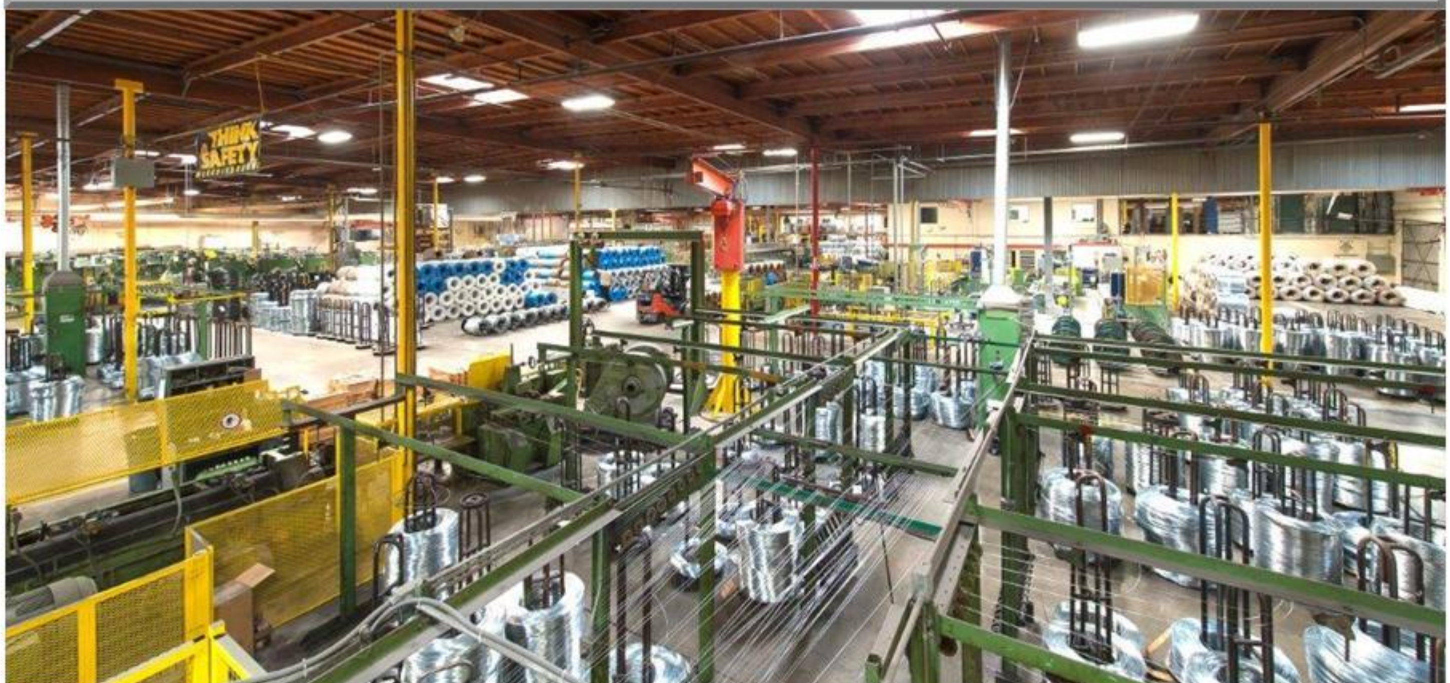
TREE ISLAND STEEL

WIRE & WIRE PRODUCTS ESTABLISHED IN 1964



2014 Annual Results

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

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

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

TO OUR SHAREHOLDERS

Letter to Shareholders

This past year was an exciting year for the Company as 2014 marked Tree Island Steel's 50th anniversary and also saw the Company continue to build on the prior year's growth momentum. The growth in our business this year did not come without challenges. Both domestic and international competitors remained focused on capturing market share and aggressively priced their products throughout the year. Despite the strong competition, the strategies we implemented included leveraging our brand, expanding relationships with existing customers, building new customer relationships and providing best in class quality and service, enabled us to continue to expand our business in 2014 by 23.4% in terms of volume, and 19.9% in terms of revenue when compared to the prior year. Overall sales volume for 2014 was 139,935 tons and total revenues totalled $183.944 million.

As a result of our growth this year, we increased our production workforce, resulting in additional direct and indirect production training costs coupled with lower production efficiency as the workforce acclimated to our production processes. With increased production volumes this year, we made additional investment in equipment to ensure production efficiency and safety. These actions resulted in an additional $1.676 million of cost and had an initial impact on our performance and efficiency levels, particularly in our second quarter, but did not have a long term affect on our operations. While these steps impacted on our financial performance, they were necessary for the further growth and profitability of the business.

Gross profit for the year totalled $19.324 million compared to $17.296 million last year, an increase of 11.7%. Gross profit growth was hindered in part due to lower prices as a result of pricing competition from domestic and international competitors and the additional costs associated with achieving the higher levels of production. This is reflected in our gross profit margin, which was 10.5% in 2014 compared to 11.3% in the year prior.

In 2014 we undertook several key corporate actions to strengthen our Company. This included a share consolidation, the redemption/conversion of debentures to reduce our interest expense and increasing the credit limit of our credit facility to support the growth of our business. These initiatives resulted in a capital structure able to support strong growth.

We look forward to building on the growth we experienced in 2014. We will continue to monitor market conditions, such as continued competition from domestic and international manufacturers, uncertainty of commodity prices, the weakness of the Canadian currency, the growth of the North American residential and industrial construction markets and other macro-economic factors. Further, we will adapt our business strategy as appropriate to enable us to capitalize on these opportunities, minimize the impact of adverse conditions and ensure the Company's financial foundation remains solid.

The past 50 years of Tree Island's history stands as testament to the hard work, dedication and contributions made of all of our employees that have worked and are currently working at our Company along with the support provided by our customers, suppliers and investors. We are pleased to be a part of the Company during its 50th year in business and we want to extend our sincere appreciation to all of Tree Island's past and current employees, customers, suppliers and investors for making it happen.

Sincerely,

Amar S. Doman
Chairman of the Board of Directors

Dale R. Maclean
Director, President and Chief Executive Officer

MANAGEMENT DISCUSSION AND ANALYSIS

December 31, 2014 and 2013

The following is a discussion of the financial condition and results of operations of Tree Island Steel Ltd. (”Tree Island Steel” or the “Company”) and its wholly owned operating subsidiary Tree Island Industries Limited (“TII”) (together with Tree Island Steel, referred to as “Tree Island”). This discussion is current to February 19, 2015 and should be read in conjunction with the consolidated financial statements for the year ended December 31, 2014. Tree Island Steel’s consolidated financial statements are prepared in accordance with International Financial Reporting Standards (“IFRS”) applicable to the preparation of financial statements and are reported in Canadian dollars. Additional information relating to Tree Island Steel, including the audited consolidated financial statements and Annual Information Form (“AIF”) for the year ended December 31, 2014, can be found at www.sedar.com or on Tree Island Steel’s website at www.treeisland.com.

1 FORWARD LOOKING STATEMENTS AND RISK

This management’s discussion and analysis (“MD&A”) includes forward-looking information with respect to Tree Island Steel, including our business, operations and strategies, as well as financial performance and conditions. The use of forward-looking words such as, “may,” “will,” “expect” or similar variations generally identify such statements. Any statements that are not statements of historical fact should be considered to be forward-looking statements. Although we believe that the forward-looking statements are reasonable, they involve risks and uncertainties, including the risks and uncertainties discussed under the heading “Risks Relating to the Company’s Business” in the Company’s AIF for the year ended December 31, 2014.

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

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

2 NON-IFRS MEASURES

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

3 TREE ISLAND STEEL LTD.

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

In connection with the Arrangement, the Company assumed all of the covenants and obligations of the Fund relating to the 10% Second Lien Convertible Debentures (the “Debentures”) and the share purchase warrants (the “Warrants”). The Debentures became convertible subordinated debentures of the Company and holders were entitled to receive Shares, rather than Units, at the same conversion price at which the Units were previously issuable upon conversion thereof, subject to adjustment in certain events as provided for in the Debenture Indenture. The Warrants are convertible into Shares at the same price at which the Warrants were convertible into units of the Fund, subject to adjustment as provided for in the Warrant Certificates governing the Warrants.

There were 31,142,573 Shares outstanding as of December 31, 2014 and the same number of Shares were outstanding as of February 19, 2015.

All outstanding Debentures were converted to Shares or redeemed prior to March 4, 2014. Refer to section 4.2 Redemption of Debentures of this MD&A for details. No new debentures were issued in 2014.

All outstanding Warrants were either exercised or expired prior to December 31, 2014. Refer to section 4.5 Warrants of this MD&A for details. No new warrants were issued in 2014.

3.1 ORGANIZATIONAL STRUCTURE

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

3.2 PRODUCTS

Tree Island Industries 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; technical support and excellent customer service. We market our products under the following brands:

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

3.3 MARKETS

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

Markets	Brand	Key Product Groups	Specific End-Use Markets	Regions
Industrial	Tree Island, TI Wire	Low carbon wire (bright/galvanized/annealed) High carbon wire (bright/galvanized/annealed)	Wire fabricating, industrial applications, OEM manufacturing	North America and International
Residential Construction	Tree Island, Halsteel, K-Lath	Collated, bulk and packaged nails Stucco reinforcing mesh	Construction and renovation for new and existing homes	North America and International
Commercial Construction	Tree Island, TI Wire	Welded wire reinforcement mesh Concrete reinforcing products	Commercial construction, mining, infrastructure projects	North America and International

Markets	Brand	Key Product Groups	Specific End-Use Markets	Regions
Agricultural	Tree Island, Tough Strand	Hi-tensile game fence and farm fence Vineyard wire and barbed wire	Agriculture, farming	North America
Specialty Applications	Industrial Alloys	Stainless spring wire Cold heading wire Shaped wire Specialty alloy bar and wire	Consumer products, industrial applications, telecommunications, aerospace, automotive, oil and gas	North America and International

3.4 SEASONALITY

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

4 2014 BUSINESS OVERVIEW AND DEVELOPMENT

4.1 BUSINESS OVERVIEW

Throughout 2014 pricing pressure from both domestic and international competitors depressed overall prices for the products we sold. Nonetheless, we were able to capitalize on our advantages and implement strategies to record year-over-year growth of 23.4% in volume and 19.9% in revenues for the twelve month period ended December 31, 2014. Revenues for the year amounted to $183.944 million on 139,935 tons. Various factors have contributed to the growth, including increased demand in some of our end markets (particularly in the United States), and our efforts to capitalize on our relationships with existing customers, develop new customer relationships and expand the Company's geographic reach. As a result of the higher sales, gross profit in 2014 increased by 11.7 % to $19.324 million and EBITDA grew by 9.1 % to $8.000 million. The pace of growth of the business in 2014 required non-recurring investments in maintenance and staffing, resulting in gross profit and EBITDA for the year growing at a slower pace than volume and revenues.

The strength of the US currency, particularly in the latter part of 2014, was a mixed blessing. With the majority of our sales generated in the US and denominated in the US currency, the strengthening of the US dollar had a positive impact on our US dollar denominated revenues and associated gross profit. However, the pace at which the US currency strengthened during the last quarter of 2014 did not allow us to fully pass on the increase in raw material prices (denominated in US dollars), which hindered the profitability of Canadian dollar denominated sales.

4.2 Redemption of Debentures

On January 27, 2014, the Company announced that it would redeem all of its Debentures scheduled to mature on November 26, 2014 by March 4, 2014 (the "Redemption Date"). By the Redemption Date, the Company had redeemed $174,600 of Debentures. Between January 27, 2014 and the Redemption Date, a total of $15,969,400 in principal amount of Debentures were converted into 31,938,800 Shares (15,969,400 after Share Consolidation).

4.3 Senior Credit Facility

On April 21, 2014 the Company renewed its senior banking facility with Wells Fargo Capital Finance Corporation Canada ("Wells Fargo"). The five year senior secured committed banking facility (the "Senior Credit Facility") was increased from $40 million to $60 million and matures in April of 2019. Under the terms of the Senior Credit Facility, up to $60 million may be borrowed for Tree Island's financing requirements in Canadian and/or US dollars of which $4.125 million was advanced as a term loan. Interest is charged at variable rates based on the Canadian and/or US Prime rate and the Canadian B.A. rate and/or the Eurodollar rate. The amount advanced under the Senior Credit Facility at any time is limited to a defined percentage of inventories, accounts receivable and real estate, less certain reserves. The Senior Credit Facility is secured by a first charge over Tree Island's assets supported by the appropriate guarantees, pledges and assignments, and requires that certain covenants be met by Tree Island.

4.4 Share Consolidation

On March 14, 2014 the Company announced a share consolidation on the basis of one post-consolidation Share for every two pre-consolidation Shares (the "Share Consolidation") that was approved by the shareholders at the Annual and Special Meeting on May 13, 2014.

At the beginning of 2014 there were 28,546,350 Shares outstanding. After accounting for the additional shares issued prior to Share Consolidation, which resulted from the redemption of Debentures and exercising of Warrants, there were 60,687,650 Shares outstanding. After the Share Consolidation, which took effect on May 16, 2014, there were 30,343,823 Shares outstanding.

4.5 Warrants

At the start of 2014, 4,575,000 Warrants were outstanding, each exercisable for one Share at an exercise price of $0.57. The Warrants had an expiration date of November 26, 2014. In the first quarter of 2014, 202,500 warrants were exercised and converted into Shares on a one-for-one basis, resulting in $115,425 of total proceeds that were recorded as share capital on the Company's financial statements.

Immediately prior to the Share Consolidation, there were 4,372,500 pre-consolidation Warrants outstanding. Pursuant to the terms of the pre-consolidation Warrants, after giving effect to the Share Consolidation, the number of pre-consolidation Warrants outstanding was adjusted by the same basis of one Warrant for every two pre-consolidation Warrants to 2,186,250 and each Warrant was exercisable for one Share. The exercise price was also adjusted accordingly such that the exercise price for each Warrant was $1.14.

