,218</b>
Foreign exchange gain (loss)	38	(23)	354	109
<b>EBITDA including foreign exchange</b>	<b>2,405</b>	<b>1,527</b>	<b>6,802</b>	<b>6,327</b>
<b>Adjusted Net Income</b>				
Net Income (Loss)	390	(43)	926	10
Non-cash financing expenses	263	723	787	2,087
Changes in financial liabilities recognized at fair value	(154)	(8)	111	(12)
Deferred tax	449	(438)	550	(68)
<b>Adjusted net income<sup>(1)</sup></b>	<b>948</b>	<b>234</b>	<b>2,374</b>	<b>2,017</b>
<b>Per share</b>				
Net income per share - basic	0.01	0.00	0.03	0.00
Net income per share - diluted	0.01	0.00	0.03	0.00
<b>Per ton</b>				
Gross profit per ton	143	133	140	157
EBITDA per ton	65	53	60	72

Financial position as at:	September 30	December 31
	2014	2013
Total assets	108,488	85,635
Total non-current financial liabilities	13,068	13,510

<sup>(1)</sup> 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, 2014 AND 2013

(\$000's except for tonnage and per share amounts)

	Q3 2014	Q3 2013	Variance	
<b>SALES</b>	<b>\$47,974</b>	<b>\$39,003</b>	<b>\$8,971</b>	<b>23.0%</b>

The growth of our sales volumes this quarter over last year has been fairly balanced between our five market segments, with Agricultural products growing at 33.6% on the high end to Commercial products growing at a healthy pace of 20.8%. In terms of absolute volume growth when compared to the same period last year, Industrial products led the way as it is our largest contributor by volume, accounting for 47.0% of total volume and growth of 23.3%. The growth of our business is partially attributable to our ability to leverage our results with existing customers, which has enabled us to expand our geographical reach in eastern North America, and new customer relationships, which has helped us to maintain the diversification of our product mix.

Revenue has benefited from the healthy increase in sales volume, growing by 23.0% over the same period last year.

Sales revenues and volumes by market were as follows:

Market	Three Months Ended September 30, 2014				Three Months Ended September 30, 2013				Variance			
	Revenue	%	Tons	%	Revenue	%	Tons	%	Revenue	%	Tons	%
Industrial	\$ 18,971	39.5%	17,134	47.0%	\$ 15,563	39.9%	13,900	47.4%	\$ 3,408	21.9%	3,233	23.3%
Residential	13,978	29.1%	9,422	25.8%	11,565	29.6%	7,384	25.2%	2,413	20.9%	2,038	27.6%
Commercial	7,436	15.5%	6,737	18.5%	6,336	16.3%	5,587	19.0%	1,100	17.4%	1,150	20.6%
Agricultural	3,008	6.3%	2,205	6.0%	2,253	5.8%	1,650	5.6%	755	33.5%	555	33.6%
Specialty	4,581	9.6%	993	2.7%	3,286	8.4%	823	2.8%	1,295	39.4%	171	20.8%
<b>Total</b>	<b>\$ 47,974</b>	<b>100.0%</b>	<b>36,491</b>	<b>100.0%</b>	<b>\$ 39,003</b>	<b>100.0%</b>	<b>29,344</b>	<b>100.0%</b>	<b>\$ 8,971</b>	<b>23.0%</b>	<b>7,147</b>	<b>24.4%</b>

Revenue growth in the third quarter from sales to customers located in the United States grew by 24.8% and sales denominated in US dollars grew by 24.0%, attributed to the growth of the US economy, the housing market in the western US and the weakening of the Canadian dollar.

The Company's revenue by currency and by geography were as follows:

Revenues by Currency	Three Months Ended September 30				Variance	
	2014	% of Total	2013	% of Total	\$	%
Denominated in US\$	\$ 32,175	67.1%	\$ 25,948	66.5%	\$ 6,227	24.0%
Denominated in Cdn\$	15,799	32.9%	13,055	33.5%	2,744	21.0%
<b>Total Sales</b>	<b>\$ 47,974</b>	<b>100.0%</b>	<b>\$ 39,003</b>	<b>100.0%</b>	<b>\$ 8,971</b>	<b>23.0%</b>

Average Canadian dollar exchange rate for one US dollar      1.0893                      1.0385

Revenues by Geography	Three Months Ended September 30				Variance	
	2014	% of Total	2013	% of Total	\$	%
United States	31,142	64.9%	24,957	64.0%	6,185	24.8%
Canada	\$ 15,799	32.9%	\$ 13,055	33.5%	\$ 2,744	21.0%
International	1,033	2.2%	991	2.5%	42	4.2%
<b>Total Sales</b>	<b>\$ 47,974</b>	<b>100.0%</b>	<b>\$ 39,003</b>	<b>100.0%</b>	<b>\$ 8,971</b>	<b>23.0%</b>

	Q3 2014	Q3 2013	Variance	
<b>COST OF SALES</b>	<b>\$42,059</b>	<b>\$34,379</b>	<b>\$7,680</b>	<b>22.3%</b>

The 22.3% increase in our Costs of Sales over last year, or \$7.7 million, is primarily from the increase in sales volume of \$8.2 million partially offset by \$0.6 million in efficiencies gained from lower raw material costs and better operating leverage.

	Q3 2014	Q3 2013	Variance	
<b>GROSS PROFIT</b>	<b>\$5,215</b>	<b>\$3,896</b>	<b>\$1,319</b>	<b>33.9%</b>

The gross profit margin of 10.9% is better than last year by 0.9 percentage points. Two factors contributed to the increased margin, the growth in sales volume was fairly balanced between our five market segments with slightly higher growth from markets with higher profitability including solid growth from the Specialty products; and lower raw material costs and better operating leverage. These two benefits were partially offset by the lower net price due to pricing pressures from domestic and international competitors. The overall result for the third quarter was a gross profit of \$5.2 million, \$1.3 million better than the year before.

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

Gross Profit by Currency	Three Months Ended September 30				Variance	
	2014	% of Total	2013	% of Total	\$	%
Denominated in US\$	\$ 3,225	61.8%	\$ 2,439	62.6%	\$ 786	32.2%
Denominated in Cdn\$	1,990	38.2%	1,457	37.4%	533	36.6%
Total Gross Profit	\$ 5,215	100.0%	\$ 3,896	100.0%	\$ 1,319	33.9%
Average Canadian dollar exchange rate for one US dollar	1.0893		1.0385			

	Q3 2014	Q3 2013	Variance	
<b>SELLING, GENERAL, AND ADMINISTRATIVE EXPENSES</b>	<b>\$3,548</b>	<b>\$3,074</b>	<b>\$474</b>	<b>15.4%</b>

Additions to the sales force required to generate the higher sales volume was the primary reason for the increase.

