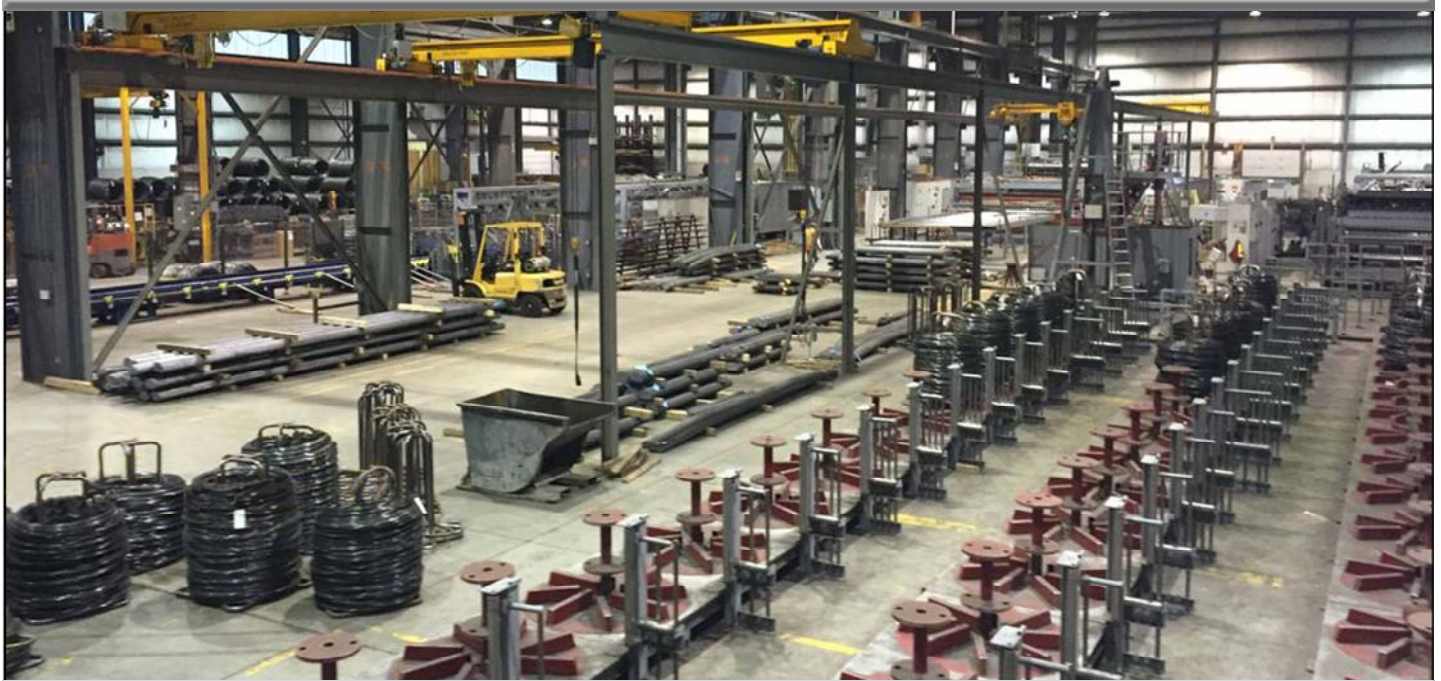




WIRE & WIRE PRODUCTS

ESTABLISHED IN 1964



**2015 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, True Spec, K-Lath, Industrial Alloys, TI Wire, and Tough Strand brand names. We also operate a China-based company that assists with international sourcing of products.

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

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## TO OUR SHAREHOLDERS

### Letter to Shareholders

2015 was a year of continued revenue and profit growth for Tree Island. A brief financial recap of the year shows 2015 sales volumes totalling 162,243 tons and revenues amounting to \$231.3 million. These numbers translate into year-over-year growth rates of 15.9% and 25.7% respectively. Our ability to improve the top line along with our ability to manage our costs resulted in gross profit growing by 66.2% to \$32.1 million and EBITDA by 128.1% to \$18.2 million.

While we operate in a traditional and mature industry with a number of established players, we view ourselves as an evolving entrepreneurial company that can adapt quickly to change and one that is always looking to apply our strengths to new opportunities and growth in these markets. With this in mind, in late 2015 we added a new 40,000 ton capacity facility in Calgary, AB. We view this new facility as a good strategic fit for our overall business as it allows us to expand our business in welded wire reinforcement products with increased capacity and also increases the breadth of our product offering.

With the foundation and platform we established in 2015, we will continue to build on our successes to chart our future direction. We will continue to monitor the market and competitive landscape and adapt our strategy as appropriate to gain new business. We see some potential market challenges in the coming year that can affect our business, including increased competition from imports in the United States due to the strength of the US currency, sluggish growth in the Canadian economy and, more recently, a cautious tone in the market caused by global concerns. Although we cannot affect these potential macro-economic challenges, we will continue to work hard at ensuring we manage these challenges appropriately to achieve our growth objectives.

In review of our past accomplishments, our growth and performance could not be achieved without the hard work and dedication of our employees within all levels of the organization who work towards common goals, one of which is to provide our customers with the best-in-class quality products and service. With the need to bring on new employees as we grow our business, we will continue our focus on training to ensure the quality of our products meet the high standards expected from our customers.

On a broader scale, we are not able to achieve our successes without the support provided to us from our customers, suppliers and investors. We appreciate your support and look forward to continuing our relationships going forward.

Our story for the past several years has been one of profitable growth and we intend to stay on that course. We look forward to the coming year and positioning ourselves for further growth and success.

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, 2015 and 2014

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 18, 2016 and should be read in conjunction with the consolidated financial statements for the year ended December 31, 2015. 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, 2015, can be found at [www.sedar.com](http://www.sedar.com) or on Tree Island Steel's website at [www.treeisland.com](http://www.treeisland.com).

## 1 FORWARD LOOKING STATEMENTS AND RISK

This management's discussion and analysis ("MD&A") includes forward-looking information with respect to Tree Island Steel, including our business, operations and strategies, as well as financial performance and conditions. The use of forward-looking words such as, "may," "will," "expect" or similar variations generally identify such statements. Any statements that are not statements of historical fact should be considered to be forward-looking statements. Although we believe that the forward-looking statements are reasonable, they involve risks and uncertainties, including the risks and uncertainties discussed under the heading "Risks Relating to the Company's Business" in the Company's AIF for the year ended December 31, 2015.

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, 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 Steel 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 tax 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 is the successor to Tree Island Income Fund and was incorporated under the laws of Canada on August 2, 2012 to affect the conversion from an income trust to a corporate entity. The units of Tree Island Wire Income Fund were converted into common shares of the Company (“Shares”) upon conversion.

There were 31,105,673 Shares outstanding as of December 31, 2015 and as of February 18, 2016 the same amount of Shares was outstanding.

Currently, the Company has no debentures or warrants outstanding. On March 4, 2014, all outstanding debentures were converted to Shares or redeemed. Prior to December 31, 2014, all outstanding warrants were either exercised or expired.

### **3.1 ORGANIZATIONAL STRUCTURE**

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

### **3.2 PRODUCTS**

Tree Island is a manufacturer and supplier of high quality wire products for a broad range of applications. Our goal is to match the appropriate wire product, level of quality and price point with 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 that meet or exceed customers’ needs, ASTM standards and applicable codes; broad range of applications; 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 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	Bright/galvanized/annealed low and high carbon wire	Wire fabricating, industrial applications, OEM manufacturing	North America and International
Residential Construction	Tree Island, Halsteel, K-Lath, True Spec	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
Agricultural	Tree Island, Tough Strand	Game fence and farm fence Vineyard wire and barbed wire	Agriculture, farming	North America

<b>Markets</b>	<b>Brand</b>	<b>Key Product Groups</b>	<b>Specific End-Use Markets</b>	<b>Regions</b>
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 construction and agricultural activities.

## 4 FULL YEAR 2015 BUSINESS OVERVIEW AND DEVELOPMENT

### 4.1 BUSINESS OVERVIEW

With operations in both countries and sales denominated in both Canadian and U.S. dollars, the effects of the weakening Canadian dollar against the U.S. dollar posed both challenges as well as opportunities for the business. The Company's business has a natural hedge against volatility in the Canadian to U.S. dollar exchange given that 71.5% of the revenues in 2015 were denominated in U.S. dollars and approximately the same percentage of cost of sales in 2015 was incurred in U.S. dollars. This natural hedge provides the ability for the Company to manage its sales efforts to mitigate the negative effect of U.S. dollar input costs by increasing penetration into the U.S. market and pro-actively reviewing Canadian sales prices to address margin compression due to the U.S. dollar strengthening.

Concurrent with the weakening of the Canadian dollar, commodity and metals prices world-wide continued the downward trend. For Tree Island this results in lower input costs in U.S. dollars but also puts pressure on our selling prices for our U.S. sales. This pressure from domestic and import competition looking to maintain market share is more pronounced in highly competitive product areas.

To address these macro-economic areas, the Company focused on its strengths, which includes providing customers with the best-in-class quality products and service, and implemented various initiatives throughout the year to address the changing market conditions and capitalize on opportunities. Pro-active management of the inventories reduced the risk of inventory losses from the declining commodity prices.

By successfully executing on these plans, our sales volume and total revenues increased by 15.9% and 25.7%, respectively, over the prior year. For the year total sales volume amounted to 162,243 tons and revenues totaled \$231.3 million of revenues. Efforts to grow the top line while managing costs positively impacted the Company's profitability, with operating income growing by 187.1% to \$14.1 million and EBITDA by 128.1% to \$18.2 million.

In late 2015 the Company added a new production facility in Calgary, Alberta. The new facility provides strategic benefits by expanding Tree Island's business in welded wire reinforcement products through increased capacity on standard construction mesh products and expands the breadth of product offerings to include engineered structural mesh products ("ESM"). The ESM capabilities also provide Tree Island a foothold in the infrastructure and large commercial construction markets providing a lower installed cost solution that replaces conventional steel rebar.