In the last quarter of 2014, 798,750 Warrants were exercised and converted into Shares on a one-for-one basis. The total proceeds of $910,575 were recorded as share capital on the Company's financial statements. The remaining 1,387,500 Warrants were not exercised and expired on November 26, 2014.

4.6 Share Buy-Back

On September 17, 2014 the company renewed the normal course issuer bid to purchase up to 1,649,000 Shares. For the period January 1, 2014 to December 31, 2014 the Company did not purchase any Shares under the renewed normal course issuer bid.

4.7 Trade Action Reviews

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

4.7.1 US Trade Case Against Steel Nails From Korea, Malaysia, Taiwan and Vietnam

On December 17, 2014, the U.S. Department of Commerce announced interim duty calculations for dumping. The US had earlier excluded nails from India and Turkey on the basis that the volumes of imports did not meet the minimum importation volumes to merit inclusion in the trade case. The interim margins that will apply on nails imported into the US from the noted countries are as follows:

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

A final determination will occur around May 6, 2015 with the United States International Trade Commission final decision on injury coming at the end of June 2015. The Department of Commerce can change the tariff levels at final determination or if new information becomes available.

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

The nails covered by this investigation have a nominal shaft length not exceeding 12 inches including nails made from round wire and nails cut from flat-rolled steel and exclude roofing nails. The US apparent consumption of these nails in 2013 was US$904 million with imports making up 76% of the market. In 2013, the US imported US$352.8 million in nails from the subject countries. China, Taiwan, and Oman are the largest sources of import nails into the US. China already has duties from an earlier trade case.

4.7.2 US Trade Case Against Certain Alloy Steel Wire Rod from People's Republic of China

On November 13, 2014, the US Department of Commerce announced a final determination of anti-dumping and countervailing duties against imports of carbon and certain alloy steel wire rod from China and made a further determination on December 15, 2014 that the US domestic industry has suffered injury as a result.

Dumping margins range from 106.19% to 110.25%. In addition, the US applied countervailing duties on top of the anti-dumping duties that range from 178.46% to 193.31%.

The petitioners for this investigation were ArcelorMittal USA, Charter Steel, Evraz Pueblo (formerly Evraz Rocky Mountain Steel), Gerdau Ameristeel US Inc., Keystone Consolidated Industries, Inc., and Nucor Corporation.

In 2013, imports of carbon and certain alloy steel wire rod from China were valued at an estimated US$313 million.

4.7.3 China Wire Rod Export Rebate

As of December 31, 2014, China cancelled its 9% VAT rebate for boron wire rods in an effort to retain more value added production in China. Prior to this, exports of steel rod of certain alloys, including boron, chrome, and vanadium received VAT rebates from the Chinese government while non-alloy rod was subject to a 15% export tax. The cessation of VAT rebates was for boron rod only and we are not aware of any further discussion up to the date of this report about the application of export taxes on boron rod from China.

5 RESULTS FROM OPERATIONS

($'000 unless otherwise stated)

	Three Months Ended December 31, 2014	Three Months Ended December 31, 2013	Twelve Months Ended December 31, 2014	Twelve Months Ended December 31, 2013	Twelve Months Ended December 31, 2012
Sales Volume – Tons(1)	31,910	27,296	139,935	113,403	102,408
Revenue	42,265	35,748	183,944	153,440	146,238
Cost of sales	(37,367)	(31,250)	(161,798)	(133,242)	(130,126)
Depreciation	(726)	(731)	(2,822)	(2,902)	(3,074)
Gross profit	4,172	3,767	19,324	17,296	13,038
Selling, general and administrative expenses	(3,613)	(3,500)	(14,415)	(12,982)	(12,529)
Operating income	559	267	4,909	4,314	509
Foreign exchange gain (loss)	(84)	5	269	114	88
Gain (loss) on sale of property, plant and equipment	(4)	1	(14)	(41)	447
Property, plant and equipment impairment reversal	-	671	-	671	-
Gain (loss) on sale of subsidiary	-	(13)	-	218	-
Gain (loss) Loss on renegotiated Debt	-	-	-	-	17,805
Changes in financial liabilities recognized at FV	183	(147)	71	(134)	(717)
Financing Expenses	(843)	(1,489)	(3,826)	(5,890)	(7,300)
Income before income taxes	(189)	(705)	1,409	(748)	10,832
Income tax (expense) recovery	245	40	(431)	95	(458)
Net Income (Loss)	56	(665)	978	(653)	10,374
Operating Income	559	267	4,909	4,314	509
Add back Depreciation	726	731	2,822	2,902	3,074
Foreign exchange gain / (loss)	(84)	5	269	114	88
EBITDA(2)	1,201	1,003	8,000	7,330	3,671
Net Income (Loss)	56	(665)	978	(653)	10,374
Non-cash financing expenses	270	662	1,063	2,750	3,961
Non-cash gain on renegotiated debt	-	-	-	-	(17,805)
Changes in fair value of financial instruments	(183)	147	(71)	134	717
Deferred tax	(49)	582	501	514	1,207
Adjusted net income(2)	94	726	2,471	2,745	(1,546)
Net income per share - basic ($/share)	0.00	(0.03)	0.03	(0.05)	0.47
Net income per share - diluted ($/share)	0.00	(0.03)	0.03	(0.05)	0.25
Gross profit per ton ($/ton)	131	138	138	153	127
EBITDA per ton ($/ton)	38	37	57	65	36

Financial position as at:	As at December 31, 2014	As at December 31, 2013	As at December 31, 2012
Total assets	112,106	85,634	81,106
Total non-current financial liabilities	13,073	13,102	29,652

(1) Sales Volumes exclude tons which were processed as part of tolling arrangements.

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

6 COMPARISON OF RESULTS FOR THE THREE MONTHS ENDED DECEMBER 31, 2014 AND 2013

($'000 unless otherwise stated)	**Q4 2014**	**Q4 2013**	**Variance Fav/(Unfav)**	
Sales	42,265	35,748	6,517	18.2%

Revenue by Market Segment
($'000 unless otherwise stated)

	Three Months Ended December 31, 2014				Three Months Ended December 31, 2013			
	Revenue	% of Revenue	Sales Volume (Tons)	% of Sales Volume	Revenue	% of Revenue	Sales Volume (Tons)	% of Sales Volume
Industrial	17,760	42.0%	15,833	49.6%	14,529	40.6%	12,861	47.1%
Residential	11,633	27.5%	7,417	23.2%	9,883	27.6%	6,592	24.2%
Commercial	6,103	14.4%	5,312	16.6%	5,774	16.2%	5,162	18.9%
Agricultural	3,343	7.9%	2,656	8.3%	2,503	7.0%	1,977	7.2%
Specialty	3,426	8.1%	692	2.2%	3,059	8.6%	704	2.6%
Total Revenue	42,265		31,910		35,748		27,296	

For the three months ended December 31, 2014, net revenue totalled $42.265 million, an increase of $6.517 million (+18.2%) over the same period last year. The growth of the construction market in the US and our ability to leverage our relationship with our industrial customers increased Q4 volume by 4,614 tons year-over-year to 31,910 tons. We benefitted from the strength in the US currency which, after foreign exchange translation, partially offset the pricing pressure that continues from domestic and international competitors, resulting in revenue growth outpacing volume growth.

Agricultural products registered the highest rate of growth of the five market segments, with volume growing by 34.3% and revenues by 33.6%, as we accelerated our targeted customer engagement program in the United States. Volume and revenue of Industrial products grew year-over-year by 23.1% and 22.2% in Q4 through new customer growth combined with geographical reach. The return of the US residential construction market has helped to partially relieve pressure on prices. Coupled with the stronger US dollar, the 17.7% rate of revenue growth of the Residential products in Q4 of 2014 over the same period last year outpaced the 12.5% rate of volume growth.

Revenue by Location and Currency
($'000 unless otherwise stated)

	Three Months Ended December 31,					
	2014		2013		Variance	
	$	% of Total	$	% of Total	$	%
United States	28,167	66.6%	21,786	60.9%	6,381	29.3%
Canada	12,693	30.1%	12,871	36.0%	(178)	-1.4%
International	1,405	3.3%	1,091	3.1%	314	28.8%
Total	42,265	100.0%	35,748	100.0%	6,517	18.2%
Average C$/US$	1.1350		1.0493			

($'000 unless otherwise stated)	**Q4 2014**	**Q4 2013**	**Variance Fav/(Unfav)**	
COST OF SALES	38,093	31,981	(6,112)	(19.1%)

The strength of the US dollar in the last quarter of 2014 had a negative impact on our cost of goods sold ($1,171/ton compared to $1,145/ton for the same period last year). Cost of sales as a percentage of revenues was 90.1% in Q4 2014 compared to 89.5% last year. The increase in raw material costs were partially offset by efficiencies generated from operating leverage associated with the higher production volumes.

($'000 unless otherwise stated)	**Q4 2014**	**Q4 2013**	**Variance Fav/(Unfav)**	
GROSS PROFIT	4,172	3,767	405	10.8%

Gross profit for the quarter increased by $0.405 million (+10.8%) over last year to $4.172 million, which is 9.9% of revenues compared to 10.5% for the same period last year. The growth in gross profit stems from the increase in volume and revenue in the United States. Overall gross profit margin was depressed by the continued pricing pressure from domestic and international competitors and also by the strength of the US dollar negatively impacting raw material costs, resulting in a lower gross profit margin for sales generated in Canada.

Gross Profit
($'000 unless otherwise stated)

	Three Months Ended December 31,					
	2014		2013		Variance	
	Gross Profit	% of Total	Gross Profit	% of Total	$	%
US$ GP after FX translation	2,242	53.7%	1,929	51.2%	313	16.2%
C$ Gross Profit	1,930	46.3%	1,838	48.8%	92	5.0%
Total Gross Profit in C$	4,172	100.0%	3,767	100.0%	405	10.8%
Average C$/US$	1.1350		1.0493			

($'000 unless otherwise stated)	**Q4 2014**	**Q4 2013**	**Variance Fav/(Unfav)**	
SG&A EXPENSES	3,613	3,500	(113)	(3.2%)

As in prior quarters, additional selling activity associated with the increase in sales volume is the reason for the increase in SG&A expenses.

($'000 unless otherwise stated)	**Q4 2014**	**Q4 2013**	**Variance Fav/(Unfav)**	
EBITDA	1,201	1,003	198	19.7%

Inclusive of a foreign exchange loss of approximately $84,000, EBITDA for the quarter grew by $0.198 million over the same period last year to $1.201 million, a 19.7% increase. The increase in EBITDA is attributable to the increase in sales volume as well as SG&A costs remaining relatively flat compared to the prior year after accounting for the strength of the US dollar.

($'000 unless otherwise stated)	**Q4 2014**	**Q4 2013**	**Variance Fav/(Unfav)**	
FINANCING EXPENSES	843	1,489	646	43.4%

Financing expenses decreased by $0.646 million when compared to the same period last year to $0.843 million in Q4 2014. This is a direct result of the redemption of the Debentures in Q1 of 2014. However, an additional $0.251 million in financing expense associated with our Senior Credit Facility and other interest and financing costs were incurred due to the additional working capital required to support the growth in our business.

Financing Expense
($'000 unless otherwise stated)

	Three Months Ended December 31,			
			Variance	
	2014	2013	$	%
Non cash financing expenses	270	662	392	59.2%
Cash on Convertible Debentures	-	500	500	100.0%
Interest on Senior Credit Facility	189	156	(33)	(21.2%)
Other interest and financing cotsts	374	156	(218)	(139.7%)
Deferred financing costs	10	15	5	33.3%
Total Financing Expenses	843	1,489	646	43.4%

($'000 unless otherwise stated)	**Q4 2014**	**Q4 2013**	**Variance Fav/(Unfav)**	
FOREIGN EXCHANGE GAIN (LOSS)	(84)	5	(89)	(1,780.0%)

Foreign exchange recorded a loss of approximately $84,000 in Q4 2014 compared to a neutral foreign exchange gain (loss) in the year prior. Our Canadian operation, whose functional currency is Canadian dollar, has a portion of its assets, liabilities, sales and expenses denominated in currencies other than the Canadian dollar, in particular the US dollar. With raw material costs being denominated in US dollar, having a significant portion of our sales also being denominated in US dollar creates a natural partial hedge. Foreign currency forward contracts are used to manage a portion of the remaining currency risk. Foreign exchange gains and losses are unpredictable in nature and therefore can vary significantly over time.

($'000 unless otherwise stated)	**Q4 2014**	**Q4 2013**	**Variance Fav/(Unfav)**	
INCOME TAX RECOVERY (EXPENSE)	245	40	205	512.5%

The income tax recovery for Q4 2014 of $0.245 million relates to current tax recover, primarily from the Canadian operations. The income tax recovery (expense) is based on the statutory tax rate of 26.0% (the same as 2013) applied to the income of subsidiaries before taxes, with adjustments for permanent differences between accounting and taxable income.

($'000 unless otherwise stated)	Q4 2014	Q4 2013	Variance Fav/(Unfav)	
NET INCOME (LOSS)	56	(665)	721	108.4%

Net loss for the quarter was approximately $56,000 compared to a net loss of $0.665 million the year prior. This is attributable to the better operating income and less financing expenses for the period.

($'000 unless otherwise stated)	Q4 2014	Q4 2013	Variance Fav/(Unfav)	
ADJUSTED NET INCOME (LOSS)	94	726	(632)	(87.1%)

After accounting for non-cash financing expenses, changes in fair value of financial instruments and deferred tax, Q4 recorded an adjusted net income of approximately $94,000 compared against an adjusted net income of $0.726 million the year prior. The $0.632 million difference is a result of changes in the fair value of financial instruments and less deferred tax recovery.