	Q3 2014	Q3 2013	Variance	
<b>EBITDA</b>	<b>\$2,367</b>	<b>\$1,550</b>	<b>\$817</b>	<b>52.7%</b>

The increase in EBITDA is due to our ability to increase sales volume, benefits from lower raw material costs and better operating leverage offset by the higher selling costs.

	Q3 2014	Q3 2013	Variance	
<b>FINANCING EXPENSES</b>	<b>\$913</b>	<b>\$1,476</b>	<b>\$(563)</b>	<b>(38.1)%</b>

Financing expenses decreased largely as a result of a decrease in non cash interest and the cash interest on the Debentures which were all converted or redeemed in Q1, 2014. This was offset by an increase in the interest on the Senior Credit Facility and other interest and financing costs due to the increase in working capital requirements to support the growth in our business. The components of the financing expenses are below.

Three Months Ended September 30	2014		2013		Variance	
	\$		\$		\$	%
Non-cash accretion of debt discount and interest on long term debt and Convertible Debentures	\$ 263		\$ 723		(460)	-63.6%
Cash interest on Convertible Debentures	-		460		(460)	-100.0%
Interest on Senior Credit Facility	200		171		29	17.0%
Other interest and financing costs	440		106		334	315.1%
Financing transaction costs and amortization of deferred financing costs	10		16		(6)	-37.5%
	\$ 913		\$ 1,476		(563)	-38.1%

	Q3 2014	Q3 2013	Variance	
<b>FOREIGN EXCHANGE GAIN (LOSS)</b>	<b>\$38</b>	<b>\$(23)</b>	<b>\$61</b>	<b>265.2%</b>

For the three months ended September 30, 2014 we recorded a gain on foreign exchange primarily as a result of us realizing a small net gain on the translation of US dollar denominated transactions in our Canadian operations. 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 which tend to offset each other creating a partial natural hedge. Forward foreign currency contracts are used to manage a portion of the remaining currency risk. Foreign exchange gains and losses are unpredictable in nature and therefore can be expected to vary significantly from period-to-period and over time.

	Q3 2014	Q3 2013	Variance	
<b>INCOME TAX (EXPENSE) RECOVERY</b>	<b>\$(556)</b>	<b>\$453</b>	<b>\$(1,009)</b>	<b>(222.7)%</b>

The income tax expense for the quarter relates to the utilization of certain deferred tax assets as well as a portion relating to current tax expense, primarily from the Canadian operations. The deferred tax expense component is \$0.4 million versus a \$0.4 million deferred tax recovery in the prior period and the current tax expense is \$0.1 million versus a minimal current tax recovery in the prior period. The income tax (expense)/recovery is based on the statutory tax rate of 26.0% (2013 – 26.0%) applied to the income of subsidiaries before taxes, with adjustments for permanent differences between accounting and taxable income.

	Q3 2014	Q3 2013	Variance	
<b>NET INCOME</b>	<b>\$390</b>	<b>\$(43)</b>	<b>\$433</b>	<b>1,007.0%</b>

The increase in net income for the quarter is resulting from improved operating income and lower financing costs incurred than in the prior period.

	Q3 2014	Q3 2013	Variance	
<b>ADJUSTED NET INCOME</b>	<b>\$948</b>	<b>\$234</b>	<b>\$714</b>	<b>305.1%</b>

Adjusted for the impact of certain non-cash items recognized in net income, Adjusted Net Income increased for the three months ended September 30, 2014 stemming from the higher operating income and lower non-cash financing costs as a result of the conversion and redemption of the Debentures earlier in the year.

## 7. COMPARISON OF RESULTS FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2014 AND 2013

*(\$000's except for tonnage and per share amounts)*

	YTD 2014	YTD 2013	Variance	
<b>SALES</b>	<b>\$141,679</b>	<b>\$117,690</b>	<b>\$23,989</b>	<b>20.4%</b>

For the nine months ended September 30, 2014, sales volume totalled 108,025 tons, an increase of 25.5% over the previous year. By volume, Industrial products experienced the largest increase year-over-year, increasing by 14,290 tons or 40.9%, and continues to be the largest share of our overall sales volumes and revenues.

Our revenue for the nine months ending September 30, 2014 increased by \$24.0 million over last year or 20.4%. The 20.4% rate of increase is less than the volume increase as a result of pricing pressures from domestic and international competitors and higher transportation costs resulting from our geographical diversification to areas further than our traditional markets.

Sales revenues and volumes by market were as follows:

Market	Nine Months Ended September 30, 2014				Nine Months Ended September 30, 2013				Variance			
	Revenue	%	Tons	%	Revenue	%	Tons	%	Revenue	%	Tons	%
Industrial	\$ 54,845	38.7%	49,225	45.5%	\$ 40,573	34.5%	34,935	40.6%	\$ 14,272	35.2%	14,290	40.9%
Residential	40,112	28.3%	26,959	25.0%	35,211	29.9%	22,724	26.4%	4,901	13.9%	4,235	18.6%
Commercial	21,325	15.1%	19,034	17.6%	20,101	17.1%	17,487	20.3%	1,224	6.1%	1,547	8.8%
Agricultural	12,886	9.1%	10,013	9.3%	10,959	9.3%	8,118	9.4%	1,927	17.6%	1,895	23.3%
Specialty	12,511	8.8%	2,794	2.6%	10,846	9.2%	2,842	3.3%	1,665	15.4%	(48)	-1.7%
<b>Total</b>	<b>\$ 141,679</b>	<b>100.0%</b>	<b>108,025</b>	<b>100.0%</b>	<b>\$ 117,690</b>	<b>100.0%</b>	<b>86,106</b>	<b>100.0%</b>	<b>\$ 23,989</b>	<b>20.4%</b>	<b>21,919</b>	<b>25.5%</b>

The Company's revenue by currency and by geography were as follows:

