TREE ISLAND STEEL

WIRE & WIRE PRODUCTS

ESTABLISHED IN 1964

Quarterly Report
Q2 2019

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 concrete reinforcing mesh, fencing, galvanized wire, bright wire, a broad array of fasteners, stucco reinforcing products, and other fabricated wire products. We market these products under the Tree Island®, Halsteel®, True Spec®, K-Lath®, TI Wire® and ToughStrand® brand names.

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

Agricultural fencing products for distributor delivery.

MANAGEMENT DISCUSSION AND ANALYSIS

June 30, 2019 and 2018

The following is a discussion of the financial condition and results of operations of Tree Island Steel (”Tree Island” or the “Company”) and its wholly owned operating subsidiary Tree Island Industries (together with Tree Island Steel, referred to as “Tree Island”). This discussion is current to July 31, 2019 and should be read in conjunction with the unaudited interim condensed consolidated financial statements for the six months ended June 30, 2019. Tree Island Steel’s unaudited interim condensed 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, 2018, can be found at www.sedar.com or on Tree Island Steel’s website at www.treeisland.com.

1 FORWARD LOOKING STATEMENTS AND RISK

This management’s discussion and analysis (“MD&A”) includes forward-looking information with respect to Tree Island Steel, including our business, operations and strategies, as well as financial performance and conditions. The use of forward-looking words such as, “may,” “will,” “expect” or similar variations generally identify such statements. Any statements that are not statements of historical fact should be considered to be forward-looking statements. Although we believe that the forward-looking statements are reasonable, they involve risks and uncertainties, including the risks and uncertainties discussed under the heading “Risks Relating to the Company’s Business” in the Company’s AIF for the year ended December 31, 2018.

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, transportation costs, foreign exchange fluctuations, leverage and restrictive covenants, labour relations, trade actions, dependence on key personnel and skilled workers, 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 provide an EBITDA that we define as operating income and adding back depreciation and foreign exchange gains or losses. EBITDA is not a measure recognized by IFRS and does not have a standardized meaning prescribed by IFRS. We believe that providing an EBITDA is an important supplemental measure for evaluating our performance. You are cautioned that our EBITDA should not be construed as an alternative to net income or loss determined in accordance with IFRS, nor should it be used as an indicator of performance, cash flows from operating, investing and financing activities, as a measure of liquidity or cash flows. Our method of calculating EBITDA may differ from methods used by other issuers and, accordingly, our EBITDA may not be comparable to similar measures presented by other issuers.

3 TREE ISLAND STEEL

Since 1964, Tree Island has been manufacturing products from steel wire for a diverse range of customers and applications. Tree Island Steel was incorporated under the laws of Canada on August 2, 2012 following a conversion from an income trust to a corporate entity, and the units of the income fund were converted to common shares in Tree Island Steel.

There were 28,846,497 Shares outstanding as of June 30, 2019 and as of July 31, 2019.

3.1 ORGANIZATIONAL STRUCTURE

Our corporate structure has the following primary entities: Tree Island Industries ("TI Canada"), which is our Canadian operating company as well as the ultimate parent company to our operations in the United States, which are managed through our U.S. operating subsidiary, Tree Island Wire ("TI USA").

3.2 PRODUCTS

Tree Island is a manufacturer and supplier of premium quality wire products for a broad range of applications. Our goal is to match the appropriate wire product 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.

We market our products under the following brands:

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.

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 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
Agricultural	Tree Island®, ToughStrand®	Game fence and farm fence Vineyard wire and barbed wire	Agriculture, farming	North America
Commercial Construction	Tree Island®, TI Wire®	Welded wire reinforcement mesh Concrete reinforcing products	Commercial construction, mining, infrastructure projects	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

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 2019 BUSINESS OVERVIEW AND DEVELOPMENT

4.1 BUSINESS OVERVIEW

On May 17, 2019, Canada and the U.S. reached an understanding that eliminates all tariffs the U.S. imposed under Section 232 on imports of steel and aluminum from Canada, and eliminates all tariffs Canada imposed in retaliation to the Section 232 action taken by the U.S. Since the announcement of the agreement, interest for our products has increased, in particular in our Industrial products, which were the most impacted by these tariffs. We are also cautiously expecting an extended transitional period before customer purchase behaviour returns to normalized levels.

For Q2 2019, revenues earned amounted to $52.6 million compared to $68.1 million in the same period last year, mostly attributable to sales volumes to U.S. customers impacted by Section 232 steel tariffs and reduced demand for construction products. Despite the higher average selling prices in the quarter, the lower demand and production volumes resulted in a gross profit of $4.9 million for the quarter, compared to $8.5 million for the same period in 2018. The resulting gross profit margin for the quarter was 9.3% percent compared to 12.5% percent in the same period last year. As a result, EBITDA in the second quarter of 2019 amounted to $2.6 million compared to $5.4 million during the second quarter of 2018.

For the six-month period ended June 30, 2019, revenues amounted to $105.6 million compared to $134.6 million in the first half of last year, mostly attributable to lower sales volumes to U.S. customers as impacted by Section 232 steel tariffs and adverse weather conditions for construction earlier in the year. Despite the higher average selling prices, the lower demand and production volumes resulted in a gross profit of $9.7 million for the first half of 2019, compared to $15.2 million for the same period in 2018. The resulting gross profit margin for the six-month period was 9.2% percent compared to 11.3% percent in the same six-month period last year. As a result, EBITDA in the first half of 2019 amounted to $4.4 million compared to $8.9 million during the first six months of 2018.

4.2 SUBSEQUENT EVENTS

Tree Island Steel announced on June 28, 2019 that it has been advised of the intention of The Futura Corporation and Arbutus Distributors Ltd. (together, the "Offerors"), entities controlled by certain directors of the Company, to make an unsolicited non-binding proposal by way of a plan of arrangement to acquire all of the common shares of the Company not already owned by the Offerors for consideration consisting of $2.25 per share payable in cash, subject to a number of terms and conditions. A binding proposal has not yet been made to the Company or its shareholders.

The board of directors of the Company have met and appointed a special committee of the board made up entirely of directors who are independent of both management and the Offerors. The Special Committee has engaged PwC to prepare a formal valuation of the Company and advise on an appropriate response to the Offerors' announcement. The company’s normal course issuer bid was suspended following the Offerors’ announcement.

Shareholders are reminded that there can be no assurance that a binding agreement would result or that a formal proposal will be made by the Offerors.

5 RESULTS FROM OPERATIONS

($'000 unless otherwise stated)

	Three Months Ended June 30, 2019	Three Months Ended June 30, 2018[1]	Six Months Ended June 30, 2019	Six Months Ended June 30, 2018[2]
Revenue	52,618	68,087	105,560	134,578
Cost of sales	(46,158)	(58,715)	(92,847)	(117,684)
Depreciation[3]	(1,547)	(867)	(3,046)	(1,686)
Gross profit	4,913	8,505	9,667	15,208
Selling, general and administrative expenses	(3,776)	(4,180)	(8,028)	(8,333)
Operating income	1,137	4,325	1,639	6,875
Foreign exchange gain (loss)	(85)	256	(256)	375
Gain (loss) on property, plant and equipment	3	5	3	4
Restructuring and other expenses	(255)	(39)	(267)	(65)
Changes in financial instruments recognized at fair value	-	125	-	34
Financing expenses[4]	(1,258)	(887)	(2,479)	(1,642)
Income (loss) before income taxes	(458)	3,785	(1,360)	5,581
Current income tax (expense) recovery	(92)	-	(231)	-
Deferred income tax (expense) recovery	15	(996)	(40)	(1,689)
Net income (loss)	(535)	2,789	(1,631)	3,892
Operating income	1,137	4,325	1,639	6,875
Add back depreciation[3]	1,547	867	3,046	1,686
Foreign exchange gain (loss)	(85)	256	(256)	375
EBITDA[5]	2,599	5,448	4,429	8,936
Net income (loss) per share - basic ($/share)	(0.02)	0.09	(0.06)	0.13
Dividends per share ($/share)	0.02	0.02	0.04	0.04

Financial Position as at:	June 30, 2019	December 31, 2018
Total assets[6]	178,647	158,449
Total non-current financial liabilities[7]	51,081	21,928

[1] *On adoption of IFRS 16 Leases, the comparative information presented for 2018 have not been restated and is presented as previously reported. See Section 12 ACCOUNTING POLICIES AND STATEMENTS.*