7 COMPARISON OF RESULTS FOR THE YEAR ENDED DECEMBER 31, 2014 AND 2013

($'000 unless otherwise stated)	2014	2013	Variance Fav/(Unfav)	
SALES	183,944	153,440	30,504	19.9%

Revenue by Market Segment
($'000 unless otherwise stated)

	Twelve Months Ended December 31, 2014				Twelve Months Ended December 31, 2013			
	Revenue	% of Revenue	Sales Volume (Tons)	% of Sales Volume	Revenue	% of Revenue	Sales Volume (Tons)	% of Sales Volume
Industrial	72,615	39.5%	65,063	46.5%	55,029	35.9%	47,749	42.1%
Residential	51,729	28.1%	34,368	24.6%	45,106	29.4%	29,329	25.9%
Commercial	27,435	14.9%	24,349	17.4%	25,928	16.9%	22,679	20.0%
Agricultural	16,232	8.8%	12,669	9.1%	13,469	8.8%	10,099	8.9%
Specialty	15,933	8.7%	3,486	2.5%	13,908	9.1%	3,547	3.1%
Total Revenue	183,944		139,935		153,440		113,403	

Total revenues were $183.944 million on 139,935 tons of volume, which translates into a year-over-year increase of $30.504 million (+19.9%) in revenues and 26,532 tons (+23.4%) in volume. The growth in volume year-over-year in absolute terms comes primarily from Industrial (+17,314 tons) and Residential (+5,039 tons) products while the rate of growth year-over-year was highest for Industrial (+36.3%) and Agricultural (+25.4%). The growth in sales is a direct result of the strategy we implemented early in the year to enhance our relationships with existing customers, develop new customer relationships and expand our geographical reach.

Overall sales growth was lead by the US market, growing at 18.5% year-over-year before adjusting for foreign exchange translation. This is attributable to the strategy we undertook as noted above and the recovery in the US residential construction market. Growth in Canada is mainly attributable to the growth in the Industrial products business resulting from our expanded relationships with existing customers enabling us to reach into new geographical markets in Canada. Overall sales also benefited from the strength of the US dollar.

Revenue by Location and Currency
($'000 unless otherwise stated)

	Twelve Months Ended December 31,					
	2014		2013		Variance	
	$	% of Total	$	% of Total	$	%
United States	118,975	64.7%	93,312	60.8%	25,663	27.5%
Canada	60,183	32.7%	55,840	36.4%	4,343	7.8%
International	4,786	2.6%	4,288	2.8%	498	11.6%
Total	183,944	100.0%	153,440	100.0%	30,504	19.9%
Average C$/US$	1.1035		1.0302			

($'000 unless otherwise stated)	**2014**	**2013**	**Variance Fav/(Unfav)**	
COST OF SALES	164,620	136,144	(28,476)	(20.9%)

Cost of sales per ton decreased to $1,156/ton from $1,175/ton compared to the 2013 despite having incurred a non-recurring amount of $1.676 million for the additional investments in capital and staffing to enable production volume to keep pace with demand. The increase in the production workforce resulted in additional training costs and lower production efficiency during the time it took the new production workforce to become acclimated to our production processes. Increased production volumes this year also meant we performed additional repairs and maintenance on our equipment to ensure production efficiency and safety.

Further, the strength of the US currency also negatively impacted our cost of sales. We were unable to pass on all of the increase in raw material costs caused by the appreciation of the US currency to our customers in Canada due to pricing pressure from domestic and international competitors and the pace at which the US currency appreciated in fourth quarter of 2014.

($'000 unless otherwise stated)	**2014**	**2013**	**Variance Fav/(Unfav)**	
GROSS PROFIT	19,324	17,296	2,028	11.7%

Gross Profit
($'000 unless otherwise stated)

	Twelve Months Ended December 31,					
	2014		2013		Variance	
	Gross Profit	% of Total	Gross Profit	% of Total	$	%
US$ GP after FX translation	11,069	57.3%	9,159	53.0%	1,911	20.9%
C$ Gross Profit	8,255	42.7%	8,137	47.0%	117	1.4%
Total Gross Profit in C$	19,324	100.0%	17,296	100.0%	2,028	11.7%
Average C$/US$	1.1035		1.0302			

Gross profit for the year amounted to $19.324 million, an increase of $2.028 million (+11.7%) over the prior year. As a percentage of revenues gross profit was 10.5% compared to 11.3% for 2013. The lower figure is a result of several factors, including the higher raw material costs resulting from the strength of the US dollar, the non-recurring investments in capital and staffing and pricing pressure from both domestic and international competitors. These factors were partially offset by the improvement in production efficiencies experienced in the latter part of 2014 and operating leverage resulting from the higher production volumes.

($'000 unless otherwise stated)	**2014**	**2013**	**Variance Fav/(Unfav)**	
SG&A	14,415	12,982	(1,433)	(11.0%)

Total SG&A expenses for 2014 were $14.415 million, an increase of $1.433 million (+11.0%) over 2013. The increase is primarily attributable to an approximate $0.7 million investment in the sales team (including additional staffing costs) and an approximate $0.5 million for compensation related amounts.

($'000 unless otherwise stated)	**2014**	**2013**	**Variance Fav/(Unfav)**	
EBITDA	8,000	7,330	670	9.1%

EBITDA grew by $0.670 million over 2013 to $8.000 million this year, an increase of 9.1%. The higher sales volume, the main driver for the increase, resulted in a higher gross profit (+$2.028 million) which was partially offset by the increase in SG&A expenses (+$1.433 million).

($'000 unless otherwise stated)	**2014**	**2013**	**Variance Fav/(Unfav)**	
FINANCING EXPENSE	3,826	5,890	2,064	35.0%

Financing Expense
($'000 unless otherwise stated)

	Twelve Months Ended December 31,			
			Variance	
	2014	2013	$	%
Non cash financing expenses	1,063	2,750	1,687	61.3%
Cash on Convertible Debentures	527	1,899	1,372	72.2%
Interest on Senior Credit Facility	786	621	(165)	(26.6%)
Other interest and financing costs	1,262	560	(702)	(125.4%)
Deferred financing costs	188	60	(128)	(213.3%)
Total Financing Expenses	3,826	5,890	2,064	35.0%

Total financing expense for the year decreased by $2.064 million as a result of the redemption of the Debentures in the first quarter of 2014. Additional financing costs were incurred due to increased working capital requirements associated with the increase in business. Additional deferred financing expense was also incurred in the second quarter of 2014 in association with the early renewal of our Senior Credit Facility.

($'000 unless otherwise stated)	**2014**	**2013**	**Variance Fav/(Unfav)**	
FOREIGN EXCHANGE GAIN (LOSS)	269	114	155	136.0%

For the year foreign exchange gain totalled $0.269 million compared to $0.114 million in 2014. The gain in 2014 is the result of the gains realized on forward currency contracts in the first quarter of 2014. Our Canadian operation, whose functional currency is Canadian dollar, has a portion of its assets, liabilities, sales and expenses denominated in currencies other than the Canadian dollar, in particular the US dollar. With raw material costs being denominated in US dollar, having a significant portion of our sales also being denominated in US dollar creates a natural partial hedge. Foreign currency forward contracts are used to manage a portion of the remaining currency risk. Foreign exchange gains and losses are unpredictable in nature and therefore can vary significantly over time.

($'000 unless otherwise stated)	2014	2013	Variance Fav/(Unfav)	
INCOME TAX RECOVERY (EXPENSE)	(431)	95	(526)	(553.7%)

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 operation. The deferred tax expense component is $0.501 million, the current tax recovery for the year was approximately $70,000 and the net tax expense was $0.431 million. The income tax recovery (expense) is based on the statutory tax rate of 26.0% (25.75% in 2013) applied to the income of subsidiaries before taxes, with adjustments for permanent differences between accounting and taxable income.

($'000 unless otherwise stated)	2014	2013	Variance Fav/(Unfav)	
NET INCOME (LOSS)	978	(653)	1,631	249.8%

Net income for 2014 was $0.978 million, an increase of $1.631 million over 2013. The growth in our sales volume and improving operating income are the reasons for the better result.

($'000 unless otherwise stated)	2014	2013	Variance Fav/(Unfav)	
ADJUSTED NET INCOME (LOSS)	2,471	2,745	(274)	(10.0%)

The adjusted net income for 2014 was $2.471 million compared to $2.745 million the year prior, which is a result of the higher income tax expense for the year and the changes in the fair market value of financial instruments.

8 FINANCIAL CONDITION AND LIQUIDITY

8.1 WORKING CAPITAL

A summary of the composition of our working capital as at December 31, 2014 compared to 2013 is provided below:

Working Capital
($'000 unless otherwise stated)

	As at December 31,	
	2014	2013
Cash	2,309	1,264
Accounts Receivable	20,092	16,960
Inventories	55,950	35,307
Other Current Assets	3,914	1,691
Total Current Assets	82,265	55,222
Senior Credit Facility	(30,553)	(16,370)
Accounts Payable and Accrued Liabilities	(18,758)	(7,619)
Other Current Liabilities	(235)	(561)
Current Portion of Long Term Debt	(1,976)	(2,344)
Total Current Liabilities	(51,522)	(26,894)
Net Working Capital	30,743	28,328

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

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

Net working capital as at December 31, 2014 was $30.743 million compared to $28.328 million the year before. Accounts receivable at the end of 2014 was higher than at the end of 2013, reflecting the increase in revenues. Inventories levels were also higher at the end of 2014 when compared to 2013 as a result of the higher value of raw materials and finished goods due to the strength of the US dollar, an increase in raw material purchases during the year to ensure raw material inventory levels were sufficient to meet production volume and a build up of certain finished goods to meet demand in the first quarter of 2015. The increases in the Senior Credit Facility and in accounts payable and accrued liabilities were used to fund our increased production volumes.

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

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

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

8.2 CASH FLOW

For the three months ended December 31, 2014 net cash provided by operating activities was $2.823 million, as a result of a stabilizing inventory level of raw materials and finished goods before accounting for foreign exchange translation over the prior quarter and the improvement in operating income over the same period last year. For all of 2014 net cash used for operating activities was $5.751 million due to the additional funds used to support working capital, primarily for raw material purchases.

Cash flow used for investing activities for 2014 amounted to $1.545 million. These funds were incurred for maintenance capital expenditures that occurred during the first half of the year and for investments in new equipment in the fourth quarter of 2014.

Repayments on the long term debt for the fourth quarter of 2014 totalled $0.515 million, bringing the total for the year to $1.954 million. $1.046 million was also repaid on the Senior Credit Facility during the fourth quarter. However, for the year, the amount advanced from the Senior Credit Facility totalled $12.407 million, which was used to support the growth in working capital, particularly raw material purchases, over the prior year.

The following is a summary of our cash flow for the three and twelve months ended December 31, 2014 and 2013:

Cash Flow
($'000 unless otherwise stated)

	Three Months Ended December 31,		Twelve Months Ended December 31,	
	2014	2013	2014	2013
Cash provided by (used in) operating activities	1,778	1,995	9,034	8,672
Working Capital adjustments	1,045	(3,023)	(14,785)	(9,952)
Net Cash provided by (used in) operating activities	2,823	(1,028)	(5,751)	(1,280)
Net Cash provided by (used in) investing activities	(962)	(104)	(1,545)	(47)
Advance on (repayment of) Senior Term Loan	(103)	(125)	(442)	(500)
Repayment of Long-Term Debt	(515)	(407)	(1,954)	(1,519)
Conversion of Warrants	911	-	1,026	171
Interest paid	(557)	(753)	(2,540)	(3,039)
Redemption of Debentures	-	-	(175)	-
Advance on (repayment of) Senior Revolving Facility	(1,046)	1,539	12,407	5,053
Net Cash provided by (used in) financing activities	(1,310)	254	8,322	166
Exchange rate changes on foreign cash balances	7	28	19	54
Increase (decrease) in cash balances	558	(850)	1,045	(1,107)

8.3 SENIOR CREDIT FACILITY

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

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

On April 21, 2014, the Company announced the renewal of its senior banking facility with Wells Fargo. The five year senior secured committed banking facility has been increased from $40.000 million to $60.000 million and now matures in April of 2019. Under the terms of the Senior Credit Facility, up to $60.000 million may be borrowed for Tree Island's financing requirements in Canadian and/or US dollars of which $4.125 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.

8.4 LONG TERM DEBT AGREEMENTS

Tree Island entered into a Second Amendment to the long-term debt agreement (“Agreement") on June 11, 2012. Under the terms of this Agreement, the total principal debt amount of approximately US$15.8 million is to be repaid monthly over a ten year amortization period. Interest is non-compounding, will be accrued on a declining balance starting in June 2017 and is payable over a four year period beginning June 2024.

9 CAPITAL EXPENDITURES AND CAPACITY

For the three and twelve month periods ended December 31, 2014, we made capital expenditures of $0.822 million and $1.684 million respectively. The expenditures in the first half of the year were primarily associated with capital maintenance while expenditures during the latter half of the year included both maintenance and new equipment. The capital maintenance investments ensure our existing machinery operate at sufficient levels, ensuring production efficiency and safety. Meanwhile, the investment in new equipment enables us to meet future demand that cannot be supplied by our current operation.

