



WIRE & WIRE PRODUCTS

ESTABLISHED IN 1964



**Quarterly Report
Q1 2017**

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

Our products include galvanized wire, bright wire, a broad array of fasteners, including packaged, collated and bulk nails, stucco reinforcing products, concrete reinforcing mesh, fencing, and other fabricated wire products. We market these products under the Tree Island®, Halsteel®, True Spec®, K-Lath®, TI Wire®, and Tough Strand® brand names.

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

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Nail Production at the San Bernardino Facility

MANAGEMENT DISCUSSION AND ANALYSIS

March 31, 2017 and 2016

The following is a discussion of the financial condition and results of operations of Tree Island Steel Ltd. ("Tree Island Steel" or the "Company") and its wholly owned operating subsidiary Tree Island Industries Limited (together with Tree Island Steel, referred to as "Tree Island"). This discussion is current to May 4, 2017 and should be read in conjunction with the unaudited interim condensed consolidated financial statements for the three months ended March 31, 2017. Tree Island Steel's unaudited interim condensed consolidated financial statements are prepared in accordance with International Accounting Standard ("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, 2016, 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, 2016.

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

2 NON-IFRS MEASURES

References in this MD&A to “EBITDA” are to operating income and adding back depreciation and foreign exchange gains or losses. EBITDA is a measure used by many investors to compare companies on the basis of ability to generate cash flows from operations. EBITDA is not a measure recognized by IFRS and does not have a standardized meaning prescribed by IFRS. We believe that EBITDA is an important supplemental measure for evaluating our performance. You are cautioned that 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 LTD.

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.

There were 30,743,973 Shares outstanding as of March 31, 2017 and as of May 4, 2017 the same amount of Shares was outstanding.

3.1 ORGANIZATIONAL STRUCTURE

Our corporate structure has the following primary entities: Tree Island Industries Limited (“TII 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 US operating subsidiary, Tree Island Wire (USA) Inc. (“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 of our products¹:

Markets	Brand	Key Product Groups	Specific End-Use Markets	Regions
Industrial	Tree Island®, TI Wire®	Bright/galvanized/annealed low and high carbon wire	Wire fabricating, industrial applications, OEM manufacturing	North America and International
Residential Construction	Tree Island®, Halsteel®, K-Lath®, True Spec®	Collated, bulk and packaged nails Stucco reinforcing mesh	Construction and renovation for new and existing homes	North America and International
Commercial Construction	Tree Island®, TI Wire®	Welded wire reinforcement mesh Concrete reinforcing products	Commercial construction, mining, infrastructure projects	North America and International
Agricultural	Tree Island®, Tough Strand®	Game fence and farm fence Vineyard wire and barbed wire	Agriculture, farming	North America

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.

¹ On September 30, 2016, the Company divested the Stainless business assets, which included the Industrial Alloys® brand, to a strategic purchaser whose primary focus is in stainless steel manufacturing. As of October 1, 2016, the Company no longer offered products under the Industrial Alloys® brand.

4 2017 BUSINESS OVERVIEW AND DEVELOPMENT

4.1 BUSINESS OVERVIEW

During the quarter we introduced a series of market price increases, which were implemented at an accelerated pace in the latter part of the quarter, to better reflect and offset the increase in raw material prices experienced by the industry. Revenue earned in the first quarter of 2017 amounted to \$63.0 million, an increase of 1.3% relative to last year despite the reduction in sales from the Stainless product lines, which was divested in Q3 2016. The increase in revenue is a result of the combination of an expected increase in volume and pricing discipline favouring higher priced products. Raw material prices during the quarter increased at a rapid rate and despite the price increases implemented, the spread between selling price and raw material prices narrowed. This negatively impacted our gross profit margin, which was 11.9% for the quarter compared to 17.7% for the same period last year. The gross profit earned for the three months was \$7.5 million compared to \$11.0 million during the same period in 2016. The lower gross profit earned was partially offset by less selling, general and administrative expenses relative to last year achieved through the management of costs, resulting in EBITDA for the quarter amounting to \$4.2 million compared to \$6.7 million during the same period last year.

4.2 US TRADE CASE AGAINST CARBON AND CERTAIN ALLOY STEEL WIRE ROD

On March 28, 2017 a petition was submitted to the US Department of Commerce to initiate an antidumping and countervailing duty investigation against carbon and certain alloy steel wire rod imports into the US from ten countries. The ten countries include Belarus, Italy, South Korea, Russia, South Africa, Spain, Turkey, Ukraine, United Arab Emirates and United Kingdom. All ten countries identified in the petition are included in the request for an investigation into antidumping and two countries of the ten, Turkey and Italy, are included in the request for further investigations for countervailing duties.

The petition was accepted for further investigation on April 18, 2017 and a preliminary decision is expected on May 12, 2017.

Currently anti-dumping duties have been levied on wire rod imports into the US from countries including Brazil, China, Indonesia, Mexico, Moldova and Trinidad.

We continue to monitor on-going developments on other trade actions and developments related to our industry.