[2] *On adoption of IFRS 16 Leases, the comparative information presented for 2018 have not been restated and is presented as previously reported. See Section 12 ACCOUNTING POLICIES AND STATEMENTS.*

[3] *Tree Island recognized depreciation from the adoption of IFRS 16 during Q2 2019 of $0.6 million and $1.3 million for the year-to-date. See Note 3 of the Q2 2019 Interim Unaudited Condensed Consolidated Financial Statements.*

[4] *Tree Island recognized financing expenses from the adoption of IFRS 16 of $0.4 million during Q2 2019 and $0.7 million for the year-to-date. See Notes 3 and 10 of the Q2 2019 Interim Unaudited Condensed Consolidated Financial Statements.*

[5] *See definition of EBITDA in Section 2 NON-IFRS MEASURES.*

[6] *Tree Island has recognized a right-of-use assets of $31.0 million at the end of Q2 2019 from the adoption of IFRS 16. See Note 3 of the Q2 2019 Interim Unaudited Condensed Consolidated Financial Statements.*

[7] *Tree Island has recognized a lease liability of $34.0 million at the end of Q2 2019 from the adoption of IFRS 16. See Note 3 of the Q2 2019 Interim Unaudited Condensed Consolidated Financial Statements.*

6 COMPARISON OF RESULTS FOR THE THREE MONTHS ENDED JUNE 30, 2019 AND 2018

($'000 unless otherwise stated)	**Q2 2019**	**Q2 2018**	**Variance Fav/(Unfav)**	
SALES	52,618	68,087	(15,469)	(22.7%)

Revenues decreased by 22.7% when compared to prior year primarily due to a combination of lower volumes shipped to the U.S. from our Industrial segment on account of the U.S. Section 232 import tariffs and lower demand for our Residential construction products.

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

	Three Months Ended June 30,					
	2019		2018		Variance	
	Revenue	% of Total	Revenue	% of Total	Amount	% of Total
Industrial	15,732	29.9%	24,758	36.4%	(9,026)	(13.3%)
Commercial	14,747	28.0%	14,253	20.9%	494	0.7%
Agricultural	6,475	12.3%	7,457	11.0%	(982)	(1.4%)
Residential	15,664	29.8%	21,619	31.8%	(5,955)	(8.7%)
Total revenue	52,618	100.0%	68,087	100.0%	(15,469)	(22.7%)

Revenues generated in the U.S. and Canada decreased over the same period last year as a result of lower demand relative to last year.

Revenue by Location
($'000 unless otherwise stated)

	Three Months Ended June 30,					
	2019		2018		Variance	
	Revenue	% of Total	Revenue	% of Total	Amount	%
United States	32,153	61.1%	42,784	62.8%	(10,631)	(24.8%)
Canada	18,639	35.4%	23,087	33.9%	(4,448)	(19.3%)
International	1,826	3.5%	2,216	3.3%	(390)	(17.6%)
Total	52,618	100.0%	68,087	100.0%	(15,469)	(22.7%)
Average C$/US$	1.3374		1.2900			

($'000 unless otherwise stated)	**Q2 2019**	**Q2 2018**	**Variance Fav/(Unfav)**	
COST OF SALES	46,158	58,715	12,557	21.4%

The cost of goods sold decreased when compared to last year, which is reflective of the lower sales volume and the rebalancing in production levels to match lower volumes as part of our on going commitment to cost management.

($'000 unless otherwise stated)	**Q2 2019**	**Q2 2018**	**Variance Fav/(Unfav)**	
GROSS PROFIT	4,913	8,505	(3,592)	(42.2%)

Gross profit for the three months amounted to $4.9 million versus $8.5 million during the same period in 2018, mainly the result of lower demand discussed above.

($'000 unless otherwise stated)	Q2 2019	Q2 2018	Variance Fav/(Unfav)	
SG&A EXPENSES	3,776	4,180	404	9.7%

SG&A expenses are lower when compared to prior year from reductions in staffing and other cost cutting measures.

($'000 unless otherwise stated)	Q2 2019	Q2 2018	Variance Fav/(Unfav)	
EBITDA	2,599	5,448	(2,849)	(52.3%)

EBITDA earned for the quarter is inclusive of $85 thousand foreign exchange loss in the quarter. The decrease in EBITDA is primarily impacted by the lower gross profit realized in the quarter due to lower sales volumes experienced during the quarter.

($'000 unless otherwise stated)	Q2 2019	Q2 2018	Variance Fav/(Unfav)	
FINANCING EXPENSES	1,258	887	(371)	(41.8%)

Financing expenses increased primarily from the adoption of IFRS 16, increasing financing costs by $0.4 million, and higher interest costs on the Senior Credit Facility due to increased borrowings on the Senior Credit Facility.

Financing Expenses
($'000 unless otherwise stated)

	Three Months Ended June 30,			
			Variance Fav / (Unfav)	
	2019	2018	Amount	%
Non-cash financing expenses	210	236	26	11.0%
Interest on senior credit facility	422	348	(74)	(21.3%)
Interest on lease liability	359	-	(359)	(100.0%)
Other interest and financing costs	258	291	33	11.3%
Deferred financing costs	9	12	3	25.0%
Total financing expenses	1,258	887	(371)	(41.8%)

($'000 unless otherwise stated)	Q2 2019	Q2 2018	Variance Fav/(Unfav)	
FOREIGN EXCHANGE GAIN (LOSS)	(85)	256	(341)	(133.2%)

Our Canadian operation, whose functional currency is Canadian dollar, has a portion of its assets, liabilities, sales and expenses denominated in currencies other than the Canadian dollar, in particular the U.S. dollar. With raw material costs being denominated in U.S. dollar, having a significant portion of our sales also being denominated in U.S. dollar creates a natural partial hedge. Foreign currency forward contracts are used to manage a portion of the remaining currency risk. Foreign exchange gains and losses are unpredictable in nature and therefore can vary significantly over time. As of June 30, 2019, the Company did not have any U.S. dollar currency forward contracts outstanding.

($'000 unless otherwise stated)	Q2 2019	Q2 2018	Variance Fav/(Unfav)	
INCOME TAX EXPENSE	(77)	(996)	919	92.3%

In Q2 2019, income tax expense is $0.1 million compared to a tax expense of $1.0 million for Q2 2018. The income tax expense is based on a statutory rate of 27% for Canadian taxable income and 21% for U.S. based taxable income applied to the income of the respective subsidiaries before taxes, with adjustments for permanent differences between accounting and taxable income.

($'000 unless otherwise stated)	Q2 2019	Q2 2018	Variance Fav/(Unfav)	
NET INCOME (LOSS)	(535)	2,789	(3,324)	(119.2%)

The decrease in net income over the prior year is attributable to the lower operating earnings in the quarter compared to prior year.

7 COMPARISON OF RESULTS FOR THE SIX MONTHS ENDED JUNE 30, 2019 AND 2018

($'000 unless otherwise stated)	YTD 2019	YTD 2018	Variance Fav/(Unfav)	
SALES	105,560	134,578	(29,018)	(21.6%)

The decrease in year-to-date revenues over the prior year by 21.6% is primarily due to a combination of lower volumes shipped to the U.S. from our Industrial segment on account of the U.S. Section 232 import tariffs and lower demand for our Residential construction products.

Revenue by Market Segment

($'000 unless otherwise stated)

	Six Months Ended June 30,					
	2019		2018		Variance	
	Revenue	% of Total	Revenue	% of Total	Amount	% of Total
Industrial	31,511	29.9%	46,057	34.2%	(14,546)	(10.8%)
Commercial	27,270	25.8%	25,084	18.6%	2,186	1.6%
Agricultural	18,111	17.2%	20,081	14.9%	(1,970)	(1.5%)
Residential	28,668	27.2%	43,356	32.2%	(14,688)	(10.9%)
Total revenue	105,560	100.0%	134,578	100.0%	(29,018)	(21.6%)

Revenues generated in the U.S. and Canada decreased over the same period last year as a result of the impact from Section 232 on sales to our U.S. customers and lower demand relative to last year.