Revenues by Currency	Nine Months Ended September 30				Variance	
	2014	% of Total	2013	% of Total	\$	%
Denominated in US\$	\$ 94,530	66.7%	\$ 75,253	63.9%	\$ 19,277	25.6%
Denominated in Cdn\$	47,149	33.3%	42,437	36.1%	4,712	11.1%
<b>Total Sales</b>	<b>\$ 141,679</b>	<b>100.0%</b>	<b>\$ 117,690</b>	<b>100.0%</b>	<b>\$ 23,989</b>	<b>20.4%</b>

Average Canadian dollar exchange rate for one US dollar 1.0944 1.0236

Revenue by Geography	Nine Months Ended September 30				Variance	
	2014	% of Total	2013	% of Total	\$	%
United States	91,150	64.3%	72,008	61.1%	19,142	26.6%
Canada	\$ 47,149	33.3%	\$ 42,437	36.1%	\$ 4,712	11.1%
International	3,380	2.4%	3,245	2.8%	135	4.2%
<b>Total Sales</b>	<b>\$ 141,679</b>	<b>100.0%</b>	<b>\$ 117,690</b>	<b>100.0%</b>	<b>\$ 23,989</b>	<b>20.4%</b>

Revenue growth for the nine months ending September 30, 2014 from sales to customers in the United States increased by improving our sales volumes from our expanded geographic reach, improving economic activity in the US and the growth of the US housing market in the western states. Sales volumes continued to be driven by our North American manufactured products resulting from our continued emphasis on manufacturing as a core competency.

	YTD 2014	YTD 2013	Variance	
<b>COST OF SALES</b>	<b>\$124,429</b>	<b>\$101,990</b>	<b>\$22,439</b>	<b>22.0%</b>

The increase in volume resulted in an overall increase in cost of goods sold by \$22.4 million, or 22.0%. We realized cost savings from lower raw material costs and from better operating leverage due to increased volumes. The addition of new staff earlier in the year resulted in less production efficiencies due to training and learning curve effects.

	YTD 2014	YTD 2013	Variance	
<b>GROSS PROFIT</b>	<b>\$15,153</b>	<b>\$13,528</b>	<b>\$1,625</b>	<b>12.0%</b>

Gross profit for the first nine months of 2014 grew by \$1.6 million over the same period last year. This is a result of higher sales tonnage and lower raw material costs. Lower prices and a less efficient production (as a result of integrating new hires earlier in the year to support the growth of our business) partially offset those benefits.

For our Canadian operations, the weakening of the Canadian currency increased raw material costs which were not fully passed on to our customers and increased pricing competition from domestic and international competitors were partially offset by operating leverage.

The gross profit by currency converted to Canadian dollars was as follows:

	Nine Months Ended September 30				Variance	
	2014	% of Total	2013	% of Total	\$	%
Gross Profit denominated in US\$	\$ 9,660	63.7%	\$ 7,404	54.7%	\$ 2,255	30.5%
Gross Profit in Cdn\$	5,493	36.3%	6,124	45.3%	(630)	-10.3%
Total Gross Profit	\$ 15,153	100.0%	\$ 13,528	100.0%	\$ 1,625	12.0%
<i>Average Canadian dollar exchange rate for one US dollar</i>	1.0944		1.0236			

	YTD 2014	YTD 2013	Variance	
<b>SELLING, GENERAL, AND ADMINISTRATIVE EXPENSES</b>	<b>\$10,802</b>	\$9,482	\$1,320	13.9%

SG&A is higher than last year by \$1.3 million primarily due to \$0.6 million more for selling expenses (including additional staffing costs) as well as \$0.5 million for compensation related amounts.

	YTD 2014	YTD 2013	Variance	
<b>EBITDA</b>	<b>\$6,448</b>	\$6,218	\$230	3.7%

The increase in EBITDA of \$0.2 million over last year is due to improving gross profit offset by increased SG&A expenses noted above.

	YTD 2014	YTD 2013	Variance	
<b>FINANCING EXPENSES</b>	<b>\$2,982</b>	\$4,400	\$(1,418)	(32.2)%

For the nine months ended September 30, 2014, financing expenses decreased as as the the Debentures were all converted or redeemed in the first quarter of 2014. This was partially offset by an increase in the interest on the Senior Credit Facility and other interest and financing charges due to increased working capital requirements supporting the growth in our business. We also incurred additional deferred financing fees associated with the early renewal of our Senior Credit Facility agreement in April 2014.

The components of financing expense are below:

Nine Months Ended September 30	2014		2013		Variance	
	\$	%	\$	%	\$	%
Non-cash accretion of debt discount and interest on long term debt and Convertible Debentures	\$ 787		\$ 2,088		(1,301)	-62.3%
Cash interest on Convertible Debentures	534		1,399		(865)	-61.8%
Interest on Senior Credit Facility	598		466		132	28.3%
Other interest and financing costs	884		400		484	121.0%
Financing transaction costs and amortization of deferred financing costs	179		47		132	280.9%
	\$ 2,982		\$ 4,400		(1,418)	-32.2%

	YTD 2014	YTD 2013	Variance	
<b>FOREIGN EXCHANGE GAIN</b>	<b>\$354</b>	\$109	\$245	224.8%

For the nine months ended September 30, 2014 we recorded a gain on foreign exchange, primarily as the result of gains realized on forward currency contracts in the first quarter of 2014. 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 which tend to offset each other creating a partial natural hedge. Forward foreign currency contracts are used to manage a portion of the remaining currency risk. Foreign exchange gains and losses are unpredictable in nature and therefore can be expected to vary significantly from period-to-period and over time.

	YTD 2014	YTD 2013	Variance	
<b>INCOME TAX (EXPENSE) RECOVERY</b>	<b>\$(676)</b>	<b>\$54</b>	<b>\$(730)</b>	<b>(1,351.9)%</b>

The income tax expense relates to the utilization of certain deferred tax assets as well as a portion relating to current tax expense, primarily from the Canadian operations. The deferred tax expense component is \$0.5 million versus a minimal deferred tax recovery in the prior period and the current tax expense is \$0.1 million versus a minimal current tax expense in the prior period. The income tax (expense)/recovery is based on the statutory tax rate of 26.0% (2013 – 25.75%) applied to the income of subsidiaries before taxes, with adjustments for permanent differences between accounting and taxable income.

	YTD 2014	YTD 2013	Variance	
<b>NET INCOME</b>	<b>\$926</b>	<b>\$10</b>	<b>\$916</b>	<b>9,160.0%</b>

The increase in net income for the nine months ended September 30, 2014 was the result of the improving gross profit from growth in our sales volume and better operating leverage and lower financing expenses, offset by higher SG&A costs.