5 RESULTS FROM OPERATIONS

(\$'000 unless otherwise stated)

	Three Months Ended	
	March 31,	
	<u>2017</u>	<u>2016</u>
Revenue	63,040	62,240
Cost of sales	(54,729)	(50,404)
Depreciation	(816)	(826)
Gross profit	7,495	11,010
Selling, general and administrative expenses	(4,221)	(4,882)
Operating income	3,274	6,128
Foreign exchange gain (loss)	97	(240)
Gain (loss) on sale of property, plant and equipment	(47)	-
Changes in financial instruments recognized at fair value	10	450
Financing expenses	(711)	(716)
Income before income taxes	2,623	5,622
Income tax (expense) recovery	(873)	(393)
Net income	1,750	5,229
Operating Income	3,274	6,128
Add back depreciation	816	826
Foreign exchange gain (loss)	97	(240)
EBITDA ²	4,187	6,714
Net income per share - basic (\$/share)	0.06	0.17
Dividends per share (\$/share)	0.02	0.02
Sales volume (tons) ³	51,336	44,768
Gross profit per ton (\$/ton)	146	246
EBITDA per ton (\$/ton)	82	150

Financial Position as at:	<u>March 31, 2017</u>	<u>December 31, 2016</u>
Total Assets	149,791	137,455
Total non-current financial liabilities	18,464	19,090

6 COMPARISON OF RESULTS FOR THE THREE MONTHS ENDED MARCH 31, 2017 AND 2016

<i>(\$'000 unless otherwise stated)</i>	<u>Q1 2017</u>	<u>Q1 2016</u>	<u>Variance Fav/(Unfav)</u>	
SALES	63,040	62,240	800	1.3%

The increase in sales revenue year-over-year was a direct result of higher business activity and demand in our end markets partially offset by lower average selling prices relative to the prior period. The increase in sales revenue is a result of the increase in volume despite the absence of the Stainless business, which was divested at the end of Q3 2016, and pricing discipline focusing on higher priced products.

² See definition of EBITDA in Section 2 NON-IFRS MEASURES.

³ Sales volumes excludes tons which were processed as part of tolling arrangements.

Revenue by Market Segment

(\$'000 unless otherwise stated)

	Three Months Ended March 31,					
	2017		2016		Variance	
	Revenue	% of Total	Revenue	% of Total	Amount	%
Industrial	21,871	34.7%	19,831	31.9%	2,040	10.3%
Residential	20,045	31.8%	18,720	30.1%	1,325	7.1%
Commercial	10,197	16.2%	10,452	16.8%	(255)	(2.4%)
Agricultural	10,927	17.3%	9,128	14.7%	1,799	19.7%
Specialty ⁴	-	0.0%	4,109	6.6%	(4,109)	(100.0%)
Total revenue	63,040	100.0%	62,240	100.0%	800	1.3%

Revenues in the US were lower when compared to the same period last year primarily as a result of the reduction in revenue on the divestiture of the Stainless products lines offset by higher demand in the Agricultural market. Meanwhile, in Canada, robust business activity related to the Industrial and Residential sectors offset the decline in revenues generated from US.

Revenue by Location

(\$'000 unless otherwise stated)

	Three Months Ended March 31,					
	2017		2016		Variance	
	Revenue	% of Total	Revenue	% of Total	Amount	%
United States	37,298	59.2%	39,992	64.3%	(2,694)	-6.7%
Canada	23,525	37.3%	20,130	32.3%	3,395	16.9%
International	2,217	3.5%	2,118	3.4%	99	4.7%
Total	63,040	100.0%	62,240	100.0%	800	1.3%

Average C\$/US\$ 1.3231 1.3715

(\$'000 unless otherwise stated)	Q1 2017	Q1 2016	Variance Fav/(Unfav)	
COST OF SALES	55,545	51,230	(4,315)	(8.4%)

The cost of goods sold (including depreciation) increased mainly due to an increase in raw material costs and the increase in production to support increased sales volumes with conversion costs remaining steady relative to last year.

(\$'000 unless otherwise stated)	Q1 2017	Q1 2016	Variance Fav/(Unfav)	
GROSS PROFIT	7,495	11,010	(3,515)	(31.9%)

Gross profit decreased by \$3.5 million mainly due to the narrower spread between selling prices and raw material costs. As a result gross profit margin also decreased to 11.9% compared to 17.7% in the prior year.

The amount of gross profit earned in the United States was negatively affected by the narrowing of the differential between our average selling prices and raw material costs. In Canada, product sales mix, along with the benefits arising from the Calgary facility, partially offset the reduction in gross profit on our US sales.

⁴ On September 30, 2016, the Company divested the Stainless business assets, which included the Industrial Alloys® brand, to a strategic purchaser whose primary focus is in stainless steel manufacturing. As of October 1, 2016, the Company no longer offered products under the Industrial Alloys® brand.