Revenue by Location

($'000 unless otherwise stated)

	Six Months Ended June 30 ,					
	2019		2018		Variance	
	Revenue	% of Total	Revenue	% of Total	Amount	%
United States	58,723	55.6%	83,230	61.8%	(24,507)	(29.4%)
Canada	42,603	40.4%	47,517	35.4%	(4,914)	(10.3%)
International	4,234	4.0%	3,831	2.8%	403	10.5%
Total	105,560	100.0%	134,578	100.0%	(29,018)	(21.6%)
Average C$/US$	1.3335		1.2782			

($'000 unless otherwise stated)	YTD 2019	YTD 2018	Variance Fav/(Unfav)	
COST OF SALES	92,847	117,684	24,837	21.1%

The cost of goods sold decreased when compared to last year, which is reflective of the lower sales volume and the rebalancing in production levels to match lower volumes as part of our on going commitment to cost management.

($'000 unless otherwise stated)	**YTD 2019**	**YTD 2018**	**Variance Fav/(Unfav)**	
GROSS PROFIT	9,667	15,208	(5,541)	(36.4%)

Gross profit for the six months amounted to $9.7 million versus $15.2 million during the same period in 2018, mainly the result of lower volumes discussed previously.

($'000 unless otherwise stated)	**YTD 2019**	**YTD 2018**	**Variance Fav/(Unfav)**	
SG&A EXPENSES	8,028	8,333	305	3.7%

SG&A expenses are lower when compared to prior year, from cost reduction actions taken in the second quarter.

($'000 unless otherwise stated)	**YTD 2019**	**YTD 2018**	**Variance Fav/(Unfav)**	
EBITDA	4,429	8,936	(4,507)	(50.4%)

EBITDA earned for the six months is inclusive of the foreign exchange loss of $256 thousand in the period. The decrease in EBITDA is primarily a result of the lower operating earnings.

($'000 unless otherwise stated)	**YTD 2019**	**YTD 2018**	**Variance Fav/(Unfav)**	
FINANCING EXPENSES	2,479	1,642	(837)	(51.0%)

Financing Expenses
($'000 unless otherwise stated)

	Six Months Ended June 30,			
			Variance Fav / (Unfav)	
	2019	2018	Amount	%
Non-cash financing expenses	425	474	49	10.3%
Interest on senior credit facility	884	662	(222)	(33.5%)
Interest on lease liability	716	-	(716)	(100.0%)
Other interest and financing costs	436	483	47	9.7%
Deferred financing costs	18	23	5	21.7%
Total financing expenses	2,479	1,642	(837)	(51.0%)

Financing expenses increased primarily from the adoption of IFRS 16 increasing financing costs by $0.7 million and higher interest costs on the Senior Credit Facility due to increased borrowings on the Senior Credit Facility.

($'000 unless otherwise stated)	**YTD 2019**	**YTD 2018**	**Variance Fav/(Unfav)**	
FOREIGN EXCHANGE GAIN (LOSS)	(256)	375	(631)	(168.3%)

Our Canadian operation, whose functional currency is Canadian dollar has a portion of its assets, liabilities, sales and expenses denominated in currencies other than the Canadian dollar, in particular the U.S. dollar. With raw material costs being denominated in U.S. dollar, having a significant portion of our sales also being denominated in U.S. dollar creates a natural partial hedge. Foreign currency forward contracts are used to manage a portion of the remaining currency risk. Foreign exchange gains and losses are unpredictable in nature and therefore can vary significantly over time. As at June 30, 2019, the Company did not have any U.S. dollar currency forward contracts outstanding.

($'000 unless otherwise stated)	**YTD 2019**	**YTD 2018**	**Variance Fav/(Unfav)**	
INCOME TAX EXPENSE	(271)	(1,689)	1,418	84.0%

For the six months ended June 30, 2019 an income tax expense of $0.3 million was booked compared to $1.7 million for the same period in 2018. The income tax expense is based on a statutory rate of 27% for Canadian taxable income and 21% for U.S. based taxable income applied to the income of the respective subsidiaries before taxes, with adjustments for permanent differences between accounting and taxable income.

($'000 unless otherwise stated)	**YTD 2019**	**YTD 2018**	**Variance Fav/(Unfav)**	
NET INCOME	(1,631)	3,892	(5,523)	(141.9%)

The decrease in net income over the prior year is attributable to the lower operating earnings in the first six months compared to prior year.

8 FINANCIAL CONDITION AND LIQUIDITY

8.1 WORKING CAPITAL

A summary of the composition of our working capital as at June 30, 2019 compared to 2018 is provided below:

Working Capital
($'000 unless otherwise stated)

	As at June 30,	
	2019	2018
Cash	916	1,438
Accounts receivable	28,240	36,214
Inventories	66,129	65,117
Other current assets	6,275	4,716
Total current assets	101,560	107,485
Senior credit facility	(47,579)	(40,331)
Accounts payable and accrued liabilities	(19,154)	(27,790)
Dividends payable	(577)	(587)
Other current liabilities	(519)	(306)
Current portion of long term debt	(4,618)	(3,575)
Current portion of lease liabilities	(1,751)	-
Total current liabilities	(74,198)	(72,589)
Net working capital	27,362	34,896

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 have arrangements with our key suppliers to provide us with financing or trade credit for 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 June 30, 2019 was lower than at the same period last year, reflecting the decrease in sales in the first half of 2019 compared to the same period in the prior year.

Our objective for managing the investment in working capital is to maximize the turnover of productive current assets, being accounts receivable and inventories. Our goal is 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, barring unforeseen events such as the Section 232 tariffs impacting potential end markets. We have also established processes to regularly adjust the production 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 or limit increasing credit exposure. 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 June 30,		Six Months Ended June 30,	
	2019	2018	2019	2018
Cash provided by (used in) operating activities	2,031	5,596	3,466	9,304
Working capital adjustments	2,755	(3,578)	6,213	(7,000)
Net cash provided by (used in) operating activities	4,786	2,018	9,679	2,304
Net cash provided by (used in) investing activities	(340)	(3,947)	(938)	(4,598)
Repayment of term loans	(494)	(437)	(986)	(873)
Repayment of long-term debt	(566)	(467)	(1,042)	(923)
Lease liability payments	(423)	-	(874)	-
Other liabilities	(13)	69	(22)	73
Lease interest paid	(359)	-	(716)	-
Other interest paid	(689)	(638)	(1,345)	(1,132)
Deferred financing expenses	-	-	(39)	-
Advance on (repayment of) senior revolving facility	(1,694)	4,384	(2,217)	6,863
Dividend payment	(583)	(591)	(1,167)	(1,184)
Share buyback	(594)	(496)	(690)	(774)
Net cash provided by (used in) financing activities	(5,415)	1,824	(9,098)	2,050
Exchange rate changes on foreign cash balances	(1)	16	(4)	31
Increase (decrease) in cash balances	(970)	(89)	(361)	(213)

The net cash provided in operating activities for the three and six months ended June 30, 2019 was mainly the result of the higher collections on accounts receivable and reduction of inventory.

On adoption of IFRS 16 Leases, the comparative information presented for 2018 have not been restated and is presented as previously reported. See Section 12 ACCOUNTING POLICIES AND STATEMENTS.

8.3 SENIOR CREDIT FACILITY

On July 1, 2018, the Company renewed its senior secured committed banking facility, now maturing in June of 2023, which enables the Company to borrow up to $80.0 million in Canadian and/or U.S. funds. Interest payable on funds borrowed in Canadian currency is at variable rates based on the Canadian Dollar Offered Rate ("CDOR") for Canadian dollar banker's acceptance. Interest payable on funds borrowed in U.S. currency is at variable rates based on the London Interbank Offered Rate ("LIBOR") for U.S. dollar deposits. For the revolving facility, up to $60 million may be borrowed at any time in Canadian and/or U.S. dollars with the amount advanced under the revolving facility limited to a defined percentage of inventories, accounts receivable, machinery and equipment, and real estate, less certain reserves. In addition, up to $20 million may be borrowed as term debt, in Canadian and/or U.S. dollars for financing existing machinery and equipment and future capital expenditures.

The existing term debts applied against the Senior Credit Facility was incorporated into a single term loan of $10 million, denominated in Canadian dollars on July 1, 2018, referred to as "Fixed Asset Term Loan". An additional $10 million is available to finance future capital expenditures, to be denominated in either Canadian or U.S. dollars and referred to as "Capex Term Loans". On September 24, 2018, US$2.9 million was applied against the "Capex Term Loan" for financing a new welded wire mesh machine in our U.S. Operations.