	YTD 2014	YTD 2013	Variance	
<b>ADJUSTED NET INCOME</b>	<b>\$2,374</b>	<b>\$2,017</b>	<b>\$357</b>	<b>17.7%</b>

Adjusted for the impact of certain non-cash items recognized in net income, Adjusted Net Income for the nine months ended September 30, 2014 increased from the higher operating results for the period.

## 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.

A summary of the composition of our working capital as at September 30, 2014 compared to 2013 is provided below (\$000's):

	September 30 2014	September 30 2013
<b>Investment in working capital assets</b>		
Cash	\$ 1,751	\$ 2,114
Accounts receivable	23,159	18,153
Inventories	49,950	32,807
Other current assets	4,122	1,422
	\$ 78,982	\$ 54,496
<b>Less current liabilities</b>		
Senior Revolving Facility	(31,021)	(14,299)
Accounts payable and accrued liabilities	(14,938)	(8,863)
Other current liabilities	(457)	(1,193)
Current portion of long-term debt	(1,938)	(1,834)
	(48,354)	(26,189)
Net investment in working capital	\$ 30,628	\$ 28,307

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.

As at September 30, 2014 accounts receivable has increased as a result of the higher volumes in the third quarter of 2014 compared to third quarter of 2013. Inventories also have increased, starting in the first quarter of 2014, due to an increase in raw material purchases to service the additional volumes projected for both the Canadian and US operations and we have begun to cautiously build up finished goods inventory to meet future demand. The increases in the Senior Revolving Facility and accounts payable and accrued liabilities were to fund the inventory purchases.

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, growth requirements and meet our objective of minimizing inventories on hand.

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

## 8.2. Liquidity and Capital

### Cash Flow

The following is a summary of our cash flow for the three and nine months ended September 30, 2014 and 2013 (\$000's – bracketed figures indicate use of cash):

	Three Months Ended September 30		Nine Months Ended September 30	
	2014	2013	2014	2013
Cash provided by (used in) operating activities	\$ 2,828	\$ 1,299	\$ 7,259	\$ 6,675
Working capital adjustments	(5,116)	1,581	(15,833)	(6,927)
Net cash (used in) provided by operating activities	\$ (2,288)	\$ 2,880	\$ (8,574)	\$ (252)
Net cash (used in) provided by investing activities	\$ (199)	\$ 331	\$ (583)	\$ 57
Cash flows from financing activities				
Repayment of Senior Term Loan	(104)	(125)	(339)	(375)
Repayment of long-term debt	(497)	(367)	(1,439)	(1,112)
Conversion of Warrants	-	-	115	171
Interest paid	(624)	(749)	(1,983)	(2,286)
Redemption of Debentures	-	-	(175)	-
Advance on (repayment of) Senior Revolving Facility	3,211	(2,307)	13,453	3,514
Net cash provided by (used in) financing activities	\$ 1,986	\$ (3,548)	\$ 9,632	\$ (88)
Exchange rate changes on foreign cash balances	11	(18)	12	26
Increase (decrease) in cash balances	\$ (490)	\$ (355)	\$ 487	\$ (257)

For the quarter and for the nine months ending September, 2014, the decline in cash provided by operating activities is due to additional funds used for working capital to support the growth in the business, primarily for more raw material purchases.

Cash flows used in investing activities were primarily the result of maintenance capital expenditures during the three and nine month periods ended June 30, 2014 and 2013.

During the three and nine months ended September 30, 2014 we made repayments of \$0.5 million and \$1.5 million in reduction of long-term debt.

During the three month period we drew \$3.2 million (2013 - \$2.3 million repayment) on the Senior Revolving Facility and during the nine months ended September 30, 2014 we drew \$13.5 million (2013 - \$3.5 million draw) to support working capital needs as noted above primarily for the purchase of raw materials.

### **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 September 30, 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 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 \$4.0 million has been initially 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.

### **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.

## **9. CAPITAL EXPENDITURES AND CAPACITY**

For the three and nine month periods ended September 30, 2014, we made capital expenditures of \$199,000 and \$583,000 (2013 - \$108,000 and \$382,000) 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 for the remainder of the year.

## **10. CONTRACTUAL OBLIGATIONS AND COMMITMENTS**

As of September 30, 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 (in '000's).



	2014	2015	2016	2017	2018	Thereafter	Total
<b>Commitments</b>							
Wire Rod Purchases	\$ 17,170	\$ 24,911	\$ -	\$ -	\$ -	\$ -	\$ 42,081
Finished Goods	1,516	-	-	-	-	-	1,516
Operating Lease Agreements	398	1,389	1,277	82	47	34	3,227
	19,084	26,300	1,277	82	47	34	46,824
<b>Financial Liabilities</b>							
Senior Revolving Facility	31,021	-	-	-	-	-	31,021
Accounts Payable and accrued liabilities	14,938	-	-	-	-	-	14,938
Finance Lease	20	37	7	7	7	3	81
Senior Term Loan	103	413	413	413	413	2,198	3,953
Long-term debt	370	1,479	1,558	1,614	1,614	11,691	18,326
	46,452	1,929	1,978	2,034	2,034	13,892	68,319
<b>Total</b>	<b>\$ 65,536</b>	<b>\$ 28,229</b>	<b>\$ 3,255</b>	<b>\$ 2,116</b>	<b>\$ 2,081</b>	<b>\$ 13,926</b>	<b>\$ 115,143</b>

The wire rod purchases are for raw materials to be used in the day-to-day operations of our manufacturing facilities, are in the normal course and are expected to be delivered by April 30, 2015. The finished goods purchases are also in the normal course and are expected to be delivered before the end of 2014.

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. We did not have any outstanding foreign exchange currency forward contracts as at September 30, 2014.

## 11. SUMMARY OF QUARTERLY FINANCIAL INFORMATION

The table below provides selected quarterly financial information for the eight most recent fiscal quarters to September 30, 2014 (\$000's, except tons and per share 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.