10 CONTRACTUAL OBLIGATIONS AND COMMITMENTS

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

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

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

Contractual Obligations and Commitments
($'000 unless otherwise stated)

	2015	2016	2017	2018	2019	Thereafter	Total
Wire Rod Purchases	29,336	-	-	-	-	-	29,336
Finished Goods	2,058	-	-	-	-	-	2,058
Operating Leases	1,659	1,348	96	32	30	22	3,187
Total Commitments	33,053	1,348	96	32	30	22	34,581
Senior Revolving Facility	30,553	-	-	-	-	-	30,553
AP and accrued liabilities	18,758	-	-	-	-	-	18,758
Finance Lease	37	8	8	8	5	-	66
Senior Term Loan	413	413	413	413	413	1,788	3,853
Long-Term Debt	1,531	1,613	1,671	1,671	2,198	9,738	18,422
Total Financial Liabilities	51,292	2,034	2,092	2,092	2,616	11,526	71,652
Total obligations and commitments	84,345	3,382	2,188	2,124	2,646	11,548	106,233

The Company enters into US dollar currency forward contracts for periods consistent with a portion of US dollar currency transaction exposures, generally from one to three months. These are not designated as cash flow, fair value or net investment hedges. The fair value of outstanding US dollar currency forwards as at December 31, 2014 was a notional amount of $6.527 million and the mark to market gain on those contracts was $0.172 million.

The Company enters into forward contracts to purchase a portion of the zinc used in its production process. These are not designated as cash flow, fair value or net investment hedges. The fair value of forward contracts as at December 31, 2014 was a notional amount of $3.212 million and the mark to market liability on those contracts was $0.138 million.

11 SUMMARY OF QUARTERLY FINANCIAL RESULTS

The table below provides selected quarterly financial information for the eight most recent fiscal quarters to December 31, 2014. Sales volume in the last quarter of the year have traditionally been the lowest of any quarter due to the seasonality of our business and the markets we sell to. Quarter-over-quarter results may also be impacted by unusual or infrequently occurring items.

These financial results are not necessarily indicative of results for any future period and should not be relied upon to predict future performance.

Summary of Quarterly Financial Results
($'000 unless otherwise stated)

	Dec 31, 2014	Sep 30, 2014	Jun 30, 2014	Mar 31, 2014	Dec 31, 2013	Sep 30, 2013	Jun 30, 2013	Mar 31, 2013
Sales Volumes - Tons	31,910	36,491	36,398	35,136	27,296	29,345	29,160	27,602
Revenue	42,265	47,975	47,782	45,922	35,748	39,004	40,595	38,093
Gross Profit	4,172	5,215	4,624	5,313	3,767	3,895	5,396	4,238
Foreign exchange gain (loss)	(84)	37	(208)	524	5	(23)	106	26
EBITDA	1,201	2,403	1,737	2,659	1,003	1,526	2,965	1,836
Net Income (Loss)	56	390	171	361	(665)	(43)	191	(136)
Net Income (Loss) per unit - Basic	0.00	0.01	0.01	0.01	(0.03)	(0.00)	0.01	(0.01)
Gross Profit per Ton	131	143	127	151	138	133	185	154
EBITDA per Ton	38	66	48	76	37	52	102	67

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

12 ACCOUNTING POLICIES AND STATEMENTS

Certain of our accounting policies involve critical accounting estimates that require us to make subjective or complex judgments about matters that are inherently uncertain and because of the likelihood that materially different amounts could be reported under differing conditions or using different assumptions. We evaluate these estimates and assumptions regularly.

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

12.1 CRITICAL ACCOUNTING ESTIMATES

The areas that we consider to have critical accounting estimates are: going concern, financial instruments valued at fair value through profit and loss, inventory valuation, allowance for doubtful accounts, property, plant and equipment, and income taxes. These critical estimates and the judgments involved are discussed further in the consolidated financial statements for the year ended December 31, 2014 (Note 4).

13 RELATED PARTY TRANSACTIONS

13.1 TRANASACTIONS 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.

In 2014, Futura converted $5.000 million of Debentures into 5.000 million Shares of the Company (after accounting for the Share Consolidation). Based on Tree Island Steel's outstanding Shares as at February 19, 2015 (there were no outstanding warrants as at February 19, 2015), Futura owns 27.3% of the fully diluted Shares of the Company.

In addition, Mr. Doman is Chairman and CEO of CanWel Building Materials Group Ltd. ("CanWel"). In 2014, Tree Island sold, net of rebates, approximately $2.8 million ($2.7 million in 2013) of goods to CanWel during the year and trade accounts receivable owing from CanWel is approximately $136,000 (approximately $83,000 in 2013). Outstanding trade accounts receivable from CanWel at period end are unsecured, interest free and settlement occurs in cash

13.2 TRANSACTIONS WITH KEY MANAGEMENT PERSONNEL

Included in the definition of key management for purposes of disclosure of related party transactions are members of Board of Directors and officers of Tree Island Steel. Amounts for key management personnel for the three months and year ended December 31, 2014 was approximately $0.4 million and $2.2 million respectively (approximately $0.4 million and $1.9 million respectively in 2013) 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 2014 Annual Information Form under the heading "Risk Factors" which can be found at www.sedar.com.

15 DISCLOSURE CONTROLS AND PROCEDURES AND INTERNAL CONTROL OVER FINANCIAL REPORTING

15.1 DISCLOSURE CONTROLS AND PROCEDURES

Disclosure controls and procedures are controls and other procedures that are designed to: (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, with the participation of the Chief Executive Officer and the Chief Financial Officer, has evaluated the effectiveness of our disclosure controls and procedures as of December 31, 2014. Based upon this evaluation, the Chief Executive Officer and Chief Financial Officer have concluded that these disclosure controls and procedures, as defined by National Instrument 52-109, Certification of Disclosure in Issuers' Annual and Interim Filings, are effective for the purposes set out above.

15.2 INTERNAL CONTROLS OVER FINANCIAL REPORTING

Our management is responsible for designing, establishing and maintaining an adequate system of internal control over financial reporting. Our internal control system was designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes, in accordance with IFRS.

Our management, with the participation of the Chief Executive Officer and the Chief Financial Officer, has conducted an evaluation of the effectiveness of our internal control over financial reporting as of December 31, 2014 based on the framework from the Committee of Sponsoring Organizations of the Treadway Commission. Based on that evaluation, management concluded that our internal control over financial reporting, as defined by National Instrument 52-109, Certification of Disclosure in Issuers' Annual and Interim Filings, is effective to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements in accordance with IFRS.

15.3 CHANGES IN INTERNAL CONTROLS OVER FINANCIAL REPORTING

Under the supervision and with the participation of management, including the Chief Executive Officer and Chief Financial Officer, we have evaluated changes in internal control over financial reporting that occurred during the fiscal quarter ended December 31, 2014 and found no change that has materially affected, or is reasonably likely to materially affect, internal control over financial reporting.

Tree Island's Board of Directors and Audit Committee reviewed and approved the 2014 audited consolidated financial statements and this management's discussion and analysis prior to its release.

CONSOLIDATED FINANCIAL STATEMENTS

MANAGEMENT'S STATEMENT OF RESPONSIBILITY

The accompanying consolidated financial statements are the responsibility of management and have been reviewed and approved by the Board of Directors. The consolidated financial statements have been prepared by management, in accordance with International Financial Reporting Standards and, where appropriate, reflect management's best estimates and judgments. Management has also prepared financial and all other information in the annual report and has ensured that this information is consistent with the consolidated financial statements.

The Company maintains appropriate systems of internal control, policies and procedures, which provide management with reasonable assurance that assets are safeguarded and the financial records are reliable and form a proper basis for preparation of the consolidated financial statements.

The Board of Directors ensures that management fulfills its responsibilities for financial reporting and internal control through an Audit Committee. This committee reviews the consolidated financial statements and reports to the Directors. The auditors have full and direct access to the Audit Committee.

The consolidated financial statements have been independently audited by Ernst & Young LLP, in accordance with Canadian generally accepted auditing standards. Their report below expresses their opinion on the consolidated financial statements of the Company.

Dale R. MacLean
Director, President and Chief Executive Officer

INDEPENDENT AUDITORS' REPORT

To the Shareholders of Tree Island Steel Ltd.

We have audited the accompanying consolidated financial statements of Tree Island Steel Ltd., which comprise the consolidated statements of financial position as at December 31, 2014 and 2013 and the consolidated statements of operations, comprehensive income, shareholders' equity and cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's responsibility for the consolidated financial statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Tree Island Steel Ltd. as at December 31, 2014 and 2013 and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

Ernst & Young LLP

Chartered Accountants
February 19, 2015
Vancouver, Canada

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

($'000 unless otherwise stated)

	2014	2013
Cash	2,309	1,264
Accounts receivable *(Note 6)*	20,092	16,960
Inventories (*Note 7)*	55,950	35,307
Prepaid expenses	3,914	1,691
Current Assets	82,265	55,222
Property, plant and equipment *(Note 8)*	29,723	30,254
Other non-current assets	118	158
Total assets	112,106	85,634
Senior revolving facility *(Note 9.1)*	30,553	16,370
Accounts payable and accrued liabilities	18,758	7,619
Income taxes payable	81	201
Other current liabilities	154	119
Fair value of convertible instruments *(Note 10)*	-	241
Current portion of long-term borrowing *(Notes 9.2, 11, 20.4)*	1,976	1,911
Current liabilities	51,522	26,461
Convertible debentures *(Note 10)*	-	14,696
Senior term loan *(Note 9.2)*	3,437	3,792
Long-term debt *(Note 11)*	9,611	9,719
Other non-current liabilities	450	699
Deferred income taxes *(Note 16.2)*	2,988	2,487
Total liabilities	68,008	57,854
Shareholders' equity	44,098	27,780
Total liabilities and shareholders' equity	112,106	85,634

See accompanying Notes to the Consolidated Financial Statements

Approved on behalf of Tree Island Steel Ltd.

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

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

CONSOLIDATED STATEMENTS OF OPERATIONS

($'000 unless otherwise stated)

	2014	2013
Sales	183,944	153,440
Cost of goods sold *(Note 7)*	(161,798)	(133,242)
Depreciation	(2,822)	(2,902)
Gross profit	19,324	17,296
Selling, general and administrative expenses	(14,415)	(12,982)
Operating income	4,909	4,314
Foreign exchange gain (loss)	269	114
Gain (loss) on sale of property, plant and equipment	(14)	(41)
Property, plant and equipment impairment reversal	-	671
Gain (loss) on sale of subsidiary	-	218
Changes in financial liabilities recognized at fair value	71	(134)
Financing expenses *(Note 12)*	(3,826)	(5,890)
Income (loss) before income taxes	1,409	(748)
Income tax recovery (expense) *(Note 16)*	(431)	95
Net income (loss)	978	(653)
Net income (loss) per share *(Note 19)*		
Basic	0.03	(0.05)
Diluted	0.03	(0.05)
Weighted average number of shares *(Note 19)*		
Basic	29,103,894	12,147,368
Diluted	30,089,770	12,147,368

See accompanying Notes to the Consolidated Financial Statements

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

($'000 unless otherwise stated)

	2014	2013
Net income (loss) for the year	978	(653)
Unrealized income (loss) on foreign exchange translation	(421)	440
Comprehensive income (loss)	557	(213)

See accompanying Notes to the Consolidated Financial Statements

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

($'000 unless otherwise stated)

	Shareholders' Capital	and Equity Component of Convertible Debentures	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total
Balance as at December 31, 2013	214,307	606	(187,423)	290	27,780
Conversion of Debentures *(Note 10)*	15,320	(585)	-	-	14,735
Conversion of warrants	1,047	(21)	-	-	1,026
Net income (loss)	-	-	978	-	978
Other comprehensive income (loss)	-	-	-	(421)	(421)
Balance as at December 31, 2014	230,674	-	(186,445)	(131)	44,098
Balance as at December 31, 2012	211,311	720	(186,770)	(150)	25,111
Conversion of Debentures *(Note 10)*	2,823	(112)	-	-	2,711
Conversion of warrants	173	(2)	-	-	171
Net income (loss)	-	-	(653)	-	(653)
Other comprehensive income (loss)	-	-	-	440	440
Balance as at December 31, 2013	214,307	606	(187,423)	290	27,780

See accompanying Notes to the Consolidated Financial Statements

CONSOLIDATED STATEMENTS OF CASH FLOWS
($'000 unless otherwise stated)

	2014	2013
Net income (loss)	978	(653)
Depreciation	2,822	2,902
Changes in financial liabilities recognized at fair value	(71)	134
Gain (loss) on sale of property, plant and equipment	14	41
Property, plant and equipment impairment reversal	-	(671)
Amortization and write-off of deferred financing	188	60
Net financing costs	3,638	5,830
Deferred income tax expense (recovery)	501	514
Exchange revaluation of foreign denominated debt	964	733
Gain (loss) on sale of subsidiary	-	(218)
Accounts receivable	(2,609)	(4,605)
Inventories	(19,366)	(1,674)
Accounts payable and accrued liabilities	10,730	(2,110)
Prepaid expenses	(2,157)	556
Income and other taxes	(71)	(1,128)
Other	(1,312)	(991)
Net cash provided by (used in) operating activities	(5,751)	(1,280)
Proceeds from sale of subsidiary, net of costs	-	439
Proceeds on disposal of property, plant and equipment	3	24
Purchase of property, plant and equipment	(1,548)	(510)
Net cash used in investing activities	(1,545)	(47)
Repayment of senior term loan	(442)	(500)
Repayment of long-term debt	(1,954)	(1,519)
Conversion of warrants	1,026	171
Interest paid	(2,540)	(3,039)
Redemption of debentures	(175)	-
Advance on (repayment of) Senior Revolving Facility	12,407	5,053
Net cash provided by (used in) financing activities	8,322	166
Effect of exchange rate change on cash	19	54
Increase (decrease) in cash	1,045	(1,107)
Cash - beginning of period	1,264	2,371
Cash - end of period	2,309	1,264

See accompanying Notes to the Consolidated Financial Statements

1 NATURE OF BUSINESS

These consolidated financial statements of Tree Island Steel Ltd. ("Tree Island Steel " or the "Company") for the year ended December 31, 2014 were authorized for issue in accordance with a resolution of the Board of Directors on February 19, 2015.