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, the primary one being based on the remaining funds within the Senior Credit Facility that is available ("Availability Test"). Only if this amount falls below a certain threshold, then other covenants, which include a defined fixed charge coverage ratio, are tested. In addition, there are other restrictive covenants that limit the discretion of management with respect to certain business matters.

As at June 30, 2019, 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 AGREEMENTS

On June 11, 2012, Tree Island entered into a Second Amendment to the long-term debt agreement ("Agreement"). 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, of which US$4.0 million is outstanding as at June 30, 2019. Interest, which began accruing in June 2017, is non-compounding. The interest owed is payable over a four year period beginning June 2024 (see Note 9 in the attached Interim Unaudited Condensed Consolidated Financial Statements).

9 CAPITAL EXPENDITURES

For the three months ended June 30, 2019, we made capital expenditures of $0.3 million and for the year-to-date, we made capital expenditures of $0.9 million. These expenditures were for capital maintenance activities and new manufacturing equipment. As noted in Section 10 of this MD&A, there are a further $1.6 million in capital equipment commitments in 2019. The capital assets we have committed to are expected to be delivered in 2020.

10 CONTRACTUAL OBLIGATIONS AND COMMITMENTS

As of June 30, 2019, 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 production materials include raw materials, such as wire rod and zinc, and finished goods. The raw materials, wire rod and zinc, are used in the day-to-day operations of our manufacturing facilities and are in the normal course of our business activities. Finished goods are purchased for resale without further processing and are also in the normal course of our business activities. All committed production materials are to be delivered prior to the end of Q4 2019.

From time to time, we make investments to update, replace or make additions to our existing capital assets, which includes, but is not limited to, the buildings we occupy and capital equipment. These investments are in the normal course of our business activity. For the capital assets we have committed to purchase but have not yet received, amounts remaining to be paid are purchase commitments. All capital asset commitments amounts are expected to be paid within 3 month of commissioning of the capital asset.

On adoption of IFRS 16 Leases on January 1, 2019, Tree Island recognized all its operating leases as lease liabilities and as such are recorded on the consolidated statement of financial position.

From time to time, 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 June 30, 2019, the Company did not have any U.S. dollar currency forward contracts outstanding.

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

	2019	2020	2021	2022	2023	Thereafter	Total
Production materials	28,918	-	-	-	-	-	28,918
Capital asset purchases	-	1,603	-	-	-	-	1,603
Total commitments	28,918	1,603	-	-	-	-	30,521
Senior revolving facility	47,579	-	-	-	-	-	47,579
AP and accrued liabilities	19,154	-	-	-	-	-	19,154
Other current liabilities	294	-	-	-	-	-	294
Dividends	577	-	-	-	-	-	577
Lease liabilities	1,572	3,173	3,180	3,231	2,625	38,056	51,837
Senior term loans	981	1,964	1,964	1,964	1,964	3,362	12,199
Long-term debt	1,453	1,899	1,398	471	-	4,910	10,131
Total financial liabilities	71,610	7,036	6,542	5,666	4,589	46,328	141,771
Total obligations and commitments	100,528	8,639	6,542	5,666	4,589	46,328	172,292

11 SUMMARY OF QUARTERLY FINANCIAL RESULTS

The table below provides selected quarterly financial information for the eight most recent fiscal quarters to June 30, 2019. Sales volume in the fourth quarter of the year has traditionally 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.

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

	Jun 30, 2019	Mar 31, 2019	Dec 31, 2018	Sep 30, 2018	Jun 30, 2018	Mar 31, 2018	Dec 31, 2017	Sep 30, 2017
Revenue	52,618	52,942	44,882	55,846	68,087	66,491	54,561	55,643
Gross profit	4,913	4,747	3,686	6,936	8,509	6,706	2,452	2,299
Foreign exchange gain (loss)	(85)	(171)	408	(77)	256	119	119	(737)
EBITDA	2,599	1,831	1,065	3,383	5,451	3,490	1,932	(1,496)
Net income (loss)	(535)	(1,095)	(2,334)	1,030	2,792	1,105	(1,974)	(2,152)
Net income (loss) per unit - basic	(0.02)	(0.04)	(0.08)	0.03	0.09	0.04	(0.07)	(0.07)

Commentary:

- The rapid rise in raw material costs had a negative impact on the gross profit and EBITDA for most of 2017.
- The average prices of finished good products increased month-over-month to counter inflationary cost of raw materials during 2018.
- The imposition of Section 232 in June 2018 negatively impacted our sales to the U.S. market particularly in the Industrial market.
- On adoption of IFRS 16 Leases, the comparative information presented for 2018 have not been restated and is presented as previously reported.

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

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, 2018 audited consolidated financial statements, the Annual Information Form for the year ended December 31, 2018, and Note 3 to the June 30, 2019 unaudited interim condensed 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, leases, and income taxes. These critical estimates and the judgments involved are discussed further in the audited consolidated financial statements for December 31, 2018 (Note 3).

12.2 CHANGES IN ACCOUNTING POLICIES

Tree Island has initially adopted IFRS 16 Leases from January 1, 2019. IFRS 16 introduced a single, on-balance sheet accounting model for lessees. As a result, Tree Island, as a lessee, has recognized right-of-use assets representing its right to use the underlying assets and lease liabilities representing its obligation to make lease payments.

Tree Island adopted IFRS 16 using the modified retrospective approach on January 1, 2019. Under this method, the cumulative effect of initially applying the standard is recognized in retained earnings at January 1, 2019. Accordingly, the comparative information presented for 2018 has not been restated and is presented as previously reported under IAS 17 and related interpretations.

On transition, Tree Island elected to apply the transition practical expedient allowing the standard to be applied only to contracts that were previously identified as leases under IAS 17. Tree Island also elected to use the recognition exemptions for lease contracts that, at the commencement date, have a lease term of 12 months or less and do not contain a purchase option (short-term leases), and lease contracts for which the underlying asset is of low value (low-value assets). The transition and impact are further discussed in Note 3 to the June 30, 2019 unaudited interim condensed consolidated financial statements.

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.

Based on Tree Island Steel's outstanding Shares as at July 31, 2019, Futura owns 30.6% 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 three and six months ended June 30, 2019, Tree Island sold, net of rebates, approximately $1.0 million and $1.9 million respectively ($0.9 million and $2.5 million in 2018) of goods to CanWel and trade accounts receivable owing from CanWel as at June 30, 2019 is approximately $0.3 million (approximately $0.4 million in 2018). 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 six months ended June 30, 2019 was approximately $0.5 million and $1.2 million respectively (approximately $0.5 million and $1.0 million in 2018) which includes wages, salaries and social security contributions, paid annual and sick leave, vehicle costs and bonuses and severance amount payable to an officer. 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. Risks pertaining to current economic conditions are discussed in the section above under the heading "*2019 Business Overview and Development*". A detailed discussion of our significant business risks is provided in the 2018 Annual Information Form under the heading "Risk Factors" which can be found at www.sedar.com.

15 DISCLOSURE CONTROLS AND PROCEDURES AND INTERNAL CONTROL OVER FINANCIAL REPORTING

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 Chief Executive Officer and Chief Financial Officer certified the appropriateness of the financial disclosures in the interim financial report together with the other financial information included in the interim filings for the period ended June 30, 2019. These executives also certified that they are responsible for the design of disclosure controls and procedures and internal control over financial reporting. There have been no changes in internal control over financial reporting during the quarter ended June 30, 2019 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

The Company's Board of Directors and Audit Committee reviewed and approved the June 30, 2019 unaudited interim condensed consolidated financial statements and this MD&A prior to its release.

INTERIM UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2019 and 2018

NOTICE OF NO AUDITOR REVIEW OF INTERIM FINANCIAL STATEMENTS

Under National Instrument 51-102 "Continuous Disclosure Obligations", Part 4, Subsection 4.3(3a), if an auditor has not performed a review of the interim financial statements, they must be accompanied by a notice indicating that the financial statements have not been reviewed by an auditor.

The accompanying interim condensed consolidated financial statements of Tree Island Steel have been prepared by and are the responsibility of Tree Island Steel's management.

Tree Island Steel's independent auditor, KPMG LLP, has not performed a review of these financial statements in accordance with standards established by the Chartered Professional Accountants of Canada for a review of interim financial statements by an entity's auditor.