In \$000's except for tonnage and per share amounts	Sep-30 2014	Jun-30 2014	Mar-31 2014	Dec-31 2013	Sep-30 2013	Jun-30 2013	Mar-31 2013	Dec-31 2012
<i>Sales Volumes – Tons</i>	36,491	36,398	35,136	27,295	29,345	29,160	27,601	21,583
Revenue	47,974	47,782	45,923	35,748	39,003	40,594	38,093	28,657
Gross Profit	5,215	4,626	5,312	3,769	3,896	5,396	4,236	1,314
EBITDA	2,367	1,946	2,135	1,000	1,550	2,859	1,809	(1,132)
Foreign exchange gain (loss)	38	(208)	524	5	(23)	106	26	12
EBITDA including foreign	2,405	1,738	2,659	1,005	1,527	2,965	1,835	(1,120)
Net Income (Loss)	390	175	361	(665)	(43)	190	(137)	(2,345)
EPS – Basic	0.01	0.01	0.01	(0.03)	(0.00)	0.01	(0.01)	(0.11)
Gross Profit per Ton	143	127	151	138	133	185	153	61
EBITDA per Ton	65	53	61	37	53	98	66	(52)

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

## 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 significant accounting policies are described in Note 3 of the December 31, 2013 audited consolidated financial statements, Note 3 to the September 30, 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).

## 13. RELATED PARTY TRANSACTIONS

### Transactions with associated companies

The Futura Corporation ("Futura") is considered to be a related party to the Company because of its share ownership interest and the fact that Mr. Doman, the sole shareholder and president of Futura, and Mr. Rosenfeld, the Executive Vice President of Futura, sit on the Board of Directors. Futura had purchased \$5.0 million of Debentures and was issued 1,875,000 Warrants (after the Share Consolidation the Warrants are convertible into 937,500 Common Shares). In the first quarter, Futura converted the \$5.0 million of Debentures into 10.0 million shares (5.0 million post-consolidation shares) of the Company. Based on Tree Island Steel's fully diluted common shares as at September 30, 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, \$0.7 million and 2.4 million (2013 - \$0.5 million and \$2.4 million) during the three and nine months ended September 30, 2014, and trade accounts receivable owing from CanWel as at September 30, 2014 were \$0.2 million (2013 - \$0.1 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 and nine month periods ended September 30, 2014 were \$0.4 million and \$1.7 million (2013 - \$0.4 million and \$1.4 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.

## 14. RISKS AND UNCERTAINTIES

Investment in Tree Island Steel is subject to a number of risks. Our income is dependent upon the wire products business, which is susceptible to a number of risks. A detailed discussion of our significant business risks is provided in the 2013 Annual Information Form under the heading "Risk Factors" which can be found at [www.sedar.com](http://www.sedar.com). There was no change in the risks as disclosed in the AIF during the nine months.

## **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, 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 September 30, 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 September 30, 2014 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, 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.

November 6, 2014

**Tree Island Steel Ltd.****INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION***(in thousands of Canadian dollars - unaudited)*

	September 30 2014	December 31 2013
<b>Assets</b>		
<i>Current</i>		
Cash	1,751	1,264
Accounts receivable (Note 5)	23,159	16,960
Inventories (Note 6)	49,950	35,307
Prepaid expenses	4,122	1,691
	78,982	55,222
<i>Property, plant and equipment (Note 7)</i>	29,379	30,255
<i>Other non-current assets</i>	127	158
	108,488	85,635
<b>Liabilities</b>		
<i>Current</i>		
Senior Revolving Facility (Note 8.1)	31,021	16,370
Accounts payable and accrued liabilities	14,938	7,619
Income taxes payable	305	201
Other current liabilities	152	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)	1,938	1,911
	48,354	41,157
<i>Senior Term Loan (Note 8.2)</i>	3,541	3,792
<i>Long-term debt (Note 10)</i>	9,527	9,718
<i>Other non-current liabilities ( Note 10, 17 )</i>	598	701
<i>Deferred income taxes ( Note 14 )</i>	3,037	2,487
	65,057	57,855
<b>Shareholders' Equity</b>	43,431	27,780
	108,488	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 September 30		Nine Months Ended September 30	
	2014	2013	2014	2013
Sales	47,974	39,003	141,679	117,690
Cost of goods sold (Note 6)	42,059	34,379	124,429	101,990
Depreciation	700	728	2,097	2,172
Gross profit	5,215	3,896	15,153	13,528
Selling, general and administrative expenses	3,548	3,074	10,802	9,482
Operating income	1,667	822	4,351	4,046
Foreign exchange gain (loss)	38	(23)	354	109
Loss on sale of property, plant and equipment	-	(42)	(10)	(42)
Gain on sale of subsidiary	-	231	-	231
Changes in financial liabilities recognized at fair value	154	(8)	(111)	12
Financing expenses (Note 11)	(913)	(1,476)	(2,982)	(4,400)
Income (loss) before income taxes	946	(496)	1,602	(44)
Income tax (expense) recovery (Note 14)	(556)	453	(676)	54
<b>Net income (loss)</b>	<b>390</b>	<b>(43)</b>	<b>926</b>	<b>10</b>
<b>Net income (loss) per share (Note 16)</b>				
Basic	0.01	0.00	0.03	0.00
Diluted	0.01	0.00	0.03	0.00
<b>Weighted-average number of shares (Note 16)</b>				
Basic	30,343,823	23,888,215	30,343,823	23,627,868
Diluted	31,170,450	23,888,215	31,347,539	24,406,130

*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)*

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	Three Months Ended September 30		Nine Months Ended September 30	
	2014	2013	2014	2013
<b>Net income (loss)</b>	390	(43)	\$ 926	\$ 10
Other comprehensive income				
Unrealized income on translating financial statements of subsidiary operations	(347)	(69)	(123)	358
<b>Comprehensive income (loss)</b>	43	(112)	803	368

*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
<b>Balance as at March 31, 2014</b>	<b>229,762</b>	<b>21</b>	<b>(187,070)</b>	<b>339</b>	<b>43,052</b>
Net Income	-	-	175	-	175
Other comprehensive income	-	-	-	183	183
<b>Balance as at June 30, 2014</b>	<b>229,762</b>	<b>21</b>	<b>(186,895)</b>	<b>522</b>	<b>43,410</b>
Conversion of Convertible Debentures (Note 9)	(22)	-	-	-	(22)
Net Income	-	-	390	-	390
Other comprehensive income	-	-	-	(347)	(347)
<b>Balance as at September 30, 2014</b>	<b>229,740</b>	<b>21</b>	<b>(186,505)</b>	<b>175</b>	<b>43,431</b>
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
<b>Balance as at March 31, 2013</b>	<b>212,091</b>	<b>693</b>	<b>(186,913)</b>	<b>21</b>	<b>25,892</b>
Conversion of Convertible Debentures	23	(1)	-	-	22
Net Income	-	-	190	-	190
Other comprehensive income	-	-	-	256	256
<b>Balance as at June 30, 2013</b>	<b>212,114</b>	<b>692</b>	<b>(186,723)</b>	<b>277</b>	<b>26,360</b>
Conversion of Convertible Debentures	47	(2)	-	-	45
Net loss	-	-	(43)	-	(43)
Other comprehensive income	-	-	-	(69)	(69)
<b>Balance as at September 30, 2013</b>	<b>212,161</b>	<b>690</b>	<b>(186,766)</b>	<b>208</b>	<b>26,293</b>