## 4.2 Labour Relations

The Company and the International Brotherhood of Teamster Local 213 successfully concluded a new five-year collective agreement effective July 1, 2015. The agreement covers hourly employees at the Company's Richmond, BC manufacturing facility and expires June 30, 2020. Additionally, the Company and the Canadian Office and Professional Employees Union Local 378 successfully concluded a new collective agreement effective October 1, 2015. The agreement covers salary employees at Tree Island's Richmond, BC administration office, and foremen, supervisors and quality control employees at the Richmond, BC manufacturing facility. The new five-year collective agreement expires September 30, 2020.

The new collective agreements set an important foundation for continued sales growth, increased stability for customers and further investments into the Richmond operations.

## 4.3 DIVIDEND POLICY

On July 28, 2015, the Company's Board approved a dividend policy of \$0.01 per Share per quarter commencing in the third quarter of 2015. The Company's dividend policy will be reviewed by the Board periodically and is based on a number of factors including current operations, operating costs, financial tests and other covenants under the Company's credit facilities, available investment opportunities, the supply and cost of raw materials, foreign exchange rates, the Company's hedging program and satisfaction of applicable corporate liquidity and solvency tests for the declaration of dividends.

The Company paid a dividend of \$0.01 per Share on October 15, 2015 to shareholders of record on September 30, 2015 and a dividend of \$0.01 per Share on January 15, 2016 to shareholders of record on December 31, 2015.

## 4.4 NEW PRODUCTION FACILITY IN CALGARY, AB

In Q4 the Company commenced operations at a new facility in Calgary, Alberta. The new facility has a capacity of 40,000 tons and expands Tree Island's business in welded wire reinforcement products.

## 4.5 Trade Action Review

On July 9<sup>th</sup>, 2015, the U.S. International Trade Commission ("ITC") released to the public its final decision regarding the anti-dumping trade case against the aforementioned countries.

The trade case covered certain steel nails having a nominal shaft length not exceeding 12 inches. Certain steel nails include, but are not limited to, nails made from round wire and nails that are cut from flat-rolled steel.

The ITC determined the U.S. steel nail industry was and is materially injured by the imports of certain steel nails from the subject countries and imposed the following anti-dumping duties:

<u>Country</u>	<u>Anti-Dumping Margin</u>
Korea	0% – 11.80%
Malaysia	2.66% - 39.35%
Oman	9.10%
Taiwan	0% – 2.24%
Vietnam	323.99%

In 2014, the U.S. apparent consumption of certain steel nails was US\$895 million, of which the subject countries made up approximately 34% (US\$305 million) of the total, or approximately 252,389 tons of steel nails. Although favourable, the results of the nail trade case are not expected to have a material impact on the Company.



## 5 RESULTS FROM OPERATIONS

(\$'000 unless otherwise stated)

	Three Months Ended		Twelve Months Ended		
	December 31,		December 31,		
	2015	2014	2015	2014	2013
Sales volume - Tons <sup>1</sup>	38,981	31,910	162,243	139,935	113,403
Revenue	54,274	42,265	231,266	183,944	153,440
Cost of sales	(47,480)	(37,367)	(196,028)	(161,798)	(133,242)
Depreciation	(862)	(726)	(3,115)	(2,822)	(2,902)
Gross profit	5,932	4,172	32,123	19,324	17,296
Selling, general and administrative expenses	(5,107)	(3,613)	(18,030)	(14,415)	(12,982)
Operating income	825	559	14,093	4,909	4,341
Foreign exchange gain (loss)	127	(84)	1,041	269	114
Gain (loss) on sale of property, plant and equipment	(4)	(4)	(10)	(14)	(41)
Property, plant and equipment impairment reversal	-	-	-	-	671
Gain (loss) on sale of subsidiary	-	-	-	-	218
Other expenses	(316)	-	(316)	-	-
Changes in financial liabilities recognized at fair value	323	183	136	71	(134)
Financing expenses	(793)	(843)	(3,183)	(3,826)	(5,890)
Income (loss) before income taxes	162	(189)	11,761	1,409	(748)
Income tax (expense) recovery	5,360	245	4,386	(431)	95
Net income	5,522	56	16,147	978	(653)
Operating Income	825	559	14,093	4,909	4,314
Add back depreciation	862	726	3,115	2,822	2,902
Foreign exchange gain (loss)	127	(84)	1,041	269	114
EBITDA <sup>2</sup>	1,814	1,201	18,249	8,000	7,330
Net Income	5,522	56	16,147	978	(653)
Non-cash financing expenses	302	270	1,185	1,057	2,750
Changes in FV of financial instruments	(323)	(183)	(136)	(71)	134
Deferred tax	(4,339)	(49)	(4,334)	501	514
Adjusted net income <sup>2</sup>	1,162	94	12,862	2,465	2,745
Net income per share - basic (\$/share)	0.18	0.00	0.52	0.03	(0.05)
Net income per share - diluted (\$/share)	0.18	0.00	0.52	0.03	(0.05)
Gross profit per ton (\$/ton)	152	131	198	138	153
EBITDA per ton (\$/ton)	47	38	112	57	65
Financial Position as at:			December 31,		
			2015	2014	2013
Total Assets			131,589	112,106	85,634
Total non-current financial liabilities			22,152	13,073	13,102

<sup>1</sup> Sales volumes excludes tons which were processed as part of tolling arrangements

<sup>2</sup> 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, 2015 AND 2014

<i>(\$'000 unless otherwise stated)</i>	<u>Q4 2015</u>	<u>Q4 2014</u>	<u>Variance Fav/(Unfav)</u>	
<b>SALES</b>	54,274	42,265	12,009	28.4%

### Revenue by Market Segment

*(\$'000 unless otherwise stated)*

	<u>Three Months Ended December 31, 2015</u>				<u>Three Months Ended December 31, 2014</u>			
	<u>Revenue</u>	<u>% of Revenue</u>	<u>Tons</u>	<u>% of Volume</u>	<u>Revenue</u>	<u>% of Revenue</u>	<u>Tons</u>	<u>% of Volume</u>
Industrial	19,988	36.8%	16,854	43.2%	17,759	42.0%	15,833	49.6%
Residential	15,043	27.7%	8,323	21.4%	11,634	27.5%	7,417	23.2%
Commercial	9,862	18.2%	8,121	20.8%	6,103	14.4%	5,312	16.6%
Agricultural	6,287	11.6%	4,986	12.8%	3,343	7.9%	2,656	8.3%
Specialty	3,094	5.7%	697	1.8%	3,426	8.1%	692	2.2%
Total revenue	<u>54,274</u>	<u>100.0%</u>	<u>38,981</u>	<u>100.0%</u>	<u>42,265</u>	<u>100.0%</u>	<u>31,910</u>	<u>100.0%</u>

The continued robust demand in end markets along with our efforts to providing the best-in-class products and services helped to sustain our growth in the fourth quarter of 2015. Four of our major market segments incurred robust growth, lead by the Agricultural sector and followed by the Commercial sector. Total sales volume for the quarter increased by 7,071 tons, or 22.2%.

The Industrial sector accounted for 43.2% of overall sales volume and 36.8% of revenues, compared to 49.6% and 42.0% last year, respectively. Lower market prices had a more significant impact on the Industrial sector when compared to the other three major segments.

The robust housing market in the U.S. continued to support the 12.2% growth in volume for Residential products over last year. As well, our increased focus on higher value added products, such as collated nails, helped to bring up the overall selling price for this segment, part of the reason why revenues increased by 29.3% over last year.

Sales volume for the Commercial segment increased by 2,809 tons over last year, an increase of 52.9%, and revenues by \$3.8 million, an increase of 61.6%, which is a result of our increased focus on this segment relative to last year and the commencement of operations at the Calgary facility in Q4.

Agricultural products grew the quickest year-over-year, increasing by 2,330 tons (+87.7%) and revenues by \$2.9 million (+88.1%). This is a result of the combination of our increased sales efforts and production being better able to meet demand.

Meanwhile, revenues increased at a slightly faster pace than volume, with total sales increasing by 28.4%, or \$12.0 million. For the quarter, the U.S. market made up a bigger proportion of the Company's overall revenues when compared to the same period last year as a result of the more robust U.S. market and the strength of the U.S. currency. However, selling prices in the U.S. were less than the year before, reflecting the lower market price of steel and increased pricing pressure from imports. Business in Canada continues to expand steadily as we continued to grow our business, particularly for Agricultural products.

## Revenue by Location

(\$'000 unless otherwise stated)

	Three Months Ended December 31,					
	2015		2014		Variance	
	Revenue	% of Total	Revenue	% of Total	Amount	%
United States	38,259	70.5%	28,166	66.6%	10,093	35.8%
Canada	14,168	26.1%	12,693	30.1%	1,475	11.6%
International	1,847	3.4%	1,406	3.3%	441	31.4%
Total	54,274	100.0%	42,265	100.0%	12,009	28.4%
Average C\$/US\$	1.3345		1.1350			

(\$'000 unless otherwise stated)	Q4 2015	Q4 2014	Variance Fav/(Unfav)	
<b>COST OF SALES</b>	48,342	38,093	(10,249)	(26.9%)

The increase in volume increased total cost of sales by \$8.4 million while the combination of the strength of the U.S. currency partially offset by the lower raw material costs, production efficiencies, improved operating leverage and the product mix accounted for the remaining \$1.8 million more in cost of goods sold.

(\$'000 unless otherwise stated)	Q4 2015	Q4 2014	Variance Fav/(Unfav)	
<b>GROSS PROFIT</b>	5,932	4,172	1,760	42.2%

## Gross Profit

(\$'000 unless otherwise stated)

	Three Months Ended December 31,					
	2015		2014		Variance Fav / (Unfav)	
	Gross Profit	% of Total	Gross Profit	% of Total	Amount	%
US\$ GP after FX translation	4,222	71.2%	2,963	71.0%	1,260	42.5%
C\$ gross profit	1,710	28.8%	1,209	29.0%	500	41.4%
Total gross profit	5,932	100.0%	4,172	100.0%	1,760	42.2%
Average C\$/US\$	1.3345		1.1350			

Gross profit as a percentage of revenues increased from 9.9% last year to 10.9% this year. The increase in profitability is attributable to the combination of our pricing initiatives, product mix, the productivity of the additional staff hired and trained in 2014 and overall operating leverage resulting from the increase in volume.