July 31, 2019

INTERIM UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
($'000 unless otherwise stated)

	As at June 30, 2019	December 31, 2018
Cash	916	1,277
Accounts receivable *(Note 5)*	28,240	24,128
Inventories (*Note* 6*)*	66,129	81,619
Prepaid and other current assets	6,275	4,013
Current assets	101,560	111,037
Property, plant and equipment *(Note 7)*	45,921	47,230
Right-of-use assets *(Note 3)*	31,041	-
Other non-current assets	125	182
Total assets	178,647	158,449
Senior revolving facility *(Note 8.1)*	47,579	49,797
Accounts payable and accrued liabilities	19,154	22,017
Income taxes payable	225	171
Other current liabilities	294	346
Dividends payable	577	584
Current portion of long-term borrowing *(Notes 8.2, 9)*	4,618	4,980
Current portion of lease liabilities *(Note 3)*	1,751	-
Current liabilities	74,198	77,895
Senior term loans *(Note 8.2)*	10,235	11,349
Long-term debt *(Note 9)*	4,333	4,922
Long-term lease liabilities *(Note 3)*	32,240	-
Other non-current liabilities	1,002	2,426
Deferred income tax liability	3,271	3,231
Total liabilities	125,279	99,823
Shareholders' equity	53,368	58,626
Total liabilities and shareholders' equity	178,647	158,449

See accompanying Notes to the Interim Unaudited Condensed Consolidated Financial Statements

Approved on behalf of Tree Island Steel Ltd.

[Signed]	[Signed]
"Amar S. Doman"	"Dale R. Maclean"
Chairman of the Board of Directors	Director, President and Chief Executive Officer

INTERIM UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF OPERATIONS

($'000 unless otherwise stated)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2019	2018	2019	2018
Sales *(Note 5)*	52,618	68,087	105,560	134,578
Cost of sales *(Note 6)*	(46,158)	(58,715)	(92,847)	(117,684)
Depreciation	(1,547)	(867)	(3,046)	(1,686)
Gross profit	4,913	8,505	9,667	15,208
Selling, general and administrative expenses	(3,776)	(4,180)	(8,028)	(8,333)
Operating income	1,137	4,325	1,639	6,875
Foreign exchange gain (loss)	(85)	256	(256)	375
Gain on property, plant and equipment	3	5	3	4
Restructuring and other expenses	(255)	(39)	(267)	(65)
Changes in financial liabilities at fair value	-	125	-	34
Financing expenses *(Note 10)*	(1,258)	(887)	(2,479)	(1,642)
Income (loss) before income taxes	(458)	3,785	(1,360)	5,581
Current income tax recovery (expense) *(Note 13)*	(92)	-	(231)	-
Deferred income tax recovery (expense) *(Note 13)*	15	(996)	(40)	(1,689)
Net income (loss)	(535)	2,789	(1,631)	3,892
Net income (loss) per share *(Note 17)*	(0.02)	0.09	(0.06)	0.13
Dividends per share	0.02	0.02	0.04	0.04
Weighted average number of shares *(Note 17)*	28,991,481	29,483,061	29,081,635	29,548,031

INTERIM UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

($'000 unless otherwise stated)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2019	2018	2019	2018
Net income (loss) for the year	(535)	2,789	(1,631)	3,892
Unrealized gain (loss) on foreign exchange translation	(33)	266	(84)	372
Comprehensive income (loss)	(568)	3,055	(1,715)	4,264

See accompanying Notes to the Interim Unaudited Condensed Consolidated Financial Statements

INTERIM UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF SHAREHOLDERS' EQUITY

($'000 unless otherwise stated)

	Shareholders' Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total
Balance as at December 31, 2018	224,715	(163,354)	(2,735)	58,626
Adjustment on application of IFRS 16	-	(1,708)	-	(1,708)
Adjusted balance at January 1, 2019	224,715	(165,062)	(2,735)	57,918
Repurchase of shares	(96)	-	-	(96)
Net income (loss)	-	(1,095)	-	(1,095)
Dividends	-	(583)	-	(583)
Other comprehensive income (loss)	-	-	(51)	(51)
Balance as at March 31, 2019	224,619	(166,740)	(2,786)	55,093
Repurchase of shares	(594)	-	-	(594)
Net income (loss)	-	(535)	-	(535)
Dividends	-	(577)	-	(577)
Other comprehensive income (loss)	-	-	(33)	(33)
Balance as at June 30, 2019	224,025	(167,852)	(2,819)	53,368
Balance as at December 31, 2017	225,977	(163,600)	(3,108)	59,269
Repurchase of shares	(279)	-	-	(279)
Net Income	-	1,103	-	1,103
Dividends	-	(591)	-	(591)
Other comprehensive income (loss)	-	-	106	106
Balance as at March 31, 2018	225,698	(163,088)	(3,002)	59,608
Repurchase of shares	(495)	-	-	(495)
Net income	-	2,789	-	2,789
Dividends	-	(587)	-	(587)
Other comprehensive income (loss)	-	-	266	266
Balance as at June 30, 2018	225,203	(160,886)	(2,736)	61,581

See accompanying Notes to the Interim Unaudited Condensed Consolidated Financial Statements

INTERIM UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

($'000 unless otherwise stated)

	Three Months Ended June 30, 2019	Three Months Ended June 30, 2018	Six Months Ended June 30, 2019	Six Months Ended June 30, 2018
Net income (loss)	(535)	2,789	(1,631)	3,892
Depreciation	1,547	867	3,046	1,686
Changes in financial liabilities recognized at fair value	-	(125)	-	(34)
Loss on property, plant and equipment	(3)	(5)	(3)	(5)
Net financing costs *(Note 10)*	1,258	887	2,479	1,642
Deferred income tax expense	(15)	996	40	1,689
Exchange revaluation of foreign denominated debt *(Notes 8.2, 9)*	(221)	187	(465)	434
Working capital adjustments				
Accounts receivable	2,884	211	(4,113)	(10,067)
Inventories	730	(9,776)	15,491	(5,153)
Accounts payable and accrued liabilities	(1,524)	6,060	(3,955)	9,555
Prepaid expenses	670	22	(1,562)	(1,139)
Income and other taxes	(40)	-	98	-
Other	35	(95)	254	(196)
Net cash provided by (used in) operating activities	4,786	2,018	9,679	2,304
Purchase of property, plant and equipment	(340)	(3,947)	(938)	(4,598)
Net cash used in investing activities	(340)	(3,947)	(938)	(4,598)
Repayment of term loans *(Note 8.2)*	(494)	(437)	(986)	(873)
Repayment of long-term debt *(Note 9)*	(566)	(467)	(1,042)	(923)
Payment of lease liabilities *(Note 3)*	(423)	-	(874)	-
Other liabilities	(13)	69	(22)	73
Lease interest paid *(Note 3, 10)*	(359)	-	(716)	-
Other interest paid	(689)	(638)	(1,345)	(1,132)
Deferred financing fees	-	-	(39)	-
Advance on (repayment of) senior revolving facility	(1,694)	4,384	(2,217)	6,863
Dividend paid	(583)	(591)	(1,167)	(1,184)
Repurchase of common shares	(594)	(496)	(690)	(774)
Net cash provided by (used in) financing activities	(5,415)	1,824	(9,098)	2,050
Effect of exchange rate change on cash	(1)	16	(4)	31
Increase (decrease) in cash	(970)	(89)	(361)	(213)
Cash - beginning of period	1,886	1,527	1,277	1,651
Cash - end of period	916	1,438	916	1,438

See accompanying Notes to the Interim Unaudited Condensed Consolidated Financial Statements

1 NATURE OF BUSINESS

These consolidated financial statements of Tree Island Steel Ltd. ("Tree Island Steel " or the "Company") for the quarter ended June 30, 2019 were authorized for issue in accordance with a resolution of the Board of Directors on July 31, 2019.

Tree Island Steel is the successor to Tree Island Wire 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. ("TI Canada") (collectively "Tree Island"). TI Canada 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

The interim condensed consolidated financial statements as at and for six months ended June 30, 2019 have been prepared in accordance with International Accounting Standard ("IAS") 34, "Interim Financial Reporting". They should be read in conjunction with the annual consolidated financial statements and the notes thereto for the year ended December 31, 2018 and do not include all information required for the full annual financial statements. Certain comparative information has been reclassified to conform to the presentation adopted during the period.