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

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

On October 1, 2012, pursuant to an information circular dated August 15, 2012, the Fund was converted, on a tax deferred basis, from an open-ended limited purpose trust to an incorporated corporation (the "Corporate Conversion") pursuant to a plan of arrangement (the "Arrangement") under the Canada Business Corporations Act. Pursuant to the Corporate Conversion, Tree Island Steel acquired all of the outstanding units of the Fund ("Units"), in exchange for shares ("Shares"), on the basis of one Share for each Unit. The 10% Second Lien Convertible Debentures (the "Debentures") became debentures of Tree Island Steel. The Debentures were convertible, but into Shares of Tree Island Steel at the same price at which the Debentures were convertible into units of the Fund, subject to adjustment as provided for in the trust indenture governing the Debentures. The share purchase warrants became warrants of Tree Island Steel (the "Warrants") and continue to be convertible, but into Shares of Tree Island Steel at the same price at which the Warrants were convertible into Units of the Fund, subject to adjustment as provided for in the Warrant Certificates governing the Warrants. As a result of the Corporate Conversion, Tree Island Steel became the sole holder of the outstanding Units. On October 1, 2012, the Fund was dissolved and all of its assets were transferred to, and all of its liabilities were assumed by, Tree Island Steel on that date. The exchange of the Units of the Fund to Tree Island Steel was recorded at the carrying values of the Fund's assets and liabilities on October 1, 2012.

2 BASIS OF PREPARATION

2.1 BASIS OF PREPARATION

The consolidated financial statements as at and for the year ended December 31, 2014 have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"). Certain comparative information has been reclassified to conform to the presentation adopted during the year.

These consolidated financial statements have been prepared on a historical cost basis except for certain financial instruments categorized as fair value through profit or loss. In addition, these consolidated financial statements have been prepared using the accrual basis of accounting, except for cash flow information.

2.2 BASIS OF CONSOLIDATION

The consolidated financial statements include the accounts of Tree Island and TII, and TII's wholly-owned subsidiaries, Tree Island Wire Holdings (USA) Inc. ("TIWH") and Tree Island Wire (USA) Inc. ("TIW"), and Tree Island International Trade (Beijing) Company, Ltd., and up to December 31, 2013, the financial results of GIP International and its subsidiaries (formerly Tree Island International Ltd., a Hong Kong based company). Intercompany accounts and transactions have been eliminated on consolidation.

2.3 FUNCTIONAL CURRENCY

The functional and presentation currency of Tree Island and its subsidiary TII is the Canadian Dollar. The functional currencies of Tree Island's subsidiaries are: TIW and TIWH is the US Dollar; Tree Island International Trade (Beijing) Company, Ltd. is the Chinese Renminbi ("RMB").

3 SIGNIFICANT ACCOUNTING POLICIES, CRITICAL ACCOUNTING JUDGEMENTS AND ESTIMATES

The accounting policies applied in the preparation of these consolidated financial statements are set out below:

3.1 REVENUE RECOGNITION

Tree Island recognizes revenue on the sale of goods when the significant risks and rewards of ownership pass to the buyer which is considered to be when legal title passes to customers, the revenue can be reliably measured and collectability is reasonably assured. Revenue related to contract manufacturing (also known as tolling) is recognized at the point at which the items are ready to ship to the customer, the revenue can be reliably measured and collectability is reasonably assured. For both the sale of goods and contract manufacturing, revenue is stated net of early payment discounts, rebates granted and costs to ship product to customer locations if incurred by Tree Island.

3.2 CASH

Cash is comprised of bank balances, net of outstanding items in deposit and disbursement accounts, cash balances in excess of revolving credit outstanding on the Senior Credit Facility ad defined in Note 9, and cash on hand.

3.3 INVENTORIES

Raw materials and consumable supplies and spare parts inventories are stated at the lower of weighted average cost and net realizable value. Finished and semi finished products are stated at the lower of first-in first-out cost and net realizable value. Cost for finished and semi-finished products includes direct costs incurred in production including direct labour, materials, freight, depreciation and directly attributable overhead costs and indirect overhead costs based on normal operating capacity. Net realizable value is the estimated selling price in the ordinary course of business less estimated costs to sell. Consumable supplies and spare parts are inventories that are expected to be consumed in operations.

3.4 PROPERTY, PLANT AND EQUIPMENT AND DEPRECIATION

As part of the transition to IFRS, the Company elected under IFRS 1 to value machinery and equipment at fair value on transition, which then becomes the deemed cost on which to amortize/depreciate in future periods. Land, building and improvements continue to be valued at cost less accumulated depreciation and/or impairment losses recognized. Assets acquired or constructed after the transition date are recorded at historic cost, including borrowing costs for long-term construction projects if the recognition criteria are met.

No depreciation is charged on capital projects during the period of construction. Regular repair and maintenance costs are recognized in the consolidated statement of operations as incurred. Depreciation is determined using the straight-line method over the estimated useful lives of the depreciable assets. When parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items of property, plant and equipment. Depreciation methods, asset residual values and useful lives are reviewed annually and adjusted prospectively as required.

Depreciation is calculated over the following rates:

Land	not depreciated
Buildings and improvements	19 to 30 years
Machinery and equipment	3 to 17 years

An item of property, plant and equipment and any significant part initially recognized is derecognized upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the consolidated statement of operations when the asset is derecognized.

3.5 IMPAIRMENT OF NON-FINANCIAL ASSETS

3.5.1 IMPAIRMENT CHARGES

Tree Island performs annual impairment tests on long-lived assets when events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss, if any, is determined as the excess of the carrying value of the asset over its recoverable amount, and is charged to income.

Tree Island assesses at each reporting date whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, Tree Island estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating unit's ("CGU") fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. Where the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

In determining fair value less costs to sell, fair value is based on quoted market prices, prices for similar assets or other valuation techniques. The impairment analysis contains estimates due to the inherently speculative nature of forecasting long-term estimated cash flows and determining the ultimate useful lives of assets. If any of these estimates change, future net cash flows from the assets could be lower, which would result in additional impairment. As well, as much as practicable, third-party valuators are used to provide fair values which also contain assumptions concerning current market information for similar or same assets and if applicable functional and economic obsolescence.

Impairment losses of continuing operations, including impairment on inventories, are recognized in the statement of operations in those expense categories consistent with the function of the impaired asset.

3.5.2 REVERSAL OF PREVIOUS IMPAIRMENT

An assessment is made at each reporting date as to whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased. If such indication exists, Tree Island estimates the asset's or CGU's recoverable amount. A previously recognized impairment loss is reversed only if there has been a change in the assumptions used to determine the assets or CGU's recoverable amount since the last impairment loss was recognized. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognized for the asset in prior years. Such reversal is recognized in the statement of operations.

3.6 FAIR VALUE MEASUREMENT

The Company measures financial instruments such as derivatives at fair value at each statement of financial position date. Also, fair values of financial instruments measured at amortized cost are disclosed in Note 17.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability, or
- In the absence of a principal market, in the most advantageous market for the asset or liability

The principal or the most advantageous market must be accessible to by the Company. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Company uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to
measure fair value, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorized within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

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

For assets and liabilities that are recognized in the consolidated financial statements on a recurring basis, the Company determines whether transfers have occurred between levels in the hierarchy by re-assessing categorization (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

3.7 FINANCIAL INSTRUMENTS AND RISKS

3.7.1 Financial Assets

Tree Island classifies, at recognition, its financial assets as loans and receivables. The financial assets are classified depending on the purpose for which the financial assets were acquired.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are classified as current assets or non-current assets based on their maturity date. Loans and receivables are carried at amortized cost less any impairment. Loans and receivables are comprised of accounts receivable.

Tree Island assesses at each reporting date whether there is objective evidence that financial assets under loans and receivables are impaired. Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in payments, the probability that they will enter bankruptcy or other financial reorganization. Impaired loans and receivables are charged to the statement of operations as bad debts and allowance for doubtful accounts is recognized.

3.7.2 FINANCIAL LIABILITIES

Tree Island classifies its financial liabilities as borrowings and other financial liabilities.

Borrowings and other financial liabilities are classified as current or non-current based on their maturity date and recognized initially at fair value, net of transaction costs incurred and are subsequently stated at amortized cost. Any difference between the amounts originally received, net of transaction costs, and the redemption value is recognized in the consolidated statement of operations over the period to maturity using the effective interest method.

Financial liabilities include the Senior Credit Facility, accounts payable and accrued liabilities, finance lease, Senior Term Loan, long-term debt, and Debentures.

A financial liability is derecognized when the obligation under the liability is discharged or cancelled or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original statement of operations as a gain or loss on renegotiated debt.

3.7.3 FINANCIAL INSTRUMENTS AT FAIR VALUE THROUGH PROFIT AND LOSS

Financial instruments at fair value through profit and loss are initially recognized at their fair value on the date the contract or transaction is entered into and are subsequently re-measured at their fair value at each reporting period with changes in the fair value recognized through the statement of operations. Financial instruments at fair value through profit and loss include the change in control premium associated with the Debentures, the early payment option (Note 17), purchase agreement for zinc (Note 17) and foreign exchange forward contracts (Note 17). As a result of the Corporate Conversion, the conversion feature and Warrants associated with the Debentures were reclassified to equity at their fair value on the conversion date (Note 10).

3.8 DEBENTURES

The Debentures are hybrid instruments and the proceeds received were bifurcated to record the fair value of the associated elements, which include the embedded financial derivative for the change of control premium, the conversion feature and Warrants issued, with the residual being allocated to the Debentures. Transaction costs were allocated pro rata between the elements of the Debentures.

The fair value of the change of control premium is determined using a probability weighted future cash flow stream and is recorded as a financial liability. The probability of change of control is based on management's best estimate of the likelihood of a change of control event occurring during the term of the Debentures. The change of control premium is re-valued at each reporting date, with changes in the fair value recorded as charges or credits to changes in liabilities recorded at fair value.

Upon maturity of the Debentures, to the extent that they are not exercised, any financial liabilities remaining on the change in control premium would have been recorded as a gain in the consolidated statements of operations and any balance remaining on the conversion features and Warrants would have been transferred within the Shareholders' equity account from Warrants and equity component of Debentures to share capital. The Company redeemed all outstanding Debentures on March 4, 2014 (Note 10).

The residual amount recorded for the Debentures was at a discount from the face amount and this discount, together with the stated interest on the Debentures and associated transaction costs, were amortized as a charge to financing expense over the life of the instrument using the effective interest method.

3.9 Warrants

The fair value of the conversion feature and Warrants were determined using an option pricing model that takes into account assumptions on volatility of the Company's Shares and the risk-free interest rates of return. The conversion feature and Warrants were classified as financial liabilities and the related transaction costs were expensed when incurred. As a result of the Corporate Conversion, the conversion feature and Warrants have characteristics of equity, as they are convertible into Shares of Tree Island on a fixed basis. Thus, the conversion feature and Warrants with fair value of $0.727 million as at October 1, 2012 (conversion date) were reclassified as equity instruments.

Upon exercise of the conversion feature or Warrants, the related portions of the financial liability and equity for all the elements were derecognized. The Shares were recorded in share capital based on amortized cost of the Debentures and the remainder was allocated to the conversion feature and Warrants.

On May 16, 2014, a share consolidation on the basis of one post-consolidation Share for every two pre-consolidation Shares (the "Share Consolidation") occurred. Immediately prior to the Share Consolidation, there were 4,372,500 pre-consolidation Warrants outstanding. Pursuant to the terms of the pre-consolidation Warrants, after giving effect to the Share Consolidation, the number of pre-consolidation Warrants outstanding was adjusted by the same basis of one Warrant for every two pre-consolidation Warrants to 2,186,250 and each Warrant was exercisable for one Share. The exercise price was also adjusted accordingly such that the exercise price for each Warrant was $1.14.

In the last quarter of 2014, 798,750 Warrants were exercised and converted into Shares on a one-for-one basis. The total proceeds of $0.911 million were recorded as share capital on the Company's consolidated financial statements. The remaining 1,387,500 Warrants were not exercised and expired on November 26, 2014.

3.10 LEASES

The determination of whether an arrangement is, or contains, a lease is based on the substance of the arrangement at inception date and are classified as either finance or operating. Leases that transfer substantially all the benefits and risks of ownership of the leased item to Tree Island are accounted for as finance leases. Assets under finance lease would be accounted for as assets and amortized over the lesser of the estimated useful life or the lease term. A finance lease obligation would be recognized to reflect the present value of future lease payments and the finance element of the lease payments would be charged to income over the term of the lease.

Operating lease payments are recognized as an operating expense in the statement of operations on a straight-line basis over the term of the lease.

3.11 PROVISIONS

3.11.1 GENERAL

Provisions are recognized when Tree Island has an obligation (legal or constructive) as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made on the amount of the obligation. Where Tree Island expects some or all of a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognized as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in the statement of operations, net of any reimbursement.

3.11.2 ASSET DECOMISSIONING AND RETIREMENT OBLIGATIONS

Tree Island recognizes obligations associated with the retirement of property, plant and equipment that result from the acquisition, construction, development or normal operations of the assets. These obligations, if material, are recorded at fair value and capitalized and depreciated as part of the cost of the related asset. Management has determined that Tree Island does not have any material asset decommissioning or retirement obligations.

3.11.3 ONEROUS CONTRACTS

An onerous contract is one whereby the unavoidable costs of meeting the obligation exceed the expected economic benefits. Costs associated with non-cancellable lease obligations relating to the exiting of an activity or location that do not qualify for treatment as discontinued operations, net of any sub-lease receipts, are accrued as a provision for an onerous contract. If the effect of the time value of money is material, the provision is discounted using a current pre-tax rate that reflects, when appropriate, the risks specific to the liability. When discounting is used, the increase in the provision due to the passage of time is recognized as a finance cost.