(\$'000 unless otherwise stated)	Q4 2015	Q4 2014	Variance Fav/(Unfav)	
<b>SG&amp;A EXPENSES</b>	5,107	3,613	(1,494)	(41.4%)

The increase in SG&A expenses is a combination of the impact of the strength of the U.S. currency on our US\$ denominated costs, the additional selling expenses incurred to generate the additional sales volume, compensation related items and additional general and administrative costs related to the growth in the business.

<i>(\$'000 unless otherwise stated)</i>	<u>Q4 2015</u>	<u>Q4 2014</u>	<u>Variance Fav/(Unfav)</u>	
<b>EBITDA</b>	1,814	1,201	613	51.0%

EBITDA earned for the quarter is inclusive of a \$127 k foreign exchange gain. The increase in EBITDA is attributable to the increase in sales volume, our pricing initiatives, product mix, production efficiencies and overall operating leverage.

<i>(\$'000 unless otherwise stated)</i>	<u>Q4 2015</u>	<u>Q4 2014</u>	<u>Variance Fav/(Unfav)</u>	
<b>FINANCING EXPENSES</b>	793	843	50	5.9%

Financing expenses during the quarter were \$50k less than the same period last year. Our financing costs decreased due to lower interest rates.

#### **Financing Expense**

*(\$'000 unless otherwise stated)*

	Three Months Ended December 31,			
			<u>Variance Fav / (Unfav)</u>	
	<u>2015</u>	<u>2014</u>	<u>Amount</u>	<u>%</u>
Non-cash financing expenses	302	270	(32)	(11.9%)
Interest on senior credit facility	142	189	47	24.9%
Other interest and financing costs	337	374	37	9.9%
Deferred financing costs	12	10	(2)	(20.0%)
<b>Total financing expenses</b>	<b>793</b>	<b>843</b>	<b>50</b>	<b>5.9%</b>

<i>(\$'000 unless otherwise stated)</i>	<u>Q4 2015</u>	<u>Q4 2014</u>	<u>Variance Fav/(Unfav)</u>	
<b>FOREIGN EXCHANGE GAIN (LOSS)</b>	127	(84)	211	251.2%

Our Canadian operation, whose functional currency is the Canadian dollar, has a portion of its assets, liabilities, sales and expenses denominated in currencies other than the Canadian dollar, in particular the U.S. dollar. With raw material costs being denominated in U.S. dollars, having a significant portion of our sales also being denominated in U.S. dollars 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. As at December 31, 2015, the Company had no outstanding U.S. dollar currency forward contracts.

<i>(\$'000 unless otherwise stated)</i>	<u>Q4 2015</u>	<u>Q4 2014</u>	<u>Variance Fav/(Unfav)</u>	
<b>INCOME TAX RECOVERY (EXPENSE)</b>	5,360	245	5,115	2,087.8%

The income tax recovery for Q4 2015 relates to the utilization of previously recognized deferred tax benefits, primarily from the Canadian operations. The income tax recovery is based on the Canadian statutory tax rate of 26.0% (the same as 2014) applied to the income of the Canadian subsidiary before taxes, with adjustments for permanent differences between accounting and taxable income offset by deductions from our U.S. operations.

<i>(\$'000 unless otherwise stated)</i>	<u>Q4 2015</u>	<u>Q4 2014</u>	<u>Variance Fav/(Unfav)</u>	
<b>NET INCOME (LOSS)</b>	5,522	56	5,466	9,760.7%

The increase in net income over the prior year is attributable to the better operating income for the period and inclusive of the income tax recovery.

<i>(\$'000 unless otherwise stated)</i>	<b>Q4 2015</b>	<b>Q4 2014</b>	<b>Variance Fav/(Unfav)</b>	
<b>ADJUSTED NET INCOME</b>	1,162	94	1,068	1,136.2%

Adjusted net income takes into account non-cash financing expenses, changes in fair value of financial instruments and deferred tax. The increase in adjusted net income over last year is a result of the better operating performance.

## 7 COMPARISON OF RESULTS FOR YEAR ENDED DECEMBER 31, 2015 AND 2014

<i>(\$'000 unless otherwise stated)</i>	<b>YTD 2015</b>	<b>YTD 2014</b>	<b>Variance Fav/(Unfav)</b>	
<b>SALES</b>	231,266	183,944	47,322	25.7%

### Revenue by Market Segment

*(\$'000 unless otherwise stated)*

	Twelve Months Ended December 31, 2015				Twelve Months Ended December 31, 2014			
	<u>Revenue</u>	<u>% of Revenue</u>	<u>Tons</u>	<u>% of Volume</u>	<u>Revenue</u>	<u>% of Revenue</u>	<u>Tons</u>	<u>% of Volume</u>
Industrial	84,126	36.4%	70,691	43.6%	72,601	39.5%	65,052	46.5%
Residential	71,412	30.9%	41,263	25.4%	51,721	28.1%	34,362	24.6%
Commercial	34,399	14.9%	28,461	17.5%	27,430	14.9%	24,344	17.4%
Agricultural	24,566	10.6%	18,357	11.3%	16,262	8.8%	12,692	9.1%
Specialty	16,763	7.2%	3,471	2.1%	15,930	8.7%	3,485	2.5%
Total revenue	<u>231,266</u>	<u>100.0%</u>	<u>162,243</u>	<u>100.0%</u>	<u>183,944</u>	<u>100.0%</u>	<u>139,935</u>	<u>100.0%</u>

Compared to 2014, total volume for the year increased by 15.9%, or 22,308 tons, while revenues increased by 25.7% million, or \$47.3 million. Our strategy to increase our focus in the U.S. market, robust demand in certain end markets and key sales initiatives we implemented contributed to the increase in sales volume, while the increase in revenues is due to the combination of the increase in sales volume and the strength of the U.S. dollar. As a result of the strength of the U.S. economy and the U.S. currency, competition from imports increased throughout the year. This resulted in increased pricing pressure with market prices being lower than the year prior.

Our continued efforts to be the best-in-class provider of quality products and service helped to differentiate us from the competition in the Industrial segment, particularly as the year went on and imports continued to increase its penetration into the market. Total volume for the year grew by 5,639 tons (+8.7%) and revenues by \$11.5 million (+15.9%).

The largest proportion of the sales growth in the Residential segment came primarily in the first half of 2015, partially supported by customers' limited access to imports caused by delays at the U.S. ports during that time. The robust residential sector in the U.S. was the main factor for the increase. For the year, sales volume of Residential products increased by 20.1% and revenues by 38.1%.

As a result of the increased focus on the Commercial segment and the commencement of operations at the new facility in Calgary, sales volume and revenues increased by 4,117 tons (+16.9%) and \$7.0 million (+25.4%) year-over-year, respectively.

Sales of Agricultural products were robust throughout the year as we were better able to match production with demand. Total volume in 2015 increased by 5,665 tons (+44.6%) and revenues by \$8.3 million (+51.1%).

The proportion of revenues derived from the U.S. market relative to the Canadian market increased throughout the year, reflecting the increase sales focus on the U.S. market, the strengthening of the U.S. dollar during the year and the more robust U.S. economy relative to Canada's.

### Revenue by Location

(\$'000 unless otherwise stated)

	Twelve Months Ended December 31 ,					
	2015		2014		Variance	
	Revenue	% of Total	Revenue	% of Total	Amount	%
United States	159,909	69.1%	118,943	64.7%	40,966	34.4%
Canada	65,904	28.5%	60,215	32.7%	5,689	9.4%
International	5,453	2.4%	4,786	2.6%	667	13.9%
Total	231,266	100.0%	183,944	100.0%	47,322	25.7%
Average C\$/US\$	1.2771		1.1035			

(\$'000 unless otherwise stated)	YTD 2015	YTD 2014	Variance Fav/(Unfav)	
<b>COST OF SALES</b>	199,143	164,620	(34,523)	(21.0%)

Of the total variance in costs of sales, \$26.2 million is due to the increase in volume and \$8.3 million is due to the combination of the strength of the U.S. currency partially offset by lower raw material costs, better production efficiencies, improved operating leverage and product mix.

(\$'000 unless otherwise stated)	YTD 2015	YTD 2014	Variance Fav/(Unfav)	
<b>GROSS PROFIT</b>	32,123	19,324	12,799	66.2%

### Gross Profit

(\$'000 unless otherwise stated)

	Twelve Months Ended December 31 ,					
	2015		2014		Variance Fav / (Unfav)	
	Gross Profit	% of Total	Gross Profit	% of Total	Amount	%
US\$ GP after FX translation	22,850	71.1%	8,827	45.7%	14,023	158.9%
C\$ gross profit	9,273	28.9%	10,497	54.3%	(1,224)	(11.7%)
Total gross profit	32,123	100.0%	19,324	100.0%	12,799	66.2%
Average C\$/US\$	1.2771		1.1035			

Gross profit margin for the twelve months was 13.9% compared to 10.5% the year prior. The increase in the gross profit margin is largely attributable to lower raw material costs (before foreign exchange translation), better production efficiencies and improved operating leverage. The absolute increase in gross profit is due to the previous mentioned factors as well as the increase in volume and the strength of the U.S. currency.

(\$'000 unless otherwise stated)	YTD 2015	YTD 2014	Variance Fav/(Unfav)	
<b>SG&amp;A EXPENSES</b>	18,030	14,415	(3,615)	(25.1%)

The increase in SG&A expenses is a combination of the strength of the impact of the U.S. currency on our U.S. dollar denominated costs, the additional selling expenses incurred from growing sales volume and the additional general and administrative costs related to the growing business.

<i>(\$'000 unless otherwise stated)</i>	<u>YTD 2015</u>	<u>YTD 2014</u>	<u>Variance Fav/(Unfav)</u>	
<b>EBITDA</b>	18,249	8,000	10,249	128.1%

EBITDA for the full year is inclusive of a foreign exchange gain of \$1.0 million. The increase in EBITDA is attributable to the increase in sales volume, our pricing initiatives, product mix, production efficiencies and improved operating leverage.