*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 September 30		Nine Months Ended September 30	
	2014	2013	2014	2013
<b>Cash flows from operating activities</b>				
Net income (loss)	390	(43)	926	10
Adjustments for				
Depreciation	700	728	2,097	2,172
Changes in financial liabilities recognized at fair value	(154)	8	111	(12)
Loss on sale of property, plant and equipment	-	42	10	42
Amortization and write-off of deferred financing	10	16	179	47
Net finance costs	903	1,460	2,803	4,353
Deferred income tax (recovery) expense	449	(438)	550	(68)
Exchange revaluation on foreign denominated debt	530	(243)	583	362
Gain on sale of subsidiary	-	(231)	-	(231)
Working capital adjustments:				
Accounts Receivable	1,337	2,477	(5,889)	(5,948)
Inventories	(7,589)	2,038	(13,887)	373
Accounts payable and accrued liabilities	1,624	(2,168)	6,908	(893)
Prepaid expenses	355	(374)	(2,392)	796
Income and other taxes	107	(15)	126	14
Other	(950)	(377)	(699)	(1,269)
<b>Net cash provided by (used in) operating activities</b>	<b>(2,287)</b>	<b>2,880</b>	<b>(8,573)</b>	<b>(252)</b>
<b>Cash flows from investing activities</b>				
Proceeds from sale of subsidiary, net of costs	-	439	-	439
Purchase of property, plant and equipment	(199)	(108)	(583)	(382)
<b>Net cash used in investing activities</b>	<b>(199)</b>	<b>331</b>	<b>(583)</b>	<b>57</b>
<b>Cash flows from financing activities</b>				
Repayment of Senior Term Loan	(104)	(125)	(339)	(375)
Repayment of long-term debt	(497)	(367)	(1,439)	(1,112)
Conversion of warrants	-	-	115	171
Interest paid	(624)	(749)	(1,983)	(2,286)
Redemption of debentures	-	-	(175)	-
Advance on (repayment of) Senior Revolving Facility	3,211	(2,307)	13,453	3,514
<b>Net cash used in provided by (used in) financing activities</b>	<b>1,987</b>	<b>(3,548)</b>	<b>9,633</b>	<b>(88)</b>
<b>Effect of exchange rate changes on cash</b>	<b>11</b>	<b>(18)</b>	<b>12</b>	<b>26</b>
<b>Increase (decrease) in cash</b>	<b>(490)</b>	<b>(355)</b>	<b>487</b>	<b>(257)</b>
<b>Cash, beginning of period</b>	<b>2,241</b>	<b>2,469</b>	<b>1,264</b>	<b>2,371</b>
<b>Cash, end of period</b>	<b>1,751</b>	<b>2,114</b>	<b>1,751</b>	<b>2,114</b>

*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, 2014 and 2013*

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

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#### **1. NATURE OF BUSINESS**

These consolidated financial statements of Tree Island Steel Ltd. ("Tree Island Steel" or the "Company") for the three and nine months ended September 30, 2014 were authorized for issue in accordance with a resolution of the Board of Directors on November 6, 2014.

Tree Island Steel's operations were established in 1964 and it owns 100% of the common shares of Tree Island Industries Ltd. ("TII") (collectively "Tree Island"). The Company supplies a diverse range of steel wire and fabricated steel wire products to customers in Canada, the United States, and internationally. Tree Island Steel is headquartered at 3933 Boundary Road, Richmond, British Columbia, Canada and its common 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 Ltd. was incorporated under the laws of Canada on August 2, 2012 and following this, 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 its wholly owned operating subsidiary TII, and all obligations of the Fund have been assumed by Tree Island Steel. The trustees of the Fund became the directors of Tree Island Steel and the officers and management of the Fund became officers and management of Tree Island Steel.

Pursuant to the Corporate Conversion, 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 and nine months ended September 30, 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 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, 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.

## Tree Island Steel Ltd.

### NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the three and nine months ended September 30, 2014 and 2013

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

#### 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.

#### 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

	September 30	December 31
	2014	2013
Accounts Receivable		
Current	21,224	15,451
30-60 days past due	1,322	1,011
61-90 days past due	323	426
Over 91 days past due	506	261
	23,375	17,149
Allowance for doubtful accounts	(216)	(189)
Balance, end of period	23,159	16,960

The credit risk that Tree Island is exposed to by way of its accounts receivable is equal to the net balance of accounts receivable at the end of the period.

## Tree Island Steel Ltd.

### NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the three and nine months ended September 30, 2014 and 2013

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

## 6. INVENTORIES

	September 30 2014	December 31 2013
Raw materials	17,824	10,282
Finished and semi finished products	22,992	17,349
Consumable supplies and spare parts	9,134	7,676
	49,950	35,307

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 months ended September 30, 2014 and 2013, cost of goods sold was recognized for the following:

	Three Months Ended September 30		Nine Months Ended September 30	
	2014	2013	2014	2013
Opening inventory	41,658	35,161	35,307	32,732
Raw material purchases	35,808	21,735	98,025	71,532
Finished goods purchased for resale	2,145	1,304	6,034	3,799
Conversion costs	12,398	8,986	35,013	26,734
Inventories, closing	(49,950)	(32,807)	(49,950)	(32,807)
Cost of goods sold	42,059	34,379	124,429	101,990

## 7. PROPERTY, PLANT, AND EQUIPMENT

<i>Additions and Disposals of Fixed Assets</i> (CAD\$'000 unless otherwise stated)	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	-	175	444	243	862
Disposals	-	-	(15)	-	(15)
Foreign currency translation	80	303	323	-	706
As at September 30, 2014	9,281	39,854	18,269	486	67,890
Accumulated depreciation and impairment	-				
As at December 31, 2013	-	28,236	7,846	-	36,082
Depreciation charge for the period	-	990	1,057	-	2,047
Disposals	-	-	(5)	-	(5)
Foreign currency translation	-	215	172	-	387
As at September 30, 2014	-	29,441	9,070	-	38,511
Net book values as at:					
December 31, 2013	9,201	11,140	9,671	243	30,255
As at September 30, 2014	9,281	10,413	9,199	486	29,379