3.12 POST-RETIREMENT BENEFITS

Tree Island contributes to a group registered retirement savings plan for Canadian employees and a 401K plan for US employees. The cost of defined contribution pensions are expensed as earned by employees.

3.13 TAXES

3.13.1 CURRENT INCOME TAX

Current income tax assets and liabilities for the current period are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted, at the reporting date in the countries where Tree Island operates and generates taxable income.

Management periodically evaluates positions taken in the tax returns with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions where appropriate.

3.13.2 DEFERRED TAX

Deferred tax is provided using the liability method on temporary differences between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes at the reporting date.

Deferred tax assets and liabilities are recognized for all taxable temporary differences, except in respect of taxable temporary differences associated with investments in subsidiaries when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognized for all deductible temporary difference to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry-forward of unused tax losses can be utilized, except in respect of deductible temporary differences associated with investments in subsidiaries, deferred tax assets are recognized only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilized.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilized. Unrecognized deferred tax assets are reassessed at each reporting date and are recognized to the extent that it has become probable that future taxable profits will allow the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date.

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current income tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

3.13.3 SALES TAX

Revenues, expenses and assets are recognized net of the amount of sales tax, except when the sales tax incurred on a purchase of assets or services is not recoverable from the taxation authority, in which case, the sales tax is recognized as part of the cost of acquisition of the asset or as part of the expense item, as applicable.

Receivables and payables are stated with the amount of sales tax included.

The net amount of sales tax recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the consolidated statement of financial position.

3.14 NET INCOME (LOSS) PER SHARE

Basic net income (loss) per Share/Unit is calculated by dividing net income (loss) by the weighted-average number of Shares/Units outstanding during the period. Diluted net income (loss) per Share/Unit is calculated by factoring in the impact of dilutive instruments, the conversion of debentures to Shares/Units using the “if-converted” method, and Warrants using the treasury stock method, which assumes that the proceeds from in-the-money Warrants are used to repurchase Shares/Units at the average market price during the period.

3.15 FOREIGN EXCHANGE

Transactions in currencies other than the functional currency are recorded at the rate of exchange prevailing on the date of the transaction. Monetary assets and liabilities that are denominated in foreign currencies are translated at the rate prevailing at each reporting date. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at the exchange rate at the date the fair value was determined. Non-monetary items that are measured at historical cost in a foreign currency are translated at the exchange rate on the date of the transaction.

On consolidation the assets and liabilities of foreign operations are translated into Canadian dollars at the rate of exchange prevailing at the reporting date and their statement of operations are translated at exchange rates prevailing at the dates of the transactions. The exchange differences arising on translation for consolidation are recognized in other comprehensive income.

4 CRITICAL ACCOUNTING JUDGMENTS AND ESTIMATES

The preparation of consolidated financial statements in accordance with IFRS requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingencies as at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Significant areas that involve estimates are listed below:

4.1 GOING CONCERN

In the context of the current economic climate and the economic conditions in our principal markets in both Canada and the United States management has assessed the entity's ability to continue as a going concern. Management has forecast Tree Island’s financial results and cash flows for fiscal 2015. The forecasts are based on management's best estimates of operating conditions in the context of management’s best estimates of the current economic climate. The judgments and assumptions that can most directly impact these forecasts are the expected sales volumes and prices realized, costs of raw materials and in particular carbon rod, costs of imported finished goods, foreign exchange fluctuations, and collectability rates on accounts receivables.

With a $60.000 million Senior Credit Facility, working capital of $30.837 million as at December 31, 2014, and forecasts projecting credit availability through 2015, Tree Island believes that there is sufficient capital to continue as a going concern. The assumptions and estimates used to make this conclusion are based on the available information and management’s best estimates of future earnings, cash flows and working capital turnover.

4.2 FINANCIAL INSTRUMENTS VALUED AT FAIR VALUE THROUGH PROFIT AND LOSS

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, mark to market valuation and option pricing models, using, to the extent possible, observable market-based inputs. Refer to notes 10 and 17 for significant assumptions used in the valuation of these financial instruments and carrying amount as at December 31, 2014 and 2013.

4.3 INVENTORY VALUATION

Inventories must be recognized at the lower of cost or their Net Realizable Value (“NRV”), which is the estimated selling price in the ordinary course of business less the estimated costs of completion and estimated costs necessary to make the sale. IFRS requires that the estimated NRV be based on the most reliable evidence available at the time the estimates are made of the amounts that inventories are expected to realize.

The measurement of an inventory write-down to NRV is based on our best estimate of the NRV and of our expected future sale or consumption of our inventories. Due to market driven fluctuations in certain product group sales prices and the commodity nature of our significant raw materials, there is uncertainty as to whether the NRV of the inventories will remain consistent with those used in our assessment of NRV at period end. As a result there is the risk that a write-down of on-hand and unconsumed inventories could occur in future periods. Also, a certain portion of inventory may become damaged or obsolete. A slow moving reserve is recorded, as required, based on an analysis of the length of time product has been in inventory and historical rates of damage and obsolescence. Refer to note 7 for the inventory provision as at December 31, 2014 and 2013.

4.4 ALLOWANCE FOR DOUBTFUL ACCOUNTS

It is possible that a certain portion of required customer payments will not be made, and as such an allowance for these doubtful accounts is maintained. The allowance is based on estimation of the potential of recovering the accounts receivable and incorporates current and expected collection trends. The estimates will change, as necessary, to reflect market or specific industry risks, as well as known or expected changes in the customers' financial position. Refer to note 6 for the carrying amount of allowance for doubtful accounts as at December 31, 2014 and 2013.

4.5 PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment comprises a large component of the total assets of Tree Island and as such the capitalization of costs, the determination of estimated recoverable amounts and the estimates of useful lives of these assets have a significant effect on Tree Island's financial results.

Management uses the best available information to identify the point at which a development project is capitalized. Changing assumptions about future selling prices of products, exchange rates, and production costs may change the estimate of the useful life of these assets and as a result the amount of depreciation or amortization recognized.

The carrying value of long-lived assets is reviewed at the end of each reporting period. The impairment analysis contains estimates that can change due to the inherently speculative nature of forecasting long-term estimated cash flows and determining the ultimate useful lives of assets. If any of these estimates change significantly, future net cash flows from the property, plant and equipment could be lower or higher, which would result in additional impairment or reversal of impairments recognized in prior periods. As well, as much as practicable, third-party valuators are used to provide fair values that also contain assumptions concerning current market information for similar or same assets and if applicable functional and economic obsolescence. Refer to note 8 for the impairment reversal taken in 2013.

4.6 INCOME TAXES

As at each consolidated statement of financial position date, a deferred income tax asset would be recognized for all deductible temporary differences, unused tax losses and income tax reductions, but only to the extent that their realization is probable. The determination of this requires significant judgment. This evaluation includes review of: (1) the ability to carry back operating losses to offset taxes paid in prior years; (2) the carry-forward periods of the losses; (3) an assessment of the excess of fair value over the tax basis of Tree Island's net assets, and, (4) appropriate and feasible corporate actions with respect to repatriation of foreign earnings. If based on this review, it is not probable such assets will be realized, then no deferred income tax asset is recognized. Refer to Note 16.2 for deferred income tax assets and liabilities as at December 31, 2014 and 2013.

5 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

5.1 SIGNIFICANT ACCOUNTING POLICIES, CRITICAL ACCOUNTING JUDGEMENTS AND ESTIMATES

Tree Island Steel adopted the following IFRS standards effective January 1, 2014:

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.

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.

5.2 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.

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

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

6 ACCOUNTS RECEIVABLE

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

($'000 unless otherwise stated)

	As at December 31, 2014	As at December 31, 2013
Current	18,379	15,451
30 - 60 days past due	1,090	1,011
61 - 90 days past due	356	426
Over 91 days past due	421	261
Total Accounts Receivable	20,246	17,149
Allowance for doubtful accounts	(154)	(189)
Net Accounts Receivable	20,092	16,960

Accounts receivable are non-interest bearing and are generally due on 30-day to 90-day terms. These terms are consistent for related party receivables as disclosed in Note 14.

The maximum credit risk that Tree Island was exposed to by way of its accounts receivable is equal to the net amount of $20.092 million as at December 31, 2014 ($16.960 million as at December 31, 2013).

At the end of each reporting period a review of the provision for bad and doubtful accounts is performed. It is an assessment of the potential amount of trade accounts receivable that will be paid by customers after the consolidated statements of financial position date. The assessment is made by reference to age, status and risk of each receivable, current economic conditions and historical information. The trade accounts receivable balance is reduced through the use of the allowance for doubtful accounts and the amount of the loss is recognized in the consolidated statement of operations. Reversals to the allowance for doubtful accounts occur when previously allowed for trade accounts receivable are collected. Individual trade accounts receivable, together with any associated allowance previously recognized, are written off when there is no realistic prospect of future recovery.

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

($'000 unless otherwise stated)

	As at December 31, 2014	As at December 31, 2013
Opening balance - Jan 1	189	295
Additions during the year	153	95
Reversals during the year	(23)	(177)
Write-offs during the year	(165)	(28)
Foreign exchange revaluation	-	4
Closing Balance - December 31	154	189

See Note 17.3 on credit risk of trade receivables to understand how credit quality of accounts receivable that are neither past due nor impaired are managed and measured.

7 INVENTORIES

Tree Island had the following categories of inventory as at:

($'000 unless otherwise stated)

	As at December 31, 2014	As at December 31, 2013
Raw Materials	20,000	10,282
Finished and semi-finished products	26,368	17,349
Consumable supplies and spare parts	9,582	7,676
Total Inventory	55,950	35,307

At each year end, the ending inventories on hand are reviewed to determine if a write down to net realizable value is required. Based on this review, it was determined that no write downs were necessary in 2014 and no write downs were needed in 2013. In the year ended December 31, 2014 and 2013, Tree Island recognized, in income, inventory costs for the following:

($'000 unless otherwise stated)

	Twelve Months Ended December 31,	
	2014	2013
Opening Inventory	35,307	32,732
Raw material purchases	132,709	94,778
Finished goods purchased for resale	3,414	4,722
Conversion costs	46,318	36,317
Writedowns	-	-
Closing inventory	(55,950)	(35,307)
Cost of goods sold	161,798	133,242

The provisions for reserve for 2014 was $2.368 million ($2.006 million in 2013).

8 PROPERTY, PLANT AND EQUIPMENT

During the year ended December 31, 2014 additions to machinery and equipment related to assets under finance lease was approximately $32,000 ($nil in 2013). The carrying value of machinery and equipment held under finance lease as at December 31, 2014 was approximately $58,000 ($86,000 in 2013). The leased asset is pledged as security for the related finance lease.

The carrying value of long-lived assets is reviewed annually. For the purposes of testing for impairment, or the reversal of impairment, Tree Island Steel's assets are grouped and tested at the CGU level. Tree Island considers both qualitative and quantitative factors when determining whether an asset may be impaired, or when a reversal of impairment is required. Where the carrying value of the assets is not expected to be recoverable from future cash flows, they are written down to their recoverable amount. Tree Island has noted no indicators of impairment for the year.

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

($'000 unless otherwise stated)

	Land & Improvement	Building & Improvement	Machinery & Equipment	Construction in Progress	Total
Cost					
As at December 31, 2012	9,105	38,801	17,111	148	65,165
Additions	-	213	219	95	527
Disposals	-	-	(194)	-	(194)
Foreign exchange translation	96	361	382	-	839
As at December 31, 2013	9,201	39,375	17,518	243	66,337
Additions	-	248	788	579	1,615
Disposals	-	-	(31)	-	(31)
Foreign exchange translation	135	512	562	69	1,278
As at December 31, 2014	9,336	40,135	18,837	891	69,199
Accumulated depreciation and impairment					
As at December 31, 2012	-	26,636	6,937	-	33,573
Depreciation for the period	-	1,355	1,547	-	2,902
Disposals	-	-	(128)	-	(128)
Impairment reversal	-	-	(671)	-	(671)
Foreign exchange translation	-	245	162	-	407
As at December 31, 2013	-	28,236	7,847	-	36,083
Depreciation for the period	-	1,325	1,497	-	2,822
Disposals	-	-	(22)	-	(22)
Foreign exchange translation	-	-	593	-	593
As at December 31, 2014	-	29,561	9,915	-	39,476
Net Book Value as at					
December 31, 2013	9,201	11,139	9,671	243	30,254
December 31, 2014	9,336	10,574	8,922	891	29,723

9 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 $40.000 million to $60.000 million and matures in April of 2019. Under the terms of the Senior Credit Facility, up to $60.000 million may be borrowed for Tree Island's financing requirements in Canadian and/or US dollars of which $4.125 million was advanced as a term loan. Interest is charged at variable rates based on the Canadian and/or US Prime rate and the Canadian B.A. rate and/or the Eurodollar rate. The amount advanced under the Senior Credit Facility at any time is limited to a defined percentage of inventories, accounts receivable and real estate, less certain reserves. The Senior Credit Facility is secured by a first charge over Tree Island's assets supported by the appropriate guarantees, pledges and assignments, and requires that certain covenants be met by Tree Island.

9.1 Senior Credit Facility

The Senior Credit Facility includes a $10 million Letter of Credit sub-facility which enables TII and TIW to open documentary and standby letters of credit for raw material purchases. There was a $35,000 Letter of Credit outstanding as at December 31, 2014.

The amount available under the revolving portion of the Senior Credit Facility is limited to the amount of the calculated borrowing base, less issued Letters of Credit, and less principal due under the Senior Term Loan (Note 9.2). The borrowing base is calculated as 90% of eligible receivables, plus the lesser of (a) 90% of the net orderly liquidation value of inventory and (b) 70% of eligible inventory.