<i>(\$'000 unless otherwise stated)</i>	<u>YTD 2015</u>	<u>YTD 2014</u>	<u>Variance Fav/(Unfav)</u>	
<b>FINANCING EXPENSES</b>	3,183	3,826	643	16.8%

#### Financing Expense

*(\$'000 unless otherwise stated)*

	Twelve Months Ended December 31,			
	<u>2015</u>	<u>2014</u>	<u>Variance Fav / (Unfav)</u>	
			<u>Amount</u>	<u>%</u>
Non-cash financing expenses	1,185	1,057	(128)	(12.1%)
Cash on convertible debentures	-	534	534	100.0%
Interest on senior credit facility	903	786	(117)	(14.9%)
Other interest and financing costs	1,054	1,260	206	16.3%
Deferred financing costs	41	189	148	78.3%
<b>Total financing expenses</b>	<b>3,183</b>	<b>3,826</b>	<b>643</b>	<b>16.8%</b>

The savings in financing costs over last year stem from the conversion of the debentures that occurred in Q1 of 2014 and from the one-time write-off of the deferred financing fees in association with the renewal of the Senior Credit Facility in April 2014. These savings were partially offset by the increase in the interest costs associated with the Senior Credit Facility required to support the additional working capital resulting from the growth in the business.

<i>(\$'000 unless otherwise stated)</i>	<u>YTD 2015</u>	<u>YTD 2014</u>	<u>Variance Fav/(Unfav)</u>	
<b>FOREIGN EXCHANGE GAIN</b>	1,041	269	772	287.0%

Our Canadian operation, whose functional currency is the Canadian dollar, has a portion of its assets, liabilities, sales and expenses denominated in currencies other than the Canadian dollar, in particular the U.S. dollar. With raw material costs being denominated in U.S. dollars, having a significant portion of our sales also being denominated in U.S. dollars 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.

<i>(\$'000 unless otherwise stated)</i>	<u>YTD 2015</u>	<u>YTD 2014</u>	<u>Variance Fav/(Unfav)</u>	
<b>INCOME TAX RECOVERY (EXPENSE)</b>	4,386	(431)	4,817	1,117.6%

The income tax recovery for the year relates to the utilization of previously recognized deferred tax benefits, primarily from the Canadian operations. The income tax recovery (expense) is based on the Canadian statutory tax rate of 26.0% (the same as 2014) applied to the income of the Canadian subsidiary before taxes, with adjustments for permanent differences between accounting and taxable income offset by deductions from our U.S. operations.

<i>(\$'000 unless otherwise stated)</i>	<u>YTD 2015</u>	<u>YTD 2014</u>	<u>Variance Fav/(Unfav)</u>	
<b>NET INCOME (LOSS)</b>	16,147	978	15,169	1,551.0%

The increase in net income over the prior year is attributable to the better operating income for the period and inclusive of the income taxes recovery.

<i>(\$'000 unless otherwise stated)</i>	<u>YTD 2015</u>	<u>YTD 2014</u>	<u>Variance Fav/(Unfav)</u>	
<b>ADJUSTED NET INCOME</b>	12,862	2,465	10,397	421.8%

Adjusted net income takes into account non-cash financing expenses, changes in fair value of financial instruments and deferred tax. The increase in adjusted net income over last year is a result of the better operating performance.

## 8 FINANCIAL CONDITION AND LIQUIDITY

### 8.1 WORKING CAPITAL

A summary of the composition of our working capital as at December 31, 2015 compared to 2014 is provided below:

#### Working Capital

*(\$'000 unless otherwise stated)*

	<u>As at December 31,</u>	
	<u>2015</u>	<u>2014</u>
Cash	1,326	2,309
Accounts receivable	27,494	20,092
Inventories	59,686	55,950
Other current assets	3,865	3,914
Total current assets	<u>92,371</u>	<u>82,265</u>
Senior credit facility	(26,555)	(30,553)
Accounts payable and accrued liabilities	(17,046)	(18,758)
Dividends payable	(311)	-
Other current liabilities	(3,469)	(235)
Current portion of long term debt	(4,240)	(1,976)
Total current liabilities	<u>(51,621)</u>	<u>(51,522)</u>
Net working capital	<u>40,750</u>	<u>30,743</u>

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.

Accounts receivable as at December 31, 2015 was higher than at the same period last year, reflecting the increase in revenues. Inventories levels were also higher at December 31, 2015 when compared to the same period in 2014 as a result of the higher raw materials and finished goods costs due to the strength of the U.S. dollar, and an increase in raw material on hand to ensure raw material inventory levels were sufficient to meet production volume.



The increase in other current liabilities is for amounts owing for assets purchased in 2015. Meanwhile, the increase in the current portion of long-term debt is due to the additional payments associated with the additional \$10.6 million in term loans advanced in 2015 and the increase in principal payments on the long-term debt (refer to section 8.4 of the MD&A).

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

### Cash Flow

(\$'000 unless otherwise stated)

	Three Months Ended December 31,		Twelve Months Ended December 31,	
	2015	2014	2015	2014
Cash provided by (used in) operating activities	2,519	1,397	17,985	8,070
Working capital adjustments	(778)	1,048	(13,277)	(14,785)
Net cash provided by (used in) operating activities	<u>1,741</u>	<u>2,445</u>	<u>4,708</u>	<u>(6,715)</u>
Net cash provided by (used in) investing activities	<u>(3,313)</u>	<u>(965)</u>	<u>(6,306)</u>	<u>(1,545)</u>
Advance on (repayment of) senior term loans	7,309	(103)	9,968	(442)
Repayment of long-term debt	(566)	(515)	(2,263)	(1,954)
Conversion of warrants	-	911	-	1,026
Interest paid	(441)	(557)	(1,969)	(2,540)
Redemption of debentures	-	-	-	(175)
Advance on (repayment of) senior revolving facility	(4,769)	(1,046)	(6,851)	12,407
Dividends paid	(311)	-	(311)	-
Exchange revaluation of foreign denominated debt	392	381	2,071	964
Repurchase of shares	(77)	-	(107)	-
Net cash provided by (used in) financing activities	<u>1,537</u>	<u>(929)</u>	<u>538</u>	<u>9,286</u>
Exchange rate changes on foreign cash balances	<u>15</u>	<u>7</u>	<u>77</u>	<u>19</u>
Increase (decrease) in cash balances	<u>(20)</u>	<u>558</u>	<u>(983)</u>	<u>1,045</u>

The net cash generated from operating activities for the three months and full year ended December 31, 2015 was the result of the strength of operating results. However, additional working capital was required when compared to the prior year to support the growth in business.

Cash used in for investing activities in 2015 were for the purchase of manufacturing equipment.

In 2015, \$10.6 million was advanced in term loans to finance capital expenditure purchases.

### **8.3 SENIOR CREDIT FACILITY**

On April 21, 2014, the Company renewed its senior banking facility with Wells Fargo. The five year senior secured committed banking facility increased from \$40.0 million to \$60.0 million and matures in April of 2019. Under the terms of the Senior Credit Facility, up to \$60.0 million may be borrowed for Tree Island's financing requirements in Canadian and/or U.S. dollars. The amount advanced under the Senior Credit Facility at any time is limited to a defined percentage of inventories, accounts receivable, machinery and equipment, 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.

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.

In 2015, \$10.6 million in additional term loans was advanced to finance the purchase of capital equipment. As part of the term loan agreements, certain terms of the Senior Credit Facility were amended, including:

- Interest payable on the Canadian dollar denominated term loans and the Canadian dollar denominated funds advanced against the revolving portion of the Senior Credit Facility are at variable rates based on the Canadian interbank bid rates for Canadian dollar banker's acceptance;
- Interest payable on the U.S. dollar denominated term loans and the U.S. dollar denominated funds advanced against the revolving portion of the Senior Credit Facility are at variable rates based on the London Inter-Market Offered Rate ("LIBOR") for U.S. dollar deposits; and
- Principal repayments of the term loans denominated in Canadian dollars and U.S. dollars were deferred until February 1<sup>st</sup>, 2016, at which time monthly repayments of the principal would recommence (interest continued to be accrued and payable during the period the principal repayments were deferred).

As at December 31, 2015 the availability was in excess of the Availability Test and the Company was in compliance with its covenants on the Senior Credit Facility.

### **8.4 LONG TERM DEBT AGREEMENT**

Tree Island entered into a Second Amendment to the long-term debt 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 (see Note 9 in the consolidated financial statements).

Under the terms of this long term debt agreement, Tree Island is required to make an additional \$0.5 million principal repayment within 120 days of any fiscal year end in which EBITDA exceeds a specified amount.

## 9 CAPITAL EXPENDITURES AND CAPACITY

For the three and twelve months ended December 31, 2015 we made capital expenditures of \$3.0 million and \$6.3 million, respectively. These expenditures are for manufacturing equipment, in both our Canadian and U.S. facilities.

## 10 CONTRACTUAL OBLIGATIONS AND COMMITMENTS

As of December 31, 2015, 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 and zinc 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 end of 2016. The finished goods purchases are also in the normal course of our business activity and are expected to be delivered before the end of Q2 2016.

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)

	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>2020</u>	<u>Thereafter</u>	<u>Total</u>
Wire rod purchases	25,124	-	-	-	-	-	25,124
Zinc	3,125	-	-	-	-	-	3,125
Finished goods	2,562	-	-	-	-	-	2,562
Operating leases	2,168	390	256	57	33	2	2,906
Total commitments	<u>32,979</u>	<u>390</u>	<u>256</u>	<u>57</u>	<u>33</u>	<u>2</u>	<u>33,717</u>
Senior revolving facility	26,555	-	-	-	-	-	26,555
AP and accrued liabilities	17,046	-	-	-	-	-	17,046
Other current liabilities	3,469	-	-	-	-	-	3,469
Dividends	311	-	-	-	-	-	311
Finance lease	9	9	9	7	-	-	34
Senior term loans	1,624	1,786	1,764	8,857	-	-	14,031
Long-term debt	2,608	1,993	1,993	2,623	3,073	7,346	19,636
Total financial liabilities	<u>51,622</u>	<u>3,788</u>	<u>3,766</u>	<u>11,487</u>	<u>3,073</u>	<u>7,346</u>	<u>81,082</u>
Total obligations and commitments	<u>84,601</u>	<u>4,178</u>	<u>4,022</u>	<u>11,544</u>	<u>3,106</u>	<u>7,348</u>	<u>114,799</u>

The Company enters into U.S. dollar currency forward contracts for periods consistent with a portion of U.S. dollar currency transaction exposures, generally from one to three months. These are not designated as cash flow, fair value or net investment hedges. As of December 31, 2015, the Company had no outstanding U.S. dollar currency forward contracts.