3 SIGNIFICANT ACCOUNTING POLICIES, CRITICAL ACCOUNTING JUDGEMENTS AND ESTIMATES

The accounting policies, methods of application and critical judgements and estimates used in the preparation of these unaudited condensed consolidated financial statements are consistent with those disclosed in the annual consolidated financial statements as at December 31, 2018, except for the adoption of new standards effective as of January 1, 2019.

3.1 CHANGES IN ACCOUNTING POLICIES

IFRS 16 LEASES

Tree Island has initially adopted IFRS 16 Leases from January 1, 2019. IFRS 16 introduced a single, on-balance sheet accounting model for lessees. As a result, Tree Island, as a lessee, has recognized right-of-use assets representing its right to use the underlying assets and lease liabilities representing its obligation to make lease payments.

Tree Island adopted IFRS 16 using the modified retrospective approach on January 1, 2019. Under this method, the cumulative effect of initially applying the standard is recognized in retained earnings at January 1, 2019. Accordingly, the comparative information presented for 2018 has not been restated and is presented as previously reported under IAS 17 and related interpretations.

On transition, Tree Island elected to apply the transition practical expedient allowing the standard to be applied only to contracts that were previously identified as leases under IAS 17. Upon adoption of IFRS 16, Tree Island applied a single recognition and measurement approach for all leases, except for short-term leases and leases of low-value assets. The standard provides specific transition requirements and practical expedients, which has been applied by Tree Island.

Tree Island and its subsidiaries applied the available practical expedients wherein it:

- Used a single discount rate to a portfolio of leases with reasonably similar characteristics;
- Relied on its assessment of whether leases are onerous immediately before the date of initial application;
- Applied the short-term leases exemptions to leases with lease term that ends within 12 months at the date of initial application;
- Applied the leases of low value exemption to leases that are considered of low value, with a threshold of below $5 thousand;
- Excluded the initial direct costs from the measurement of the right-of-use asset at the date of initial application; and
- Used hindsight in determining the lease term where the contract contains options to extend or terminate the lease.

3.2 SUMMARY OF NEW ACCOUNTING POLICIES

RIGHT-OF-USE ASSETS

Tree Island recognizes a right-of-use asset and a lease liability at the commencement date of the lease. The right-of-use asset is measured at cost, and subsequently at cost less any accumulated depreciation and impairment losses, and adjusted for any remeasurements of the lease liability. When a right-of-use asset meets the definition of investment property, it is presented in investment property. Tree Island does not have any right-of-use asset that meets the definition of an investment property. The right-of use asset is initially measured at cost, and subsequently measured at fair value, in accordance with Tree Island's accounting policies.

LEASE LIABILITIES

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, Tree Island's incremental borrowing rate. Generally, Tree Island uses its incremental borrowing rate as the discount rate.

The lease liability is subsequently increased by the interest cost on the lease liability and decreased by lease payment made. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, a change in the estimate of the amount expected to be payable under a residual value guarantee, or as appropriate, changes in the assessment of whether a purchase or extension option is reasonably certain to be exercised or a termination option is reasonably certain not to be exercised.

Tree Island has applied judgement to determine the lease term for some lease contracts in which it is a lessee that include renewal options. The assessment of whether Tree Island is reasonably certain to exercise such options impacts the lease term, which significantly affects the amount of lease liabilities and right-of-use assets recognized.

SHORT-TERM LEASES AND LEASES OF LOW-VALUE

Tree Island applied the short-term lease recognition exemption to its short-term leases of machinery and equipment which have a lease term of 12 months or less from the commencement date and do not contain a purchase option. Tree Island also applied the lease of low-value assets recognition exemption to leases of office equipment that are considered of low value, with a threshold of below $5 thousand. Lease payments on short-term leases and leases of low-value assets are recognized as expense on a straight-line basis over the lease term.

TRANSITION TO IFRS 16

Tree Island entered into lease contracts for real estate, machinery, vehicles and other equipment. Before the adoption of IFRS 16, Tree Island classified each of its leases at the inception date as either a finance lease or an operating lease.

The lease liabilities as at January 1, 2019 can be reconciled to the operating lease commitments as of December 31, 2018 as follows:

	($'000 unless otherwise stated)
Operating lease commitments as at December 31, 2018	31,169
Weighted average incremental borrowing rate as at January 1, 2019	4.2%
Discounted operating lease commitments at January 1, 2019	23,429
Less:	
Recognition exemption for short-term leases	(8)
Recognition exemption for leases of low-value assets	(35)
Add:	
Extension options reasonably certain to be exercised and other transitional adjustments	10,172
Lease liabilities as at January 1, 2019	33,558

As at January 1, 2019, lease liabilities include an adjustment for $0.9 million, which was previously recorded in other non-current liabilities as at December 31, 2018.

IMPACTS FOR THE PERIOD

As a result of initially applying IFRS 16, in relation to the leases that were previously classified as operating leases, Tree Island recognized $31.0 million of right-of-use assets and $34.0 million of lease liabilities as at June 30, 2019.

In relation to those leases under IFRS 16, Tree Island has recognized depreciation and interest costs, instead of operating lease expense. During the six month period ended June 30, 2019, Tree Island recognized $1.3 million of depreciation and $0.7 million of interest costs from these leases.

Below is a table of the carrying amounts of Tree Island's right-of-use assets and lease liabilities and the related movements during the period:

($'000 unless otherwise stated)

	Land & buildings	Machinery & equipment	Total right-of-use assets
Cost			
As at January 1, 2019	33,580	1,512	35,092
Additions	1,217	1,122	2,339
Disposals	-	(23)	(23)
Foreign exchange translation	(1,010)	(40)	(1,050)
As at June 30, 2019	33,787	2,571	36,358
Depreciation and impairment			
As at January 1, 2019	(3,460)	(643)	(4,103)
Depreciation for the period	(1,092)	(246)	(1,338)
Disposals	-	21	21
Foreign exchange translation	85	18	103
As at June 30, 2019	(4,467)	(850)	(5,317)
Carrying value as at			
January 1, 2019	30,120	869	30,989
June 30, 2019	29,320	1,721	31,041

($'000 unless otherwise stated)

	Land & buildings	Machinery & equipment	Total lease liability
Lease liability			
As at January 1, 2019	32,670	888	33,558
New contracts and renewals	1,218	1,122	2,340
Contract terminations	-	(2)	(2)
Interest expense	683	33	716
Payment of lease liability	(1,257)	(320)	(1,577)
Foreign exchange translation	(1,020)	(24)	(1,044)
Lease liability as at June 30, 2019	32,294	1,697	33,991
Less: current portion	(1,322)	(428)	(1,751)
Total	30,972	1,269	32,240

4 FUTURE IFRS STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE

Tree Island prepares its financial statements in accordance with IFRS standards. At this time, new standards, interpretations or amendments to existing accounting standards are either not applicable or not expected to have a significant impact on Tree Island's consolidated financial statements.

5 REVENUE AND ACCOUNTS RECEIVABLE

Revenue is inclusive of the cost of freight associated with those sales to customers where the Company arranges the freight. For the six months ended June 30, 2019, this amounts to $3.0 million ($4.6 million as of June 30, 2018).

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

($'000 unless otherwise stated)

	As at June 30, 2019	As at December 31, 2018
Current	25,416	20,945
30 - 60 days past due	755	1,657
61 - 90 days past due	652	784
Over 91 days past due	1,734	1,066
Total accounts receivable	28,557	24,452
Allowance for doubtful accounts	(317)	(324)
Net accounts receivable	28,240	24,128

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 $28.2 million as at June 30, 2019 ($24.1 million as at December 31, 2018).

At the end of each reporting period, a review of the allowance for bad and doubtful accounts is performed. It is an assessment of the expected credit loss associated with trade accounts receivable after the consolidated statement 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. Accounts receivable with related parties are discussed in Note 12.

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

($'000 unless otherwise stated)

	As at June 30, 2019	As at December 31, 2018
Opening balance – beginning of period	324	338
Additions during the period	-	134
Reversals during the period	10	2
Payments	(10)	(19)
Write-offs during the period	-	(143)
Foreign exchange revaluation	(7)	12
Closing balance – end of period	317	324

See Note 15.1 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.