The Senior Credit Facility has financial tests and other covenants with which the Company and its subsidiaries must comply. Quarterly, the Company is required to meet a rolling 4 quarters defined fixed charge coverage ratio of 1:1 if the availability on the Senior Credit Facility falls below the minimum availability of $5.000 million. As well, the Senior Credit Facility contains restrictive covenants that limit the discretion of the Company's management with respect to certain business matters. These covenants place restrictions on, among other things, the ability of the Company's operating subsidiaries to incur additional indebtedness, to create liens or other encumbrances, to pay dividends or make certain other payments, investments, loans and guarantees and to sell or otherwise dispose of assets and merge or consolidate with another entity.

As at December 31, 2014, the Company was in compliance with all of its financial covenants on the Senior Credit Facility.

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

($'000 unless otherwise stated)

	December 31, 2014	December 31, 2013
Revolving portion of the Senior Credit Facility(1)	30,553	16,370
Deferred Financing Costs(2)	(118)	(158)
Total	30,435	16,212

(1) The revolving portion of the Senior Revolving Facilitty denominated in US dollars is $29.536 million ($14,301 in 2013).

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

9.2 Senior Term Loan

On June 11, 2012, the Fund, through its subsidiaries, entered into a term loan with Wells Fargo Capital Finance Corporation (the "Senior Term Loan"). The Senior Term Loan was renewed on April 21, 2014 and matures in April of 2019 and is repayable through monthly principal instalments of approximately $34,000 plus interest at variable rates based on the Canadian prime rate and the Canadian Bankers Acceptance rate. The proceeds of the Senior Term Loan were used to partially settle long-term debt (Note 11).

The following amounts are outstanding under the Senior Term Loan:

($'000 unless otherwise stated)

	As at December 31, 2014	As at December 31, 2013
Senior Term Loan - begininng of period	4,292	4,792
Advances	-	-
Payments	(442)	(500)
Senior Term Loan - end of period	3,850	4,292
Less: current portion	(413)	(500)
Total	3,437	3,792

10 DEBENTURES

On November 26, 2009, the Fund completed a private placement with certain investors to issue an aggregate of $9.750 million principal amount of Debentures along with 4,875,000 Warrants (see Note 13.2). In the first quarter of 2010, an additional $10.000 million in Debentures were issued through a rights offering to unitholders. All Debentures have the same rights and terms governed by those described in the trust indenture regardless of when they were issued.

In connection with the Corporate Conversion, Tree Island assumed all obligations of the Fund relating to the outstanding Debentures. Holders are entitled to receive Shares, rather than Units, at the same conversion price at which the Units were previously issuable upon conversion.

The Debentures had a maturity date of November 26, 2014 and were convertible into Shares at $0.50 each. The conversion price was subject to change based on certain events described in the trust indenture. Upon issuance, the Debentures, less fair values allocated to the conversion feature, change of control premium, and Warrants issued were classified as a liability. The liability was discounted using the effective interest rate method and a discount rate of 21.9%. The debt discount, together with the stated interest and associated transaction costs, were being amortized as interest expense over the life of the Debentures.

During the year ended December 31, 2013, $3.046 million principal value of Debentures were converted into 6,091,200 Shares resulting in an increase to shareholders' capital of $2.823 million (net of proportionate issuance costs of approximately $0.223 million) offset by charges of $2.665 million to the Debentures, approximately $46,000 to the change of control premium, and $0.112 million to the conversion feature.

On January 27, 2014, the Company announced that it would redeem all of its Debentures by March 4, 2014 (the "Redemption Date"). By the Redemption Date, the Company had redeemed $0.175 million of Debentures. Between January 27, 2014 and the Redemption Date, a total of $15.969 million in principal value of Debentures were converted to 31,938,800 Shares, resulting in an increase to shareholders' capital of $15.320 million (net of proportionate issuance costs of approximately $0.649 million) offset by charges of $14.494 million to Debentures, $0.241 million to the change of control premium and $0.585 million to the conversion feature.

The change of control option is recorded as a financial liability under IAS 32 and is accounted for at fair value. Changes in fair value are recognized in the statement of operations at each period end. The carrying value of the Debentures at year end is:

($'000 unless otherwise stated)

	As at December 31, 2014	As at December 31, 2013
Convertible Debentures - beginning of period	14,696	15,634
Accretion of debt discount for the year	527	3,626
Payment of interest in cash	(554)	(1,899)
Conversion of Debentures to Tree Island shares	(14,494)	(2,665)
Redemption of Debentures	(175)	-
Convertible Debentures - end of period	-	14,696

The fair values, change in fair value, and reclassifications to equity for the change of control premium is:

($'000 unless otherwise stated)

	Change of Control Premium
December 31, 2012	312
Change in Fair Value	(25)
Reclassification to Equity	(46)
December 31, 2013	241
Reclassification to Equity	(241)
December 31, 2014	-

11 LONG-TERM DEBT

In June of 2012 the Company entered into long-term debt agreements with a trade creditor. The repayment schedule of the long-term debts extends to June 2028 with principal payments over a 10 year amortization period and non-compounding interest at 4% commencing June 2017, payable monthly over 4 years commencing June 2024. Principal payments, which started in 2009, are monthly in the amounts of US$0.100 million in years 1 and 2, US$0.110 million in years 3 and 4, US$0.120 million in years 5, 6 and 7, and US$0.185 million in years 8, 9 and 10. Present value of the debt was determined using discounted cash flows and a credit adjusted discount rate of 9%. The discount rate, together with the stated interest, comprises the debt discount. Using the effective interest rate method, the debt discount is amortized as accretion and charged to interest expense over the term of the amended long-term debt agreements.

The amounts owing under the long-term debts are denominated in US dollars.

A provision exists for early payment of a portion of the principal outstanding if certain conditions are met. As at December 31, 2014 a provision of $0.299 million has been accrued and is included in other noncurrent liabilities.

The elements of the long-term debt are listed below:

($'000 unless otherwise stated)

	As at December 31, 2014	As at December 31, 2013
Beginning of period	11,070	10,833
Payments	(1,954)	(1,519)
Foreign exchange revaluation	964	733
Accretion of debt discount	1,063	1,023
End of period	11,143	11,070
Less: current portion	(1,532)	(1,351)
Net Long-Term Debt	9,611	9,719

12 FINANCING EXPENSES

($'000 unless otherwise stated)

	Twelve Months Ended December 31	
	2014	2013
Non-cash accretion of debt discount and interest on long term debt and Convertible Debentures	1,063	2,750
Cash interest on Debentures	527	1,899
Interest on Senior Credit Facility	786	621
Other interest and financing costs	1,262	560
Amortization of deferred financing costs	188	60
Total	3,826	5,890

13 SHAREHOLDERS' CAPITAL

Tree Island is authorized to issue an unlimited number of Shares. The Shares have no par value. Shares issued and outstanding are as follows:

($'000 except for Shares)

	Shares	Gross	Issuance Costs(1)	Net
Shareholders' capital - December 31, 2012	22,155,150	222,711	11,400	211,311
Conversion of Convertible Debentures	6,091,200	2,823	-	2,823
Conversion of Warrants	300,000	173	-	173
Shareholders' capital - December 31, 2013	28,546,350	225,707	11,400	214,307
Conversion of Convertible Debentures	31,938,800	15,320	-	15,320
Conversion of Warrants	202,500	115	-	115
Effect of Share Consolidation	(30,343,827)	-	-	-
Conversion of Warrants	798,750	932	-	932
Shareholders' capital - December 31, 2014	31,142,573	242,074	11,400	230,674

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

13.1 NORMAL COURSE ISSUER BID

On September 5, 2013, the Company received approval from the TSX to renew a normal course issuer bid (the "Bid"). The Bid commenced on September 9, 2013 and terminates on the earlier of September 8, 2014 and the date on which Tree Island has acquired the maximum number of Shares permitted under the Bid. Tree Island may acquire up to 1,800,000 Shares under the Bid, such number representing approximately 10% of the public float of Tree Island's issued and outstanding Shares as at the August 30, 2013. Tree Island has no obligation to purchase any Shares under the Bid. Subject to certain exemptions for block purchases, the maximum number of Shares that Tree Island may purchase on any one trading day is 5,001 Shares up to and including September 8, 2014, representing 25% of the average daily trading volume for the previous six months. During the period January 1, 2012 to December 31, 2013 the Company purchased 1,050,900 Shares/Units at an average cost of $0.30 per Share/Unit, net of commission, under the NCIB. These Shares and Units were cancelled at the end of the month of purchase.

On September 17, 2014, the company renewed the normal course issuer bid to purchase up to 1,649,000 Shares. For the period January 1, 2014 to December 31, 2014 the Company did not purchase any Shares under the renewed normal course issuer bid.

13.2 WARRANTS

In 2014, 900,000 Warrants (after adjusting for the Share Consolidation) were exercised and converted into Shares on a one-for-one basis. The total net proceeds of $1.026 million were recorded as share capital on the Company's financial statements. The remaining 1,387,500 Warrants were not redeemed prior to expiration on November 26, 2014.

14 RELATED PARTY TRANSACTIONS

14.1 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 $5.000 million of the Debentures and was issued 1,875,000 Warrants. During the year ended December 31, 2014, Futura received interest settled in cash of approximately $10,000 ($0.500 million 2013) on the Debentures at the stated rate of interest.

In 2014, Futura converted $5.000 million of Debentures into 5.000 million Shares of the Company (after accounting for the Share Consolidation). Based on Tree Island Steels outstanding Shares as at February 19, 2015 (there were no outstanding warrants as at February 19, 2015), Futura owns 27.3% of the fully diluted Shares of the Company.

In addition, Mr. Doman is Chairman and CEO of CanWel Building Materials Group Ltd. ("CanWel"). In 2014, Tree Island sold, net of rebates, approximately $2.828 million ($2.656 million in 2013) of goods to CanWel during the year and trade accounts receivable owing from CanWel is approximately $0.136 million (approximately $83,000 in 2013). Outstanding trade accounts receivable from CanWel at period end are unsecured, interest free and settlement occurs in cash.

14.2 TRANSACTIONS WITH KEY MANAGEMENT PERSONNEL

Included in the definition of key management for purposes of disclosure of related party transactions are members of Board of Directors and officers of Tree Island. Short-term employee benefits for key management personnel for the year ended December 31, 2014 were $2.193 million ($1.869 million in 2013) which includes wages, salaries, social security contributions, paid annual and sick leave, vehicle costs and bonuses. It also includes Directors fees paid to members of the Board.

15 POST RETIREMENT BENEFITS

Tree Island contributes to a group registered retirements savings plan for all eligible Canadian employees and a 401K for all eligible US employees. Contributions made by Tree Island's subsidiaries amounted to $1.233 million ($1.160 million in 2013). Funding obligations are satisfied upon making contributions.

16 INCOME TAXES

A provision for income taxes is recognized for Tree Island, TII, and its wholly owned subsidiaries, as Tree Island, TII, and its wholly owned subsidiaries are subject to tax.

16.1 INCOME TAX RECOVERY (EXPENSE)

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

($'000 unless otherwise stated)

	Twelve Months Ended December 31, 2014	2013
Current tax recovery (expense)	70	609
Deferred tax recovery (expense)	(501)	(514)
Total recorded in the Statement of Operations	(431)	95

The expense or recovery of income taxes varies from the amount that would be expected if computed by applying the Canadian federal and provincial and US federal and state statutory income tax rates to the income before income taxes as shown in the following table:

($'000 unless otherwise stated)

	As at December 31 2014	As at December 31 2013
Income (loss) before provision for income taxes	1,409	(748)
Tax Rate	26.0%	25.8%
Expected income tax recovery (expense)	(366)	193
Revisions to prior year estimates	66	332
Items not taxable	337	695
Foreign exchange on intercompany loans	(1,237)	(999)
Differential tax rates on U.S. subsidiary	292	654
Increase in statutory future income tax rate	(5)	(24)
Change in unrecognized deferred tax benefits	(347)	(1,361)
Change in tax reserves	869	622
Other	(40)	(17)
Income tax recovery (expense)	(431)	95

16.2 DEFERRED INCOME TAX ASSETS AND LIABILITIES

Tree Island offsets tax assets and liabilities if and only if it has a legally enforceable right to offset current tax assets and current tax liabilities and the deferred tax assets and deferred tax liabilities relate to income taxes levied by the same tax authority.

The components of deferred income tax assets and liabilities as at December 31 are as follows:

($'000 unless otherwise stated)

	As at December 31 2014	As at December 31 2013
Non-capital tax loss-carry forwards	1,706	2,756
Deferred gain and financing costs	27	26
Reserves and other liabilities	120	129
Property, plant and equipment	(4,778)	(5,159)
Capital losses	853	0
Long-Term Debt	(720)	(936)
Unrealized foreign exchange (gain) loss	(45)	824
Goodwill and intangibles	2	2
Other	(153)	(129)
Deferred tax liability	(2,988)	(2,487)

	2014	2013
Deferred tax liability beginning of period	(2,487)	(1,973)
Deferred tax recovery (expense) during the period	(501)	(514)
Deferred tax liability end of period	(2,988)	(2,487)

No deferred tax assets have been recognized on the consolidated statements of financial position where Tree Island has concluded that it is not probable that the benefits of recognized deferred income tax assets will be realized prior to their expiry. As such, Tree Island has not recognized a deferred tax asset on the following items:

($'000 unless otherwise stated)

	As at December 31 2014	As at December 31 2013
Non-capital tax loss carry-forwards	12,601	10,721
Goodwill and intangibles	2,009	2,472
Deferred gain and financing costs	-	60
Unrealized foreign exchange losses	1,193	851
Reserves and other liabilities	629	618
Capital losses	313	999
Convertible Debentures	-	72
Other	7,727	7,149
Deferred tax asset	24,472	22,942

16.3 INCOME TAX LOSS CARRY-FORWARDS

As at December 31, 2014, Tree Island had income tax loss carry forwards available to offset future taxable income with expiries as shown in the table below:

($'000 unless otherwise stated)

Year of Expiration	Canada	US - Federal	US - State	China
2018	-	-	-	95
2019	-	-	-	-
2021	-	-	4,495	-
2028	-	8,772	-	-
2029	-	4,509	-	-
2030	-	4,357	-	-
2031	122	6,285	48,752	-
2032	265	2,488	428	-
2033	-	832	1,144	-
2034	-	2,140	2,144	-
Total	387	29,383	56,963	95

As at December 31, 2014, the Company had capital losses of $8.968 million in addition to the non capital loss carry forwards listed above. The capital losses can be carried forward indefinitely to offset against future capital gains.