From time to time, 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. As at December 31, 2015, the fair value of zinc forward contracts was a notional amount of \$3.1 million and the mark to market liability on those contracts was \$34k.

## 11 SUMMARY OF QUARTERLY FINANCIAL RESULTS

### Summary of Quarterly Financial Results

(\$'000 unless otherwise stated)

	Dec 31, <u>2015</u>	Sep 30, <u>2015</u>	Jun 30, <u>2015</u>	Mar 31, <u>2015</u>	Dec 31, <u>2014</u>	Sep 30, <u>2014</u>	Jun 30, <u>2014</u>	Mar 31, <u>2014</u>
Sales volume - tons	38,981	43,366	38,880	41,016	31,910	36,491	36,398	35,136
Revenue	54,274	61,408	56,541	59,043	42,265	47,975	47,782	45,922
Gross profit	5,932	9,813	8,144	8,234	4,172	5,215	4,624	5,313
Foreign exchange gain (loss)	127	152	(130)	892	(84)	37	(208)	524
EBITDA	1,814	6,195	4,732	5,508	1,201	2,403	1,737	2,659
Net income (loss)	5,522	6,444	2,064	2,117	56	390	171	361
Net income (loss) per unit - basic	0.18	0.21	0.07	0.07	0.00	0.01	0.01	0.01
Gross profit per ton	152	226	209	201	131	143	127	151
EBITDA per ton	47	143	122	134	38	66	48	76

The table above provides selected quarterly financial information for the eight most recent fiscal quarters to December 31, 2015. Sales volumes in the last quarter of the year have historically been the lowest in the year 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.

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, 2015 consolidated financial statements.

### 12.1 CRITICAL ACCOUNTING ESTIMATES

The areas that we consider to have critical accounting estimates are: 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 audited consolidated financial statements for December 31, 2015 (Note 3).

## **13 RELATED PARTY TRANSACTIONS**

### **13.1 TRANSACTIONS WITH ASSOCIATED COMPANIES**

The Futura Corporation (“Futura”) is considered to be a related party to the Company because of its share ownership interest and the fact that Mr. Doman, the sole shareholder and president of Futura, and Mr. Rosenfeld, the Executive Vice President of Futura, sit on the Board of Directors. Arbutus Distributors Ltd. (“Arbutus”) is considered to be a related party to the Company because of its share ownership and the fact that Mr. Bull, President of Arbutus, sits on the Board of Directors.

Based on Tree Island Steel’s outstanding Shares as at February 18, 2016, Futura owns 27.4% and Arbutus owns 18.1% of the fully diluted Shares of the Company.

In addition, Mr. Doman is Chairman and CEO of CanWel Building Materials Group Ltd. (“CanWel”). For the twelve months ended December 31, 2015, Tree Island sold, net of rebates, approximately \$2.9 million (\$2.8 million in 2014) of goods to CanWel and trade accounts receivable owing from CanWel as at December 31, 2015 is approximately \$76k (approximately \$136k in 2014). 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 and twelve months ended December 31, 2015 was approximately \$0.5 million and \$1.9 million respectively (approximately \$0.4 million and \$2.2 million respectively in 2014) 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 2015 Annual Information Form under the heading “Risk Factors” which can be found at [www.sedar.com](http://www.sedar.com).

## **15 DISCLOSURE CONTROLS AND PROCEDURES AND INTERNAL CONTROL OVER FINANCIAL REPORTING**

Our management is responsible for designing disclosure controls and procedures that (a) provide reasonable assurance that material information required to be disclosed by us is accumulated and communicated to management to allow timely decisions regarding required disclosure; and (b) ensure that information required to be disclosed by us is recorded, processed, summarized, and reported within the time periods specified in applicable securities legislation.

Our management is responsible for designing, establishing, and maintaining an adequate system of internal control over financial reporting. Our internal control system was designed based on the 2013 Internal Control – Integrated Framework (“2013 COSO Framework”) published by the Committee of Sponsoring Organizations of the Treadway Commission to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes, in accordance with IFRS.

Our 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, 2015 based on the 2013 COSO Framework. 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.

Our Chief Executive Officer and Chief Financial Officer certified the appropriateness of the financial disclosures in the annual financial report together with the other financial information included in the annual filings for the period ended December 31, 2015. These executives also certified that they are responsible for the design of disclosure controls and procedures and internal control 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 year ended December 31, 2015 and found no change that has materially affected, or is reasonably likely to materially affect, internal control over financial reporting.

The Company's Board of Directors and Audit Committee reviewed and approved the December 31, 2015 consolidated financial statements and this MD&A prior to its release.

## **CONSOLIDATED FINANCIAL STATEMENTS**

December 31, 2015 and 2014

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## **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 the International Financial Reporting Standards and, where appropriate, reflect management's best estimates and judgements. 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

## CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2015 and 2014

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### 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, 2015 and 2014 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.

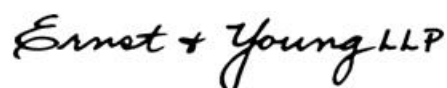
An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, 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, 2015 and 2014 and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

Vancouver, Canada  
February 18, 2015

The logo for Ernst & Young LLP, featuring the company name in a stylized, cursive script.

Chartered Professional Accountants



## CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2015 and 2014

### CONSOLIDATED STATEMENT OF FINANCIAL POSITION

(\$'000 unless otherwise stated)

	As at December 31, 2015	As at December 31, 2014
Cash	1,326	2,309
Accounts receivable (Note 6)	27,494	20,092
Inventories (Note 7)	59,686	55,950
Prepaid expenses	3,865	3,914
Current assets	92,371	82,265
Property, plant and equipment (Note 8)	37,713	29,723
Deferred income tax asset (Note 17.2)	1,346	-
Other non-current assets	159	118
Total assets	131,589	112,106
Senior revolving facility (Note 9.1)	26,555	30,553
Accounts payable and accrued liabilities	17,046	18,758
Income taxes payable (Note 17)	-	81
Other current liabilities	3,469	154
Dividends payable	311	-
Current portion of long-term borrowings (Notes 9.2, 12)	4,240	1,976
Current liabilities	51,621	51,522
Senior term loans (Note 9.2)	12,407	3,437
Long-term debt (Note 12)	9,531	9,611
Other non-current liabilities	214	450
Deferred income tax liability (Note 17.2)	-	2,988
Total liabilities	73,773	68,008
Shareholders' equity	57,816	44,098
Total liabilities and shareholders' equity	131,589	112,106

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 FINANCIAL STATEMENTS

December 31, 2015 and 2014

### CONSOLIDATED STATEMENT OF OPERATIONS

(\$'000 unless otherwise stated)

	Twelve Months Ended December 31,	
	<u>2015</u>	<u>2014</u>
Sales	231,266	183,944
Cost of sales (Note 7)	(196,028)	(161,798)
Depreciation	(3,115)	(2,822)
Gross profit	32,123	19,324
Selling, general and administrative expenses	(18,030)	(14,415)
Operating income	14,093	4,909
Foreign exchange gain (loss)	1,041	269
Loss on sale of property, plant and equipment	(10)	(14)
Other expenses	(316)	-
Changes in financial liabilities at fair value	136	71
Financing expenses (Note 13)	(3,183)	(3,826)
Income before income taxes	11,761	1,409
Income tax recovery (expense) (Note 17)	4,386	(431)
Net income	16,147	978
Net income per share (Note 20)		
Basic	0.52	0.03
Diluted	0.52	0.03
Weighted average number of shares (Note 20)		
Basic	31,134,659	29,103,894
Diluted	31,134,659	30,089,770

### CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

(\$'000 unless otherwise stated)

	Twelve Months Ended December 31,	
	<u>2015</u>	<u>2014</u>
Net income for the year	16,147	978
Unrealized (loss) on foreign exchange translation	(1,701)	(421)
Comprehensive income	14,446	557

See accompanying Notes to the Consolidated Financial Statements

## CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2015 and 2014

### CONSOLIDATED STATEMENT OF SHAREHOLDERS' EQUITY

(\$'000 unless otherwise stated)

	Shareholders' Capital	Convertible Instruments	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total
Balance as at December 31, 2014	230,674	-	(186,445)	(131)	44,098
Repurchase of shares	(106)	-	-	-	(106)
Net income	-	-	16,147	-	16,147
Dividends	-	-	(622)	-	(622)
Other comprehensive income	-	-	-	(1,701)	(1,701)
Balance as at December 31, 2015	230,568	-	(170,920)	(1,832)	57,816
Balance as at December 31, 2013	214,307	606	(187,423)	290	27,780
Conversion of debentures (Note 10)	15,318	(606)	-	-	14,712
Conversion of warrants (Note 11)	1,049	-	-	-	1,049
Net income	-	-	978	-	978
Other comprehensive income	-	-	-	(421)	(421)
Balance as at December 31, 2014	230,674	-	(186,445)	(131)	44,098

See accompanying Notes to the Consolidated Financial Statements

## CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2015 and 2014

### CONSOLIDATED STATEMENT OF CASH FLOWS

(\$'000 unless otherwise stated)