6 INVENTORIES

Tree Island had the following categories of inventory:

($'000 unless otherwise stated)

	As at June 30, 2019	As at December 31, 2018
Raw materials	18,504	27,599
Finished and semi-finished products	33,370	38,558
Consumable supplies and spare parts	14,255	15,462
Total inventory	66,129	81,619

For the three and six month periods ended June 30, 2019 and 2018, Tree Island recognized, in income, inventory costs for the following:

($'000 unless otherwise stated)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2019	2018	2019	2018
Opening inventory	66,858	55,340	81,619	59,992
Raw material purchases	31,945	50,518	49,179	86,966
Finished goods purchased for resale	1,229	1,998	3,219	3,861
Conversion costs	12,255	15,976	24,959	31,982
Closing inventory	(66,129)	(65,117)	(66,129)	(65,117)
Cost of sales	46,158	58,715	92,847	117,684

At each period 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 the three and six months period ended June 30, 2019 and 2018. The reserve for slow moving inventory as at June 30, 2019 was $1.3 million ($1.6 million at June 30, 2018).

7 PROPERTY, PLANT AND EQUIPMENT

The carrying value of property, plant and equipment 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 this reporting period.

From time to time, we make investments to update, replace or make additions to our existing capital assets, which includes, but is not limited to, the buildings we occupy and capital equipment. These investments are in our normal course of business activity. For capital assets, we have committed to purchase but have not yet received the amounts remaining to be paid are recognized as purchase commitments (refer to Note 18.2).

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
Cost					
As at December 31, 2017	9,695	44,326	30,560	3,909	88,490
Additions	-	608	2,818	5,299	8,725
Disposals	-	(80)	(181)	-	(261)
Foreign exchange translation	174	806	651	141	1,772
As at December 31, 2018	9,869	45,660	33,848	9,349	98,726
Additions	-	1,397	6,757	(6,893)	1,261
Disposals	-	-	(5)	-	(5)
Foreign exchange translation	(88)	(415)	(526)	(274)	(1,303)
As at June 30, 2019	9,781	46,642	40,074	2,182	98,679
Depreciation and impairment					
As at December 31, 2017	31	32,231	14,538	-	46,800
Depreciation for the period	16	1,271	2,206	-	3,493
Disposals	-	(80)	(134)	-	(214)
Foreign exchange translation	(6)	389	1,034	-	1,417
As at December 31, 2018	41	33,811	17,644	-	51,496
Depreciation for the period	8	679	1,007	-	1,694
Disposals	-	-	(4)	-	(4)
Foreign exchange translation	(2)	(207)	(219)	-	(428)
As at June 30, 2019	47	34,283	18,428	-	52,758
Net book value as at					
December 31, 2018	9,828	11,849	16,204	9,349	47,230
June 30, 2019	9,734	12,359	21,646	2,182	45,921

8 SENIOR CREDIT FACILITY

On July 1, 2018, the Company renewed its senior banking facility with Wells Fargo Capital Finance Corporation Canada ("Wells Fargo"). The five-year senior secured committed banking facility (the "Senior Credit Facility") which matures in June of 2023, may be used for Tree Island's financing requirements in Canadian and/or U.S. dollars, and comprises of the following:

- $60 million of revolving credit facility;
- $10 million "Fixed Asset Term Loan" applied against existing term loans; and
- $10 million "Capex Term Loan" to finance future capital expenditures.

8.1 SENIOR CREDIT FACILITY

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 includes a $10.0 million Letter of Credit sub-facility which enables TI Canada and TI USA to open documentary and standby letters of credit for raw material purchases. There was a $39 thousand Letter of Credit outstanding as at June 30, 2019.

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. 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.

Interest payable on funds borrowed in Canadian currency is at variable rates based on the Canadian Dollar Offered Rate ("CDOR") for Canadian dollar banker's acceptance. Interest payable on funds borrowed in U.S. currency is at variable rates based on the London Interbank Offered Rate ("LIBOR") for U.S. dollar deposits.

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

($'000 unless otherwise stated)

	As at June 30, 2019	As at December 31, 2018
Revolving portion of the Senior Credit Facility	47,579	49,797
Deferred financing costs	(125)	(182)
Total	47,454	49,615

The revolving portion of the Senior Credit Facility denominated in U.S. dollars as at June 30, 2019 is $19.6 million ($13.3 million at June 30, 2018).

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

The Senior Credit Facility has financial tests and other covenants with which the Company and its subsidiaries must comply, the primary one being based on the remaining funds within the Senior Credit Facility that is available ("Availability Test"). Only if the Availability Test falls below a certain threshold then other covenants, which include a rolling four quarters defined fixed charge coverage ratio of 1:1, are tested. As well, the Senior Credit Facility contains restrictive covenants that limit the discretion of the Company's management with respect to certain business matters. These covenants place restrictions on, among other things, the ability of the Company's operating subsidiaries to incur additional indebtedness, to create liens or other encumbrances, to pay dividends or make certain other payments, investments, loans and guarantees and to sell or otherwise dispose of assets and merge or consolidate with another entity.

As at June 30, 2019, the availability was in excess of the Availability Test and the Company was in compliance with its financial covenants on the Senior Credit Facility.

8.2 SENIOR TERM LOANS

Under the terms of the Senior Credit Facility, the Company has designated portions up to a total of $20 million as two term loans denominated in either Canadian or U.S. dollars, and is available for existing machinery and equipment and future capital expenditures. The existing term debts applied against the Senior Credit Facility was incorporated into a single term loan of $10 million, denominated in Canadian dollars on July 1, 2018, referred to as "Fixed Asset Term Loan". An additional $10 million is available to finance future capital expenditures, to be denominated in either Canadian or U.S. dollars and referred to as "Capex Term Loans". On September 24, 2018, $3.8 million was applied against the Capex Term Loan of the Senior Credit Facility for financing a new welded wire reinforcement mesh machine in our U.S. Operations.

The following amounts are outstanding under the Senior Term Loans:

($'000 unless otherwise stated)

	As at June 30, 2019	As at December 31, 2018
Senior term loans - beginning of period	13,335	10,546
Advances	-	3,758
Foreign exchange revaluation	(150)	202
Payments	(986)	(1,171)
Senior term loans - end of period	12,199	13,335
Less: current portion	(1,964)	(1,986)
Total	10,235	11,349

9 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 commenced 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 years 5, 6 and 7, and US$190k in years 8, 9,10 and $90k in years 11, 12 and 13 and there are provisions for making additional principal payments. 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 June 30, 2019	As at December 31, 2018
Beginning of period	7,916	8,187
Payments	(1,042)	(1,873)
Foreign exchange revaluation	(313)	671
Accretion of debt discount	426	931
End of period	6,987	7,916
Less: current portion	(2,654)	(2,994)
Net long-term debt	4,333	4,922

10 FINANCING EXPENSES

($'000 unless otherwise stated)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2019	2018	2019	2018
Non-cash accretion of debt discount and interest on long term debt	210	236	425	474
Interest on senior credit facility	422	348	884	662
Interest on lease liability *(Note 3)*	359	-	716	-
Other interest and financing costs	258	291	436	483
Amortization of deferred financing costs	9	12	18	23
Total	1,258	887	2,479	1,642

11 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 337,153 Shares were repurchased (totaling $0.7 million at an average price of $2.05 per Share) and cancelled in the six months ended June 30, 2019. Shares issued and outstanding are as follows:

($'000 except for Shares)

	Shares	Gross	Issuance Cost[8]	Net
Shareholders' capital - December 31, 2017	29,649,799	237,377	11,400	225,977
Repurchase of common shares	(466,149)	(1,262)	-	(1,262)
Shareholders' capital - December 31, 2018	29,183,650	236,115	11,400	224,715
Repurchase of common shares	(337,153)	(690)	-	(690)
Shareholders' capital - June 30, 2019	28,846,497	235,425	11,400	224,025

[8] *Issuance costs were incurred as a result of the November 2002 Initial Public Offering and October 2004 Secondary Offering.*

11.1 NORMAL COURSE ISSUER BID

The Company had a normal course issuer bid (the "Bid") effective from September 21, 2018 to September 20, 2019 to purchase up to 1,460,000 Shares. Tree Island has no obligations to purchase any Shares under the bid. For the period January 1, 2019 to June 30, 2019 the Company purchased 337,153 Shares under the Bid at a total cost of $0.7 million (at an average price of $2.05 per Share). All 337,153 Shares were cancelled prior to June 30, 2019. The Bid was suspended following the announcement from the Offerors' that is described in Note 20 of the financial statements.

12 RELATED PARTY TRANSACTIONS

12.1 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.