17 FINANCIAL INSTRUMENTS

17.1 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.

($'000 unless otherwise stated)

	As at December 31, 2014		As at December 31, 2013	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Cash and cash investments	2,309	2,309	1,264	1,264
Accounts Receivable	20,092	20,092	16,960	16,960
Foreign exchange forward contracts	172	172	111	111
Total financial assets	22,573	22,573	18,335	18,335
Senior Revolving Facility	30,553	30,553	16,370	16,370
Accounts payable and accrued liabilties	18,758	18,758	7,619	7,619
Finance lease	58	58	86	86
Senior Term Loan	3,850	3,850	4,292	4,292
Long-Term Debt	11,143	12,094	11,070	11,834
Convertible Debentures	-	-	14,696	16,534
Change of control premium	-	-	241	241
Early payment option	299	299	410	410
Commodity purchase contract embedded derivative	138	138	-	-
Total financial liabilities	64,799	65,750	54,784	57,386

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

- Cash, accounts receivable, the revolving portion of the Senior Credit Facility and accounts payable and accrued liabilities approximate their carrying amounts largely due to the short-term nature of these instruments;

- Fair value on the Company's finance lease, Senior Term Loan, and long-term debt are based on estimated market interest rate on similar borrowings. The fair value of the finance lease and Senior Term Loan approximate fair value as the interest rates approximate market. A 1% change in the market interest rate would change the fair value of long term debt by $0.600 million;

- Debentures are traded on the TSX and the fair value disclosed is based on the closing price at period end less the fair values of the change of control premium, conversion feature, and Warrants. Fair value of the conversion feature and Warrants were estimated using the Black-Scholes Option Pricing Model;

- Fair value of the change of control premium is estimated using the Black-Scholes Option Pricing Model;

- Fair value of the early payment option was estimated using a discounted cash flow analysis and a discount rate of 9%;

- Fair value of the commodity purchase contract embedded derivatives are estimated using observable spot rates for zinc; and

- 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.

17.2 FAIR VALUE HEIRARCHY

The financial instruments have been categorized on a fair value hierarchy based on whether the inputs to those valuation techniques are observable (inputs reflect market data obtained from independent sources) or unobservable (inputs reflect the Company's market assumptions).

The three levels of fair value estimation are:

Level 1: Quoted (unadjusted) market prices in active markets for identical assets or liabilities;

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

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

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

($'000 unless otherwise stated)

	December 31, 2014	Level 2	Level 3
Foreign Exchange Forward Contracts	172	172	-
Senior Revolving Facility	30,553	30,553	-
Finance lease	58	58	-
Senior Term Loan	3,850	3,850	-
Long-Term Debt	12,094	-	12,094
Early payment option	299	-	299
Commodity purchase contract embedded derivative	138	138	-

Refer to Note 10 for a reconciliation of the opening and closing balances of the change of control premium, conversion feature, and Warrants. The balance of the early payment option was revised to $0.299 million ($0.410 million in 2013) to adjust to the value of the option as at December 31, 2014.

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

($'000 unless otherwise stated)

Item	Valuation Technique	Significant Observable Inputs	Sensitivity of the input to fair value
Early payment option	DCF	Increase / decrease in dollar value of purchases that qualify for early payment	A 5% increase (decrease) in the dollar value of purchases that qualify for the early payment option will result in an increase (decrease) in fair value of approximately $15.000
	DCF	Change in discount rate	A 1% increase in the discount rate will result in an increase in fair value of approximately $47,000 and a 1% decrease in the discount rate will result in a decrease in fair value of apprxomimately $53,000
Long-Term Debt	DCF	Change in discount rate	A 1% increase (decrease) in the discount rate will result in a decrease (increase) in fair value of approximately $0.600 million

17.3 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.

17.3.1 CREDIT RISK

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

17.3.2 LIQUIDITY RISK

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

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

The table below summarizes the future undiscounted contractual cash flow requirements for financial liabilities (including scheduled interest payments on interest bearing liabilities) as at December 31, 2014 and December 31, 2013:

($'000 unless otherwise stated)

	Carrying Amount	Contractual Cash Flow	Less Than 1 Year	1 - 2 Years	Greater Than 2 Years
Senior Revolving Facility	30,553	30,553	30,553	-	-
Accounts payable and accrued liabilities	18,758	18,758	18,758	-	-
Finance lease	58	64	35	15	14
Senior Term Loan	3,850	3,850	413	825	2,612
Long-term debt	11,143	18,421	1,528	3,283	13,610
Convertible Debentures	-	-	-	-	-
As at December 31, 2014	64,362	71,646	51,287	4,123	16,236
Senior Revolving Facility	16,370	16,370	16,370	-	-
Accounts payable and accrued liabilities	7,619	7,619	7,619	-	-
Finance lease	86	92	66	26	-
Senior Term Loan	4,292	4,292	500	1,000	2,792
Long-term debt	11,070	19,071	1,351	2,882	14,838
Convertible Debentures	14,696	18,010	18,010	-	-
As at December 31, 2013	54,133	65,454	43,916	3,908	17,630

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

17.3.3 FOREIGN CURRENCY RISK

The significant market risk exposures affecting the financial instruments are those related to foreign currency exchange rates and interest rates which are explained as follows:

($'000 unless otherwise stated)

	December 31, 2014
Increase (decrease) to net comprehensive income of a $0.01 increase (decrease) In the Canadian dollar to US dollar exchange rate	30

Tree Island's US dollar-denominated cash, accounts receivable, accounts payable and accrued liabilities, Senior Credit Facility and long-term debt are exposed to foreign currency exchange rate risk because the value of these financial instruments will fluctuate with changes in the US/Canadian dollar exchange rate. Tree Island's RMB denominated cash, accounts receivable, accounts payable and accrued liabilities are exposed to foreign currency exchange rate risk because the value of these financial instruments will fluctuate with changes in the RMB/Canadian dollar exchange rate. The Company enters into US dollar currency forward contracts for periods consistent with a portion of US dollar currency transaction exposures, generally from one to three months. These are not designated as cash flow, fair value or net investment hedges. The fair value of outstanding US dollar currency forwards as at December 31, 2014 was a notional amount of $6.527 million and the mark to market gain on those contracts was $0.172 million.

17.3.4 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 $0.306 million. Tree Island does not use derivative instruments to manage the interest rate risk.

17.3.5 RAW MATERIAL PRICE RISK

Tree Island is exposed to changes in the price of the materials used in its production process and enters into forward contracts to purchase a portion of the zinc used. These are not designated as cash flow, fair value or net investment hedges. The fair value of forward contracts as at December 31, 2014 was a notional amount of $3.212 million and the mark to market liability on those contracts was $0.138 million.

18 MANAGEMENT OF CAPITAL

The Company's objectives when managing its capital are:

> To maintain a capital base so as to preserve and enhance investor, creditor, and market confidence and to sustain viability and future development of the business;
>
> To manage capital in a manner that will comply with the financial covenants on the Senior Credit Facility, term loan, Debentures and long-term debt agreements as described further in Notes 9.1, 9.2, 10, and 11.

Management manages the capital structure in accordance with these objectives, as well as considerations given to changes in economic conditions and the risk characteristics of the underlying assets, in particular by close monitoring of cash flows and compliance with external debt covenants.
The capital structure is as follows:

($'000 unless otherwise stated)

	As at December 31, 2014	As at December 31, 2013
Total shareholders' equity	44,098	27,780
Senior Revolving Facility	30,553	16,370
Senior Term Loan	3,850	4,292
Convertible Debentures	-	14,696
Long-term debt	11,143	11,070
Total capital	89,644	74,208

19 NET (LOSS) INCOME PER SHARE

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

Diluted earnings per Share amounts are calculated by dividing the net (loss) income for the year (after adjusting for interest and accretion, net of tax, on the convertible preference shares) by the weighted average number of Shares outstanding during the year plus the weighted average number of Shares that would be issued on conversion of all the dilutive potential units into Shares.

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

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

($'000 unless otherwise stated)

	Twelve Months Ended December 31,	
	2014	2013
Net income (loss) for the year adjusted for the effect of dilution	978	(653)
Weighted average number of Shares outstanding for the period - basic (units)	29,103,894	12,147,368
Dilutive effect of Warrants (units)	985,876	-
Weighted average number of Shares outstanding for the period - diluted (units	30,089,770	12,147,368
Net income (loss) per Share - basic ($/share)	0.03	(0.05)
Net income (loss) per Share - diluted (1) ($/share)	0.03	(0.05)

(1) The Debentures for 2014 and 2013 are anti-dilutive and have been excluded from all calculations.

From the period January 1, 2014 to December 31, 2014, $15.969 million in principal value of Debentures were converted into 31,938,800 Shares (15,969,400 Shares after adjusting for Share Consolidation).

Prior to the Share Consolidation, 202,500 warrants were exercised and converted into Shares on a one-for-one basis, resulting in $0.115 million of total net proceeds that were recorded as share capital on the Company's financial statements. Post Share Consolidation, 798,750 Warrants were exercised and converted into Shares on a one-for-one basis. The total net proceeds of $0.911 million were recorded as share capital on the Company's financial statements. The total amount recorded as share capital as a result of the exercising of the Warrants in 2014 was $1.026 million.

20 PROVISIONS AND COMMITMENTS

20.1 LITIGATION AND CLAIMS

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

20.2 PURCHASE COMMITMENTS

As at December 31, 2014, Tree Island's wholly owned subsidiaries have committed to rod purchases totalling $29.336 million (US$42.684 million in 2013) and imported finished goods purchases totalling $2.058 million (US$1.326 million).

20.3 OPERATING LEASE COMMITMENTS

Tree Island and its subsidiaries have various operating lease agreements with remaining terms of up to five years with varying renewal options. Annual lease rental payments due under non-cancelable operating leases, including payments for US facilities which have been accrued as discussed above, are as follows:

($'000 unless otherwise stated)

	As at December 31, 2014
Less than 1 year	1,659
1 to 5 years	1,527
More than 5 years	2
Total operating lease commitments	3,188

During the year ended December 31, 2014, Tree Island recognized $1.655 million in operating lease payments, net of sublease receipts, in cost of sales compared to $1.434 million the year prior.

20.4 FINANCE LEASE COMMITMENTS

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

($'000 unless otherwise stated)

		2014		2013
	Mimimum Payments	Present Value of Payments	Minumum Payments	Present Value of Payments
Less than 1 year	35	32	66	60
1 to 5 years	29	25	26	26
More than 5 years	-	-	-	-
Total mimimum lease payments	64	57	92	86
Less amounts representing finance charges	(6)	-	(6)	-
Present value of mimimum lease payments	58	57	86	86

21 SEGMENTED INFORMATION

21.1 MARKET SEGMENTS

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 years ended December 31, 2014 and 2013 were as follows:

($'000 unless otherwise stated)

	Twelve Months Ended December 31,	
	2014	2013
Industrial	72,615	55,029
Residential	51,729	45,106
Commercial	27,435	25,928
Agricultural	16,232	13,469
Specialty	15,933	13,908
Total revenue	183,944	153,440

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

21.2 GEOGRAPHIC SEGMENTS

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

($'000 unless otherwise stated)

	Twelve Months Ended December 31,	
	2014	2013
United States	118,975	93,312
Canada	60,183	55,840
International	4,786	4,288
Total revenue	183,944	153,440

Non-current assets for this purpose consist of property, plant and equipment and other non-current assets. These assets are attributed to geographic areas based on the locations of the subsidiary company owning the assets.

($'000 unless otherwise stated)

	As at December 31,	
	2014	2013
United States	7,766	7,357
Canada	22,073	23,053
China	2	2
Total Non-Current Assets	29,841	30,412

22 DISPOSITION OF SUBSIDIARY

In the third quarter of 2013, the Company entered into a share purchase agreement with an arm's length party. The Company sold to the purchaser its holding in GIP International, a wholly owned subsidiary, which represented a portion of the Company's international business, at a purchase price of $0.510 million (US$0.494 million). At the time of completion of the sale, the shares had a net book value of $0.208 million. After deducting approximately $84,000 in costs related to the sale, a gain of $0.218 million was realized.

SHAREHOLDER INFORMATION

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

Board of Directors:

Amar S. Doman – Chairman of the Board

Dale R. MacLean

Harry Rosenfeld

Michael Fitch

Sam Fleiser

Theodore A. Leja

Leadership Team:

Dale R. MacLean
President and Chief Executive Officer

Nancy Davies
Chief Financial Officer and Vice President, Finance

Stephen Ogden
Vice President, Operations

Remy Stachowiak
Vice President, Sales and Marketing

James Miller
Vice President, Corporate Development and Procurement

Shares:

Market Information

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

Registrar and Transfer Agent

Computershare Investor Services Inc.

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Auditors:

Ernst & Young LLP
Vancouver, B.C.