	Twelve Months Ended	
	December 31,	
	2015	2014
Net income	16,147	978
Depreciation	3,115	2,822
Changes in financial liabilities recognized at fair value	(136)	(71)
Loss on sale of property, plant and equipment	10	14
Amortization and write-off of deferred financing	41	189
Amortization of Net financing costs	3,142	3,637
Deferred income tax expense (recovery)	(4,334)	501
Working capital adjustments		
Accounts receivable	(7,400)	(2,609)
Inventories	(3,737)	(19,366)
Accounts payable and accrued liabilities	(2,032)	10,730
Prepaid expenses	49	(2,157)
Income and other taxes	(52)	(71)
Other	(105)	(1,312)
Net cash provided by (used in) operating activities	4,708	(6,715)
Purchase of property, plant and equipment	(6,306)	(1,545)
Net cash used in investing activities	(6,306)	(1,545)
Advance (repayment) of term loans	9,968	(442)
Repayment of long-term debt	(2,263)	(1,954)
Conversion of warrants	-	1,026
Interest paid	(1,969)	(2,540)
Redemption of debentures (Note 10)	-	(175)
Advance on (repayment of) senior revolving facility	(6,851)	12,407
Dividends paid	(311)	-
Exchange revaluation of foreign denominated debt	2,071	964
Repurchase of common shares	(107)	-
Net cash provided by (used in) financing activities	538	9,286
Effect of exchange rate change on cash	77	19
Increase (decrease) in cash	(983)	1,045
Cash – beginning of period	2,309	1,264
Cash – end of period	1,326	2,309

See accompanying Notes to the Consolidated Financial Statements

## **NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

December 31, 2015 and 2014

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### **1 NATURE OF BUSINESS**

These consolidated financial statements of Tree Island Steel Ltd. ("Tree Island Steel" or the "Company") for the year ended December 31, 2015 were authorized for issue in accordance with a resolution of the Board of Directors on February 18, 2016.

Tree Island Steel is the successor to Tree Island Income Fund and was incorporated under the laws of Canada on August 2, 2012 to affect the conversion from an income trust to a corporate entity. The units of Tree Island Wire Income Fund were converted into common shares of the Company ("Shares") upon conversion. The Company is headquartered at 3933 Boundary Road, Richmond, British Columbia, Canada and the Shares are publicly traded on the Toronto Stock Exchange ("TSX") under the symbol TSL.

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.

### **2 BASIS OF PREPARATION**

#### **2.1 BASIS OF PREPARATION**

The consolidated financial statements as at and for the year ended December 31, 2015 have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB").

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.

#### **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. Intercompany accounts and transactions have been eliminated on consolidation.

#### **2.3 FUNCTIONAL CURRENCY**

The functional and presentation currency of Tree Island Steel is the Canadian dollar. Meanwhile, the functional currency of TII is the Canadian dollar, the functional currency of TIW and TIWH is the US dollar, and the functional currency of 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:

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2015 and 2014

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### 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, including outstanding items in deposit and net of outstanding disbursement accounts, cash balances in excess of revolving credit outstanding on the Senior Credit Facility (as 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

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 20 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.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2015 and 2014

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### 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 recognized in the consolidated statement of operations.

Tree Island assesses at each reporting date whether there is an indication that an asset may be impaired. If any indication exists 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 valuers 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 consolidated 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 consolidated 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 18.

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:

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2015 and 2014

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- 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 financial assets and liabilities for which fair value is measured or disclosed in the consolidated financial statements are categorized within the fair value hierarchy (Note 18.2)

For assets and liabilities that are measured at fair value 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 consolidated 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.



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2015 and 2014

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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 liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognized in the consolidated 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 consolidated statement of operations. Financial instruments at fair value through profit and loss include the change in control premium associated with the Company's Debentures (Note 10), the early payment option (Note 18), purchase agreement for zinc (Note 18) and foreign exchange forward contracts (Note 18).

### 3.8 DEBENTURES

The Company's debentures ("Debentures") were 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 was determined using a probability weighted future cash flow stream and was recorded as a financial liability. The probability of change of control was 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 was 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 (Note 10).

### 3.9 Warrants

Upon exercise of the conversion feature of the Company's warrants ("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.

### 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 leases 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 consolidated statement of operations on a straight-line basis over the term of the lease.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2015 and 2014

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### 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 consolidated statement of operations, net of any reimbursement.

#### 3.11.2 ASSET DECOMMISSIONING 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.

### 3.12 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.

## **NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**December 31, 2015 and 2014**

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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 is calculated by dividing net income (loss) by the weighted-average number of Shares outstanding during the period. Diluted net income (loss) per Share is calculated by factoring in the impact of dilutive instruments, the conversion of Debentures to Shares 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 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 consolidated 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.

### **3.16 CRITICAL ACCOUNTING JUDGEMENTS 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 consolidated financial statements and the reported amounts of revenues and

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2015 and 2014

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expenses during the reporting period. Actual results could differ from those estimates. Significant areas that involve estimates are listed below:

### 3.16.1 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 Note 18 for significant assumptions used in the valuation of these financial instruments and carrying amount as at December 31, 2015 and 2014.

### 3.16.2 INVENTORY VALUATION

Inventories are 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, 2015 and 2014.

### 3.16.3 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, 2015 and 2014.

### 3.16.4 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.

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 valuers 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.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2015 and 2014

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### 3.16.5 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 17.2 for deferred income tax assets and liabilities as at December 31, 2015 and 2014.

## 4 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

Tree Island Steel was not required to adopt any IFRS standards that became effective after January 1, 2015.

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 consolidated financial statements.

## 5 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.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2015 and 2014

The new standards that may have an impact on the Company's reporting requirements include:

### IFRS 9 Financial Instruments

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, 2018. The Company is currently assessing the impact of IFRS 9 and plans to adopt the new standard on the required effective date.

### 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.

The 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, 2018 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:

(\$'000 unless otherwise stated)

	As at December 31, 2015	As at December 31, 2014
Current	24,948	18,379
30 - 60 days past due	1,167	1,090
61 - 90 days past due	458	356
Over 91 days past due	1,110	421
Total accounts receivable	27,683	20,246
Allowance for doubtful accounts	(189)	(154)
Net accounts receivable	27,494	20,092

Accounts receivable are non-interest bearing and are generally due on 30-day to 90-day terms. The maximum credit risk that Tree Island was exposed to by way of its accounts receivable is equal to the net amount of \$27.5 million as at December 31, 2015 (\$20.1 million as at December 31, 2014).

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.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

(\$'000 unless otherwise stated)

	As at December 31, 2015	As at December 31, 2014
Opening balance – January 1	154	189
Additions during the period	151	153
Reversals during the period	(26)	(23)
Payments	(19)	-
Write-offs during the period	(79)	(165)
Foreign exchange revaluation	8	-
Closing balance – December 31	<u>189</u>	<u>154</u>

See Note 18.3 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:

(\$'000 unless otherwise stated)

	As at December 31, 2015	As at December 31, 2014
Raw materials	20,338	20,000
Finished and semi-finished products	25,098	26,368
Consumable supplies and spare parts	14,250	9,582
Total inventory	<u>59,686</u>	<u>55,950</u>

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 2015 and no write-downs were required in 2014. The reserves for slow moving inventory as at December 31, 2015 were \$2.1 million (\$2.4 million at December 31, 2014).

For the full year ended December 31, 2015 and 2014, Tree Island recognized, in income, inventory costs for the following:

(\$'000 unless otherwise stated)

	Twelve Months Ended December 31,	
	<u>2015</u>	<u>2014</u>
Opening inventory	55,950	35,307
Raw material purchases	130,728	132,709
Finished goods purchased for resale	6,840	3,414
Conversion costs	62,196	46,318
Closing inventory	(59,686)	(55,950)
Cost of sales	<u>196,028</u>	<u>161,798</u>

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**December 31, 2015 and 2014**

**8 PROPERTY, PLANT AND EQUIPMENT**

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	Capital in Progress	Total
<b>Cost</b>					
As at December 31, 2013	9,201	39,376	17,517	243	66,337
Additions	-	248	788	579	1,615
Disposals	-	-	(31)	-	(31)
Foreign exchange translation	135	511	563	69	1,278
As at December 31, 2014	9,336	40,135	18,837	891	69,199
Additions	-	505	8,410	900	9,815
Disposals	-	-	(19)	-	(19)
Foreign exchange translation	314	1,223	1,244	24	2,805
As at December 31, 2015	9,650	41,863	28,472	1,815	81,800
<b>Depreciation and impairment</b>					
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	-	369	224	-	593
As at December 31, 2014	-	29,930	9,546	-	39,476
Depreciation for the period	-	1,363	1,752	-	3,115
Disposals	-	-	(4)	-	(4)
Foreign exchange translation	-	908	592	-	1,500
As at December 31, 2015	-	32,201	11,886	-	44,087
<b>Net book value as at</b>					
December 31, 2014	9,336	10,205	9,291	891	29,723
December 31, 2015	9,650	9,662	16,586	1,815	37,713

The carrying value of machinery and equipment held under finance lease as at December 31, 2015 was approximately \$30k (\$32k in 2014) (Note 21.4). The leased asset is pledged as security for the related finance lease.

The carrying value of long-lived assets is reviewed each reporting period. 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.

**9 SENIOR CREDIT FACILITY**

On April 21, 2014, the Company renewed its senior banking facility with Wells Fargo. The five year senior secured committed banking facility increased from \$40.0 million to \$60.0 million and matures in April of 2019. Under the terms of the Senior Credit Facility, up to \$60.0 million may be borrowed for Tree Island's financing requirements in Canadian and/or U.S. dollars. The amount advanced under the Senior Credit Facility at any time is limited to a defined percentage of inventories, accounts receivable, machinery and equipment, and real estate, less certain



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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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 \$10.0 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 \$42k Letter of Credit outstanding as at December 31, 2015.

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 loans (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.

In Q4 2015, the interest rates of the Senior Credit Facility were amended as follows:

- Interest payable on the Canadian dollar denominated term loans and the Canadian dollar denominated funds advanced against the revolving portion of the Senior Credit Facility are at variable rates based on the Canadian interbank bid rates for Canadian dollar banker's acceptance;
- Interest payable on the U.S. dollar denominated term loans and the U.S. dollar denominated funds advanced against the revolving portion of the Senior Credit Facility are at variable rates based on the London Inter-Market Offered Rate ("LIBOR") for U.S. dollar deposits; and
- Principal repayments of the term loans denominated in Canadian dollars and U.S. dollars were deferred until February 1<sup>st</sup>, 2016, at which time monthly repayments of the principal would recommence (interest continued to be accrued and payable during the period the principal repayments were deferred).