Based on Tree Island Steel's outstanding Shares as at July 31, 2019, Futura owns 30.6% 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 three and six months ended June 30, 2019, Tree Island sold, net of rebates, approximately $1.0 million and $1.9 million respectively ($0.9 million and $2.5 million in 2018) of goods to CanWel and trade accounts receivable owing from CanWel as at June 30, 2019 is approximately $0.3 million (approximately $0.4 million in 2018). Outstanding trade accounts receivable from CanWel at period end are unsecured, interest free and settlement occurs in cash.

12.2 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 six months ended June 30, 2019 were approximately $0.5 million and $1.2 million respectively (approximately $0.5 million and $1.0 million in 2018) which includes wages, salaries and social security contributions, paid annual and sick leave, vehicle costs, bonuses and severance amount payable to an officer. It also includes directors' fees paid to members of the Board.

13 INCOME TAXES

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

13.1 INCOME TAX EXPENSE

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

($'000 unless otherwise stated)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2019	2018	2019	2018
Current tax expense	(92)	-	(231)	-
Deferred tax (expense) recovery	15	(996)	(40)	(1,689)
Total recorded in the Statement of Operations	(77)	(996)	(271)	(1,689)

14 FINANCIAL INSTRUMENTS

14.1 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 and interest rates being variable for the senior credit facility;

- Fair value on the Company's Senior Term Loans and Long-Term Debt are based on estimated market interest rate on similar borrowings. The carrying value of the Senior Term Loans approximates fair value as the interest rates approximate market. A 1% change in the market interest rate would change the fair value of Long-Term Debt by $0.1 million and Senior Term Loans by $0.1 million;

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

- Fair value of the forward exchange forward contracts 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.

- Fair value on the Company's lease liabilities are based on estimated market interest rate on similar borrowings. The carrying value of the least liabilities approximates fair value as the interest rates approximate market.

($'000 unless otherwise stated)

	As at June 30, 2019		As at December 31, 2018	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Cash and cash investments	916	916	1,277	1,277
Accounts receivable	28,240	28,240	24,128	24,128
Total financial assets	29,156	29,156	25,405	25,405
Senior revolving facility	47,579	47,579	49,797	49,797
Accounts payable and accrued liabilities	19,154	19,154	22,017	22,017
Senior term loans	12,199	12,199	13,335	13,335
Long-term debt	6,987	6,579	7,916	7,041
Lease liabilities *(Note 3)*	33,991	33,991	-	-
Total financial liabilities	119,910	119,502	93,065	92,190

14.2 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 only financial estimates carried at fair value are commodity purchase derivatives, which are level 2 financial instruments.

15 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.

15.1 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.

15.2 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.

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.

The table below summarizes the future undiscounted contractual cash flow requirements for financial liabilities (including scheduled interest payments on interest bearing liabilities) as at June 30, 2019 and December 31, 2018:

($'000 unless otherwise stated)

	Carrying Amount	Contractual Cash Flow	Less Than 1 Year	1 – 2 Years	Greater Than 2 Years
Senior revolving facility	47,579	47,579	47,579	-	-
Accounts payable and accrued liabilities	19,448	19,448	19,448	-	-
Senior term loans	12,199	12,199	1,964	3,928	6,307
Long-term debt	6,987	10,131	2,654	3,297	4,180
Lease Liability	33,991	51,545	3,128	3,142	45,275
As at June 30, 2019	120,204	140,902	74,773	10,367	55,762
Senior revolving facility	49,797	49,797	49,797	-	-
Accounts payable and accrued liabilities	22,017	22,017	22,017	-	-
Senior term loans	13,335	13,335	1,986	3,972	7,377
Long-term debt	7,916	11,616	2,994	3,028	5,594
As at December 31, 2018	93,065	96,765	76,794	7,000	12,971

15.3 FOREIGN CURRENCY RISK

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. 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 June 30, 2019, the Company had no outstanding U.S. dollar currency forward contracts.

For the period ending June 30, 2019, a $0.01 increase (decrease) in the Canadian dollar to U.S. dollar exchange rate will increase (decrease) net comprehensive income by $0.2 million.

15.4 INTEREST RATE RISK

Tree Island is exposed to interest rate risk on its Senior Credit Facility. Interest payable on the funds advanced under the Senior Credit Facility 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 denominated borrowings.

A one percent increase in the interest rates charged on the Senior Credit Facility would increase financing expenses by $0.5 million annually. Tree Island does not use derivative instruments to manage the interest rate risk.

15.5 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 contracts to purchase a portion of the zinc to be used. These are not designated as cash flow, fair value or net investment hedges. As at June 30, 2019, the Company had no outstanding zinc forward purchase price contracts.

16 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 8.1, 8.2 and 9.

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 June 30, 2019	As at December 31, 2018
Total shareholders' equity	53,368	58,626
Senior revolving facility	47,579	49,797
Senior term loans	12,199	13,335
Long-term debt	6,987	7,916
Lease liability *(Note 3)*	33,991	-
Total capital	154,124	129,674

17 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 amount is 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 June 30, 2019 the Company does not have any instruments issued that could be dilutive.

The company has repurchased and cancelled 337,153 Shares in the six months ended June 30, 2019 (Note 11).

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

($'000 unless otherwise stated)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2019	2018	2019	2018
Net income (loss) for the period	(535)	2,789	(1,631)	3,892
Weighted average number of shares outstanding:	28,991,481	29,483,061	29,081,635	29,548,031
Net income (loss) per share ($/share)	(0.02)	0.09	(0.06)	0.13

18 PROVISIONS AND COMMITMENTS

18.1 LITIGATION AND CLAIMS

From time to time, 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.

18.2 PURCHASE COMMITMENTS

As at June 30, 2019, Tree Island's wholly owned subsidiaries have committed to production material purchases (including finished goods) totalling $31.2 million ($47.5 million – June 30, 2018) and capital equipment purchase commitments of $1.6 million ($0.8 million – June 30, 2018). The committed product material purchases, which are to be delivered before the end of Q4 2019, and capital equipment purchases, which are to be delivered in 2020, are in the normal course of our business activity.

19 SEGMENTED INFORMATION

19.1 MARKET SEGMENTS

Revenues for each group for the three and six months ended June 30, 2019 and 2018 were as follows:

($'000 unless otherwise stated)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2019	2018	2019	2018
Industrial	15,732	24,758	31,511	46,057
Commercial	14,747	14,253	27,270	25,084
Agricultural	6,475	7,457	18,111	20,081
Residential	15,664	21,619	28,668	43,356
Total revenue	52,618	68,087	105,560	134,578

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, Agricultural, Commercial Construction, and Residential Construction. No one customer is more than 10% of total revenue.

19.2 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)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2019	2018	2019	2018
United States	32,153	42,784	58,723	83,230
Canada	18,639	23,087	42,603	47,517
International	1,826	2,216	4,234	3,831
Total revenue	52,618	68,087	105,560	134,578

Non-current assets for this purpose consist of property, plant and equipment, right-of-use assets (Note 3) 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)

	June 30, 2019	December 31, 2018
United States	38,012	17,110
Canada	39,076	30,302
Total non-current assets	77,088	47,412

20 SUBSEQUENT EVENTS

Tree Island Steel announced on June 28, 2019 that it has been advised of the intention of The Futura Corporation and Arbutus Distributors Ltd. (together, the "Offerors"), entities controlled by certain directors of the Company, to make an unsolicited non-binding proposal by way of a plan of arrangement to acquire all of the common shares of the Company not already owned by the Offerors for consideration consisting of $2.25 per share payable in cash, subject to a number of terms and conditions. A binding proposal has not yet been made to the Company or its shareholders.

The board of directors of the Company have met and appointed a special committee of the board made up entirely of directors who are independent of both management and the Offerors. The Special Committee has engaged PwC to prepare a formal valuation of the Company and advise on an appropriate response to the Offerors' announcement. The company's normal course issuer bid was suspended following the Offerors' announcement.

Shareholders are reminded that there can be no assurance that a binding agreement would result or that a formal proposal will be made by the Offerors.

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

Joe Downes

Leadership Team:

Dale R. MacLean
President and Chief Executive Officer

Remy Stachowiak
Chief Operating Officer

Nancy Davies
Chief Financial Officer and Vice President, Finance

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

Investor Relations:

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

Auditors:

KPMG LLP
Vancouver, B.C.