## Tree Island Steel Ltd.

### NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the three and nine months ended September 30, 2014 and 2013

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

## 8. SENIOR CREDIT FACILITY

On April 21, 2014, the Company renewed its senior banking facility with Wells Fargo Capital Finance Corporation Canada ("Wells Fargo"). The five year senior secured committed banking facility (the "Senior Credit Facility") was increased to \$60 million and 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 \$4.0 million was advanced as a term loan. Additionally, the Senior Credit Facility includes a \$10 million Letter of Credit sub-facility to 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 September 30, 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:

	September 30	December 31
	2014	2013
Senior Term Loan, beginning of period	4,292	4,792
Payments	(339)	(500)
Senior Term Loan, end of period	3,953	4,292
Less current portion	(412)	(500)
	3,541	3,792

## 9. CONVERTIBLE DEBENTURES

	September 30	December 31
	2014	2013
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

On January 27, 2014, the Company announced that it would redeem all of the Convertible Debentures on March 4, 2014 (the "Redemption Date"). On the Redemption Date, the Company 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

## Tree Island Steel Ltd.

### NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the three and nine months ended September 30, 2014 and 2013

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

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.

Between January 1, 2014 and the Redemption Date, \$15.9 million of Convertible Debentures were converted into 31,938,800 pre-consolidation Shares (15,969,400 post-consolidation Shares). On the Redemption Date, the Company completed the redemption of its Convertible Debentures scheduled to mature on November 26, 2014 for an aggregate principal amount of \$175 thousand.

## 10. LONG-TERM DEBT

	Year of Maturity	September 30 2014	December 31 2013
Beginning of period	2028	11,069	10,833
Payments		(1,439)	(1,519)
Foreign exchange revaluation		583	732
Accretion of debt discount		793	1,023
End of period		11,006	11,069
Less current portion		(1,479)	(1,351)
		9,527	9,718

A provision exists for early payment of a portion of the principal outstanding if certain conditions are met. As at September 30, 2014, a provision of \$0.4 million (2013 - \$0.1 million) has been accrued and is included in other noncurrent liabilities.

## 11. FINANCING EXPENSES

	Three months ended September 30		Nine Months Ended September 30	
	2014	2013	2014	2013
Non-cash accretion of debt discount and interest on long-term debt and Convertible Debentures	263	723	787	2,088
Cash interest on debentures	-	460	534	1,399
Interest on Senior Credit Facility	200	171	598	466
Other interest and financing costs	440	106	884	400
Amortization of deferred financing costs	10	16	179	47
	913	1,476	2,982	4,400

## Tree Island Steel Ltd.

### NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the three and nine months ended September 30, 2014 and 2013

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

## 12. SHAREHOLDERS' CAPITAL

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

	Shares	Gross	Issuance Costs <sup>(1)</sup>	Net
Shareholders' capital - December 31, 2013	28,546,350	\$ 225,707	\$ 11,400	\$ 214,307
Conversion of Convertible Debentures	31,938,800	15,340	-	15,340
Conversion of Warrants	202,500	115	-	115
Shareholders' capital - March 31, 2014	60,687,650	\$ 241,162	\$ 11,400	\$ 229,762
Effect of reverse stock split (2 for 1)	(30,343,827)	\$ -	\$ -	\$ -
Shareholders' capital - June 30, 2014	30,343,823	\$ 241,162	\$ 11,400	\$ 229,762
Legal fees on Conversion of Convertible Debentures	-	(22)	-	(22)
Shareholders' capital - September 30, 2014	30,343,823	\$ 241,140	\$ 11,400	\$ 229,740

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

The Company's shareholders approved the previously announced consolidation of the Company's Common Shares on the basis of one (1) post-consolidation Common Share for every two (2) pre-consolidation Common Shares (the "Share Consolidation") which was effective May 13, 2014.

### Warrants

In 2009, the Fund issued Warrants to certain investors as part of the issuance of the Convertible Debentures. The Warrants had an exercise price of \$0.57 and expire November 26, 2014. However after the Share Consolidation the exercise price on the warrants is \$1.14 and the number of Warrants outstanding was reduced to on the same basis as the Common Shares upon the Share Consolidation. No Warrants were exercised during the three months ended September 30, 2014. For the nine months ended September 30 2014, 202,500 Warrants were exercised for proceeds of \$115 thousand. As at September 30, 2014 there were 2,186,250 warrants outstanding.

## 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 had purchased \$5.0 million of the Convertible Debentures and at the time was issued 1,875,000 Warrants (after the Share Consolidation the Warrants are convertible into 937,500 Common Shares). Futura converted \$5.0 million in Convertible Debentures to 10.0 million shares (5.0 million post-consolidation shares) of Tree Island Steel. Based on Tree Island Steel's fully diluted common shares as at September 30, 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, \$0.7 million and \$2.4 million (2013 - \$0.5 million and 2.4 million) during the three and nine months ended September 30, 2014. Trade accounts receivable owing from CanWel as at September 30, 2014 was \$0.2 million (2013 - \$0.1 million). Outstanding trade accounts receivable from CanWel at period end are unsecured, interest free and settlement occurs in cash.

## Tree Island Steel Ltd.

### NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the three and nine months ended September 30, 2014 and 2013

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

#### 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 and nine months ended September 30, 2014 were \$0.4 million and \$1.7 million (2013 - \$0.4 million and \$1.4 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.