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

*(\$'000 unless otherwise stated)*

	As at December 31, 2015	As at December 31, 2014
Revolving portion of the senior credit facility	26,555	30,553
Deferred financing costs	(159)	(118)
Total	<u>26,396</u>	<u>30,435</u>

The revolving portion of the Senior Credit Facility denominated in US dollars is \$19.3 million (\$29.6 million in 2014) offset by the Canadian dollar portion of the facility which is in a debit position.

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

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 four quarters defined fixed charge coverage ratio of 1:1 ("Availability Test") if the availability on the Senior Credit Facility falls below a required minimum availability. 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.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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As at December 31, 2015 the availability was in excess of the Availability Test and the Company was in compliance with its covenants on the Senior Credit Facility.

### 9.2 Senior Term Loans

Since April 21, 2014, the Company has entered into three senior term loans (individually referred to as a “Senior Term Loan” and collectively as “Senior Term Loans”). The initial Senior Term Loan was entered into on April 21, 2014 and was denominated in Canadian dollars. The second Senior Term Loan amount of \$3.2 million was entered into on April 30, 2015 and is denominated in both Canadian and U.S. dollars. The third Senior Term Loan of \$7.4 million was entered into on October 30, 2015 and is denominated in Canadian dollars. The principal amounts outstanding on the Senior Term Loans are applied against the \$60.0 million Senior Credit Facility.

The principal amounts of the terms loans are amortized over either a five or ten year periods. Principal repayment is paid monthly. As part of the amendment to the Senior Credit Facility executed in Q4 2015, principal repayments of the term loans were deferred starting November 1<sup>st</sup>, 2015 until February 1<sup>st</sup>, 2016, at which time monthly repayments of the principal would recommence (interest continued to be accrued and payable during the period the principal repayments were deferred).

The following amounts are outstanding under the Senior Term Loans:

*(\$'000 unless otherwise stated)*

	As at December 31, 2015	As at December 31, 2014
Senior term loans - beginning of period	3,850	4,292
Advances	10,587	-
Foreign exchange revaluation	213	-
Payments	(619)	(442)
Senior term loans - end of period	14,031	3,850
Less: current portion	(1,624)	(413)
Total	<u>12,407</u>	<u>3,437</u>

## 10 DEBENTURES

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 \$0.2 million of Debentures. Between January 27, 2014 and the Redemption Date, a total of \$16.0 million in principal value of Debentures were converted to 31,938,800 pre-consolidation Shares, resulting in an increase to shareholders’ capital of \$15.3 million (net of proportionate issuance costs of approximately \$0.6 million) offset by charges of \$14.5 million to Debentures, \$0.2 million to the change of control premium and \$0.6 million to the conversion feature.

## 11 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.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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In the last quarter of 2014, 798,750 Warrants were exercised and converted into Shares on an one-for-one basis. The total proceeds of \$0.9 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.

### 12 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 debt extends to June 2028 with principal payments over a 10 year amortization period. The interest is non-compounding interest at 4% and commences accruing June 2017 and will become payable monthly over 4 years commencing June 2024. Principal payments, which started in 2009, are monthly in the amounts of US\$100k in years 1 and 2, US\$110k in years 3 and 4, US\$120k million in years 5, 6 and 7, and US\$190k 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 U.S. dollars.

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

*(\$'000 unless otherwise stated)*

	As at December 31, 2015	As at December 31, 2014
Beginning of period	11,143	11,070
Payments	(2,263)	(1,954)
Foreign exchange revaluation	2,071	964
Accretion of debt discount	1,188	1,063
End of period	12,139	11,143
Less: current portion	(2,608)	(1,532)
Net long-term debt	9,531	9,611

A provision exists for early payment of a portion of the principal outstanding if certain conditions are met (Note 18.1) and is included in other noncurrent liabilities.

Under the terms of this long-term debt agreement, Tree Island is required to make an accelerated payment of \$0.5 million on the principal outstanding within 120 days of any fiscal year end in which EBITDA exceeds a specified amount. This amount is included in the current portion of the long-term debt.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2015 and 2014

### 13 FINANCING EXPENSES

(\$'000 unless otherwise stated)

	Twelve Months Ended December 31,	
	<u>2015</u>	<u>2014</u>
Non-cash accretion of debt discount and interest on long term debt and debentures (Note 10)	1,185	1,057
Cash interest on debentures (Note 10)	-	534
Interest on senior credit facility (Note 9.1)	903	786
Other interest and financing costs	1,054	1,260
Amortization of deferred financing costs	41	189
Total	<u>3,183</u>	<u>3,826</u>

A write-off of the deferred financing costs in association with the renewal of the Senior Credit Facility, amounting to approximately \$141k, was incurred in the second quarter of 2014.

### 14 SHAREHOLDERS' CAPITAL

Tree Island is authorized to issue an unlimited number of Shares. The Shares have no par value. There were no Shares issued and 36,900 Shares were repurchased (totaling \$106k at an average price of \$2.89 per Share) and cancelled in the twelve months ended December 31, 2015. Shares issued and outstanding are as follows:

(\$'000 except for Shares)

	Shares	Gross	Issuance Cost <sup>3</sup>	Net
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
Repurchase of common shares	(36,900)	(106)	-	(106)
Shareholders' capital - December 31, 2015	<u>31,105,673</u>	<u>241,968</u>	<u>11,400</u>	<u>230,568</u>

#### 14.1 NORMAL COURSE ISSUER BID

On September 21, 2015, the Company renewed its normal course issuer bid (the "Bid") to purchase up to 800,000 Shares. The expiration date of the normal course issuer bid is September 20, 2016 or at an earlier date should Tree Island complete its purchases. Tree Island has no obligation to purchase any Shares under the Bid.

For the period January 1, 2015 to September 16, 2015 the Company purchased 10,400 Shares under the previous normal course issuer bid that expired on September 16, 2015 and were cancelled prior to September 30, 2015. Under the current normal course issuer bid that that was renewed on September 21, 2015 and expires September 20, 2016, 26,500 Shares were acquired and retired prior to January 1, 2016.

<sup>3</sup> Issuance costs were incurred as a result of the November 2002 Initial Public Offering and October 2004 Secondary Offering.

## **NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**December 31, 2015 and 2014**

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### **14.2 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 \$1.0 million were recorded as share capital on the Company's consolidated financial statements. The remaining 1,387,500 Warrants were not redeemed prior to expiration on November 26, 2014.

## **15 RELATED PARTY TRANSACTIONS**

### **15.1 TRANSACTIONS WITH ASSOCIATED COMPANIES**

The Futura Corporation ("Futura") is considered to be a related party to the Company because of its share ownership interest and the fact that Mr. Doman, the sole shareholder and president of Futura, and Mr. Rosenfeld, the Executive Vice President of Futura, sit on the Board of Directors. Arbutus Distributors Ltd. ("Arbutus") is considered to be a related party to the Company because of its share ownership and the fact that Mr. Bull, President of Arbutus, sits on the Board of Directors.

Based on Tree Island Steel's outstanding Shares as at February 18, 2016, Futura owns 27.4% and Arbutus owns 18.1% of the fully diluted Shares of the Company.

In addition, Mr. Doman is Chairman and CEO of CanWel Building Materials Group Ltd. ("CanWel"). For the twelve months ended December 31, 2015, Tree Island sold, net of rebates, approximately \$2.9 million respectively (\$2.8 million in 2014) of goods to CanWel and trade accounts receivable owing from CanWel as at December 31, 2015 is approximately \$76k (approximately \$136k in 2014). Outstanding trade accounts receivable from CanWel at period end are unsecured, interest free and settlement occurs in cash (Note 6).

### **15.2 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 twelve months ended December 31, 2015 was approximately \$1.9 million (approximately and \$2.2 million in 2014) 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.

## **16 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 \$1.3 million (\$1.2 million in 2014). Funding obligations are satisfied upon making contributions.

## **17 INCOME TAXES**

A provision for income taxes is recognized for Tree Island, TII, and its wholly owned subsidiaries.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2015 and 2014

### 17.1 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,	
	<u>2015</u>	<u>2014</u>
Current tax recovery (expense)	52	70
Deferred tax recovery (expense)	4,334	(501)
Total in the Consolidated Statement of Operations	<u>4,386</u>	<u>(431)</u>

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,	
	<u>2015</u>	<u>2014</u>
Income (loss) before provision for income taxes	11,761	1,409
Tax Rate	26.0%	26.0%
Expected income tax recovery (expense)	(3,058)	(366)
Revisions to prior year estimates	3,789	66
Items not taxable	3,413	337
Foreign exchange on intercompany loans	(4,465)	(1,237)
Differential tax rates on U.S. subsidiary	(7,660)	292
Increase in statutory future income tax rate	-	(5)
Change in unrecognized deferred tax benefits	13,492	(347)
Change in tax reserves	(653)	869
Other	(472)	(40)
Total in the Consolidated Statement of Operations	<u>4,386</u>	<u>(431)</u>

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### 17.2 DEFERRED INCOME TAX ASSETS AND LIABILITIES

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

(\$'000 unless otherwise stated)

	As at December 31,	
	<u>2015</u>	<u>2014</u>
Non-capital tax loss-carry forwards	4,596	1,706
Reserves and other liabilities	-	120
Property, plant and equipment	(3,620)	(4,778)
Capital losses	853	853
Long-Term Debt	(515)	(720)
Unrealized foreign exchange (gain) loss	46	(45)
Other	(15)	(124)
Deferred tax asset (liability)	<u>1,346</u>	<u>(2,988)</u>
Deferred tax (liability) beginning of period	(2,988)	(2,487)
Deferred tax recovery (expense) during the period	4,334	(501)
Deferred tax asset (liability) end of period	<u>1,346</u>	<u>(2,988)</u>

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,	
	<u>2015</u>	<u>2014</u>
Non-capital tax loss carry-forwards	428	12,601
Goodwill and intangibles	399	2,009
Unrealized foreign exchange losses	309	1,193
Reserves and other liabilities	747	629
Capital losses	2,892	313
Other	10,715	7,727
Deferred tax asset	<u>15,490</u>	<u>24,472</u>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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### 17.3 INCOME TAX LOSS CARRY-FORWARDS

As at December 31, 2015, 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	-	-	-	102
2019	-	-	-	-
2021	-	-	-	-
2028	-	-	-	-
2029	1,064	-	-	-
2030	-	-	-	-
2031	52	-	4,215	-
3032	265	-	511	-
3033	-	-	1,365	-
2034	-	-	3,772	-
2035	14,763	-	-	-
Total	16,144	-	9,862	102

As at December 31, 2015, the Company had capital losses of \$28.8 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.

## 18 FINANCIAL INSTRUMENTS

### 18.1 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.

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;
- 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



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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- Fair value of the forward exchange forward contracts is 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.

(\$'000 unless otherwise stated)

	As at December 31, 2015		As at December 31, 2014	
	<u>Carrying Amount</u>	<u>Fair Value</u>	<u>Carrying Amount</u>	<u>Fair Value</u>
Cash and cash investments	1,326	1,326	2,309	2,309
Accounts receivable	27,494	27,494	20,092	20,092
Foreign exchange forward contracts	-	-	172	172
Total financial assets	<u>28,820</u>	<u>28,820</u>	<u>22,573</u>	<u>22,573</u>
Senior revolving facility	26,555	26,555	30,553	30,553
Accounts payable and accrued liabilities	17,046	17,046	18,758	18,758
Finance lease	30	30	58	58
Senior term loans	14,031	14,031	3,850	3,850
Long-term debt	12,139	12,763	11,143	12,094
Early payment option	141	141	299	299
Commodity purchase contract embedded derivative	34	34	138	138
Total financial liabilities	<u>69,976</u>	<u>70,600</u>	<u>64,799</u>	<u>65,750</u>

### 18.2 FAIR VALUE HIERARCHY

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

The three levels of fair value estimation are:

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

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

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(\$'000 unless otherwise stated)

	Level 1	Level 2	Level 3
Senior revolving facility	-	26,555	-
Finance lease	-	30	-
Senior term loans	-	14,031	-
Long-term debt	-	-	12,763
Early payment option	-	-	141
Commodity purchase contract embedded derivative	-	34	-

The balance of the early payment option was revised to \$141k (\$299k million in 2014) to adjust to the value of the option as at December 31, 2015. The fair value of the long-term debt as of December 31, 2015 is \$12.6 million (Note 12).

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:

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 \$7k
	DCF	Change in discount rate	A 1% increase in the discount rate will result in an increase in fair value of approximately \$26k and a 1% decrease in the discount rate will result in a decrease in fair value of approximately \$29k
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 \$511k

### 18.3 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.

#### 18.3.1 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.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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### 18.3.2 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, 2015:

*(\$'000 unless otherwise stated)*

	Carrying Amount	Contractual Cash Flow	Less Than 1 Year	1 – 2 Years	Greater Than 2 Years
Senior revolving facility	26,555	26,555	26,555	-	-
Accounts payable and accrued liabilities	17,046	17,046	17,046	-	-
Finance lease	30	34	9	18	7
Senior term loans	14,031	14,031	1,624	3,550	8,857
Long-term debt	12,139	19,636	2,608	3,986	13,042
As at December 31, 2015	69,801	77,302	47,842	7,554	21,906

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.

### 18.3.3 FOREIGN CURRENCY RISK

The significant market risk exposures affecting the financial instruments are those related to foreign currency exchange rates and interest rates. For the period ending December 31, 2015, a \$0.01 increase (decrease) in the Canadian dollar to U.S. dollar exchange rate will increase (decrease) net comprehensive income by \$0.1 million.

Tree Island's U.S. 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 U.S./Canadian dollar exchange rate. Tree Island's RMB denominated cash, accounts receivable, accounts payable and accrued liabilities, the total amount for which are not considered material, 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 U.S. dollar currency forward contracts for periods consistent with a portion of U.S. dollar currency transaction exposures, generally from one to three months. These are not designated as cash flow, fair value or net investment hedges. As of December 31, 2015, the Company had no outstanding U.S. dollar currency forward contracts.

### 18.3.4 INTEREST RATE RISK

Tree Island is exposed to interest rate risk on its Senior Credit Facility. Interest payable on the term loans are based on the Canadian interbank bid rates for Canadian dollar banker's acceptance for Canadian dollar denominated borrowings or the London Inter-Market Offered Rate ("LIBOR") for U.S. dollar deposits for U.S. dollar

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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denominated borrowings plus 1.75%. Interest payable on the funds advanced as part of the senior revolving facility are based on the Canadian interbank bid rates for Canadian dollar banker's acceptance for Canadian dollar denominated borrowings or LIBOR for U.S. dollar deposits for U.S. dollar denominated borrowings plus 1.50%.

A one percent increase in the interest rates charged on the Senior Credit Facility would increase financing expenses by \$0.3 million annually. Tree Island does not use derivative instruments to manage the interest rate risk.

### 18.3.5 RAW MATERIAL PRICE RISK

Tree Island is exposed to changes in the price of the materials used in its production process and, from time to time, enters into forward contracts to purchase a portion of the zinc used. These are not designated as cash flow or fair value hedges. As at December 31, 2015, the zinc forward contracts had a notional value of \$3.1 million and the fair value liability on those contracts was \$34k.

## 19 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; and
- To manage capital in a manner that will comply with the financial covenants on the Senior Credit Facility, senior term loan agreements and long-term debt agreements as described further in Notes 9.1, 9.2, 10 and 12.

Management manages the capital structure in accordance with these objectives, with considerations given to changes in economic conditions and the risk characteristics of the underlying assets in particular, by closely monitoring cash flows and compliance with external debt covenants. The table below is what management considers capital:

*(\$'000 unless otherwise stated)*

	As at December 31, 2015	As at December 31, 2014
Total shareholders' equity	57,816	44,098
Senior revolving facility	26,555	30,553
Senior term loans	14,031	3,850
Long-term debt	12,139	11,143
Total capital	<u>110,541</u>	<u>89,644</u>

## 20 NET INCOME PER SHARE

Basic earnings per Share amounts are calculated by dividing net 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 income for the year 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 at December 31, 2015 the Company does not have any instruments issued that could be dilutive.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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As a result of the Share Consolidation in 2014, all Shares and per Share amounts have been restated to retroactively reflect the Share Consolidation.

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

*(\$'000 unless otherwise stated)*

	Twelve Months Ended December 31,	
	<u>2015</u>	<u>2014</u>
Net income for the year	16,147	978
Weighted average number of shares outstanding:		
Basic	31,134,659	29,103,894
Dilutive effect of warrants	-	985,876
Diluted	<u>31,134,659</u>	<u>30,089,770</u>
Net income per share - basic (\$/share)	0.52	0.03
Net income per share - diluted (\$/share)	0.52	0.03

36,900 Shares were repurchased and cancelled for the twelve months ended December 31, 2015 and no Shares were repurchased and cancelled from January 1, 2016 up to February 18, 2016 (Note 14).

## 21 PROVISIONS AND COMMITMENTS

### 21.1 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, consolidated statement of operations or cash flows.

### 21.2 PURCHASE COMMITMENTS

As at December 31, 2015, Tree Island's wholly owned subsidiaries have committed to raw material purchases (wire rod and zinc) totalling \$28.2 million (\$29.3 million in 2014) and imported finished goods purchases totalling \$2.6 million (\$2.1 million in 2014).

### 21.3 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 are as follows:

*(\$'000 unless otherwise stated)*

	As at December 31, 2015
Less than 1 year	2,168
1 to 5 years	735
More than 5 years	2
Total capital	<u>2,906</u>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2015 and 2014

### 21.4 FINANCE LEASE COMMITMENTS

Tree Island has a finance lease for certain machinery and equipment which bears interest at 7.4% and matures in September 2019. 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)*

	2015		2014	
	Minimum Payments	Present Value of Payments	Minimum Payments	Present Value of Payments
Less than 1 year	9	7	35	32
1 to 5 years	25	23	29	25
Total minimum lease payments	34	30	64	57
Less amounts representing finance charges	(4)	-	(6)	-
Present value of minimum lease payments	30	30	58	57

## 22 SEGMENTED INFORMATION

### 22.1 MARKET SEGMENTS

Revenues for each group for the twelve months ended December 31, 2015 and 2014 were as follows:

*(\$'000 unless otherwise stated)*

	Twelve Months Ended December 31,	
	<u>2015</u>	<u>2014</u>
Industrial	84,126	72,601
Residential	71,412	51,721
Commercial	34,399	27,430
Agricultural	24,566	16,262
Specialty	16,763	15,930
Total revenue	231,266	183,944

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

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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### 22.2 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,	
	<u>2015</u>	<u>2014</u>
United States	159,909	118,943
Canada	65,904	60,215
International	5,453	4,786
Total revenue	<u>231,266</u>	<u>183,944</u>

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)*

	<u>As at December 31, 2015</u>	<u>As at December 31, 2014</u>
United States	9,257	7,766
Canada	28,611	22,073
China	3	2
Total non-current assets	<u>37,872</u>	<u>29,841</u>

## SHAREHOLDER INFORMATION

TREE ISLAND STEEL  
LTD.

### Board of Directors:

Amar S. Doman –  
Chairman of the Board

Dale R. MacLean

Peter Bull

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*

Tree Island Steel Ltd., is  
listed on the Toronto Stock  
Exchange trading symbol:  
TSL.

#### *Registrar and Transfer Agent*

Computershare Investor  
Services Inc.

### Corporate Head Office:

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

### Website:

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

### Investor Relations:

Ali Mahdavi  
Investor Relations  
(416)-962-3300 or  
[amahdavi@treeisland.com](mailto:amahdavi@treeisland.com)

### Auditors:

Ernst & Young LLP  
Vancouver, B.C.