## 14. INCOME TAXES

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

	Three Months Ended September 30		Nine Months Ended September 30	
	2014	2013	2014	2013
<i>Recorded in the statement of operations</i>				
Current tax expense	(107)	15	(126)	(14)
Deferred tax (expense) recovery	(449)	438	(550)	68
	(556)	453	(676)	54

## 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.

	September 30, 2014		December 31, 2013	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial assets				
Cash	1,751	1,751	1,264	1,264
Accounts receivable	23,159	23,159	16,960	16,960
Foreign exchange forward contracts	-	-	111	111
Total financial assets	24,910	24,910	18,335	18,335
Financial liabilities				
Senior Revolving Facility	31,021	31,021	16,370	16,370
Accounts payable and accrued liabilities	14,938	14,938	7,619	7,619
Finance lease	73	73	86	86
Senior Term Loan	3,953	3,953	4,292	4,292
Long-term debt	11,006	13,118	11,069	11,834
Convertible debentures	-	-	14,696	16,534
Change of control premium	-	-	241	241
Early payment option	432	432	410	410
Total financial liabilities	61,423	63,535	54,783	57,386



## Tree Island Steel Ltd.

### NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the three and nine months ended September 30, 2014 and 2013

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

- Cash, accounts receivable, Senior Revolving Facility, and accounts payable and accrued liabilities approximate their carrying amounts largely due to the short-term nature of these instruments.
- Fair value on the Company's finance lease, Senior Term Loan, and long-term debt are based on estimated market interest rate on similar borrowings. The fair value of the finance lease and Senior Term Loan approximate fair value as the interest rates approximate market. A 1% change in the market interest rate would change the fair value of long term debt by \$632 thousand.
- Convertible Debentures were traded on the TSX prior to the conversion/redemption in the first quarter of 2014 and the fair value disclosed was 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.

	September 30, 2014	Level 1	Level 2	Level 3
Accounts receivable	23,159	-	-	23,159
Senior revolving facility	31,021	-	31,021	-
Accounts payable and accrued liabilities	14,938	-	-	14,938
Finance lease	73	-	73	-
Senior term loan	3,953	-	3,953	-
Long-term debt	11,006	-	-	11,006
Early payment option	432	-	-	432
Foreign Exchange Forward Contracts	-	-	-	-
	84,582	-	35,047	49,535

## Tree Island Steel Ltd.

### NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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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 \$22 thousand
	DCF	Change in discount rate	1% increase in the discount rate would result in an increase in fair value of \$12 thousand, while 1% decrease in the discount rate would result in a \$13 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.

## Tree Island Steel Ltd.

### NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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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 September 30, 2014 and December 31, 2013:

<b>September 30, 2014</b>	<b>Carrying Amount</b>	<b>Contractual Cash Flow</b>	<b>Less than 1 Year</b>	<b>1 - 2 Years</b>	<b>Greater than 2 Years</b>
Senior Revolving Facility	31,021	31,021	31,021	-	-
Accounts payable and accrued liabilities	14,938	14,938	14,938	-	-
Finance lease (Note 22.5)	73	81	51	30	-
Senior Term Loan (Note 9.2)	3,953	3,953	420	825	2,708
Long-term debt (Note 11)	11,006	19,765	1,809	3,037	14,919
Convertible debentures (Note 10)	-	-	-	-	-
	<b>60,991</b>	<b>69,758</b>	<b>48,239</b>	<b>3,892</b>	<b>17,627</b>

<b>December 31, 2013</b>	<b>Carrying Amount</b>	<b>Contractual Cash Flow</b>	<b>Less than 1 Year</b>	<b>1 - 2 Years</b>	<b>Greater than 2 Years</b>
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	-	-
	<b>54,132</b>	<b>65,454</b>	<b>43,916</b>	<b>3,908</b>	<b>17,630</b>

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 \$343 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 company had no US dollar currency forward contracts outstanding as at September 30, 2014.

##### 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 \$310 thousand. Tree Island does not use derivative instruments to manage the interest rate risk.

## Tree Island Steel Ltd.

### NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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## 16. NET INCOME (LOSS) PER SHARE

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

	Three Months Ended September 30		Nine Months Ended September 30	
	2014	2013	2014	2013
Weighted average number of shares				
outstanding during the period - basic	30,343,823	23,888,215	30,343,823	23,627,868
Dilutive effect of:				
Warrants	826,627	-	1,003,716	778,262
Weighted average number of shares				
outstanding during the period - diluted	31,170,450	23,888,215	31,347,539	24,406,130

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

### 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.

### Purchase commitments

The Company's operating subsidiaries have committed to raw material purchases totaling \$42.1 million (US\$37.5 million) at September 30, 2014 and imported finished goods purchases of \$1.5 million (US\$1.3 million). These purchases are in the normal course of operations.

### Finance lease commitments

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

	Minimum	2014 Present	Minimum	2013 Present
	Payments	Value of	Payments	Value of
		Payments		Payments
Less than 1 year	51	47	66	60
1 to 5 years	30	26	26	26
More than 5 years	-	-	-	-
Total minimum lease payments	81	73	92	86
Less amounts representing finance charges	(8)	-	(6)	-
Present value of minimum lease payments	73	73	86	86

## Tree Island Steel Ltd.

### NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the three and nine months ended September 30, 2014 and 2013

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

## 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 and nine months ended September 30, 2014 and 2013 were as follows:

	Three Months Ended September 30		Nine Months Ended September 30	
	2014	2013	2014	2013
Industrial	18,971	15,563	54,845	40,574
Residential construction	13,978	11,565	40,112	35,211
Commercial construction	7,436	6,336	21,325	20,100
Agricultural	3,008	2,253	12,886	10,959
Specialty	4,581	3,286	12,511	10,846
	47,974	39,003	141,679	117,690

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 September 30		Nine Months Ended September 30	
	2014	2013	2014	2013
Sales <sup>(1)</sup>				
Canada	15,799	13,055	47,149	42,437
United States	31,142	24,957	91,150	72,009
Other	1,033	991	3,380	3,245
	47,974	39,003	141,679	117,691

<sup>(1)</sup> 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
	2014	2013
Non-current assets		
Canada	22,148	23,054
United States	7,356	7,357
China	2	2
	29,506	30,413

## SHAREHOLDER INFORMATION

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

### Board of Directors:

Amar S. Doman –  
Chairman of the Board

Dale R. MacLean

Harry Rosenfeld

Michael Fitch

Sam Fleiser

Theodore A. Leja



### Leadership Team:

Dale R. MacLean  
*President and Chief Executive Officer*

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

Stephen Ogden  
*Vice President, Operations*

Remy Stachowiak  
*Vice President, Sales and Marketing*

James Miller  
*Vice President, Corporate Development and Procurement*

### Shares:

#### *Market Information*

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

#### *Registrar and Transfer Agent*

Computershare Investor Services Inc.

### Corporate Head Office:

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

### Website:

[www.treeisland.com](http://www.treeisland.com)

### Investor Relations:

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Investor Relations  
(416)-962-3300 or  
+1(866)-430-6247  
[amahdavi@treeisland.com](mailto:amahdavi@treeisland.com)

### Auditors:

Ernst & Young LLP  
Vancouver, B.C.