Gross Profit*(\$'000 unless otherwise stated)*

	Three Months Ended March 31,					
	2017		2016		Variance Fav / (Unfav)	
	Gross Profit	% of Total	Gross Profit	% of Total	Amount	%
US\$ gross profit ⁵	4,290	57.2%	7,035	63.9%	(2,746)	(39.0%)
C\$ gross profit	3,205	42.8%	3,975	36.1%	(769)	(19.4%)
Total gross profit	7,495	100.0%	11,010	100.0%	(3,515)	(31.9%)
Average C\$/US\$	1.3231		1.3715			

<i>(\$'000 unless otherwise stated)</i>	Q1 2017	Q1 2016	Variance Fav/(Unfav)	
SG&A EXPENSES	4,221	4,882	661	13.5%

The decrease in SG&A expenses are the result of lower compensation related items when compared to prior year. Our focus continues to remain on managing our costs.

<i>(\$'000 unless otherwise stated)</i>	Q1 2017	Q1 2016	Variance Fav/(Unfav)	
EBITDA	4,187	6,714	(2,527)	(37.6%)

EBITDA earned for the quarter is inclusive of the foreign exchange gain earned in the quarter. The decrease in EBITDA is primarily impacted by the lower gross profit realized in the quarter.

<i>(\$'000 unless otherwise stated)</i>	Q1 2017	Q1 2016	Variance Fav/(Unfav)	
FINANCING EXPENSES	711	716	5	0.7%

Financing costs are consistent with the prior period.

Financing Expense*(\$'000 unless otherwise stated)*

	Three Months Ended March 31,			
	2017	2016	Variance Fav / (Unfav)	
			Amount	%
Non-cash financing expenses	288	301	13	4.3%
Interest on senior credit facility	233	200	(33)	(16.5%)
Other interest and financing costs	178	203	25	12.3%
Deferred financing costs	12	12	-	0.0%
Total financing expenses	711	716	5	0.7%

<i>(\$'000 unless otherwise stated)</i>	Q1 2017	Q1 2016	Variance Fav/(Unfav)	
FOREIGN EXCHANGE GAIN (LOSS)	97	(240)	337	310.8%

Our Canadian operation, whose functional currency is Canadian dollar, has a portion of its assets, liabilities, sales and expenses denominated in currencies other than the Canadian dollar, in particular the US dollar. With raw material costs being denominated in US dollar, having a significant portion of our sales also being denominated in US dollar creates a natural partial hedge. Foreign currency forward contracts are used to manage a portion of the remaining currency risk. Foreign exchange gains and losses are unpredictable in nature and therefore can vary

⁵ After foreign exchange translation.

significantly over time. As at March 31, 2017, the total notional value of US dollar currency forward contracts outstanding was US\$4.4 million.

<i>(\$'000 unless otherwise stated)</i>	<u>Q1 2017</u>	<u>Q1 2016</u>	<u>Variance Fav/(Unfav)</u>	
INCOME TAX RECOVERY (EXPENSE)	(873)	(393)	(480)	(122.1%)

In Q1 2017 an income tax expense of \$0.9 million was booked compared to tax expense of \$0.4 million for Q1 2016. The income tax expense was made up of \$0.6 million deferred tax expense and \$0.3 million current income tax expense. In the prior period we were able to utilize taxable benefits to reduce taxable income. The income tax expense is based on a statutory rate of 26% for Canadian taxable income and 31% for US based taxable income applied to the income of the respective subsidiaries before taxes, with adjustments for permanent differences between accounting and taxable income.

<i>(\$'000 unless otherwise stated)</i>	<u>Q1 2017</u>	<u>Q1 2016</u>	<u>Variance Fav/(Unfav)</u>	
NET INCOME	1,750	5,229	(3,479)	(66.5%)

The decrease in net income over the prior year is attributable to the lower operating income on account of lower realized gross profit due to the narrow spread between selling prices and raw material costs. The tax expense were also higher in the quarter compared to prior year as noted above.

7 FINANCIAL CONDITION AND LIQUIDITY

7.1 WORKING CAPITAL

Our business requires an ongoing investment in working capital, comprised primarily of accounts receivable and inventories, financed primarily by credit in the form of our Senior 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 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 March 31, 2017 was \$1.4 million more than last year, reflecting increase in sales revenues. The increase in the Senior Credit Facility reflects the increase in inventory levels required for the production requirements to satisfy sales requirements. The value of inventories also increased on account of the rising costs of raw materials experienced in the quarter.

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

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

We manage our accounts receivable and the related credit risk by focusing on well-established customers with favourable credit profiles. The credit worthiness of customers is assessed using credit scores supplied by a third party and through direct monitoring of their financial well-being on a continual basis. We have established guidelines

for customer credit limits and when thresholds in these areas are reached, appropriate precautions are taken to improve collectability. We maintain provisions for potential credit losses (allowance for doubtful accounts) and such losses to date have been within our expectations.

Working Capital

(\$'000 unless otherwise stated)

	As at March 31,	
	2017	2016
Cash	1,626	2,468
Accounts receivable	35,884	34,477
Inventories	64,133	55,745
Other current assets	5,108	4,885
Total current assets	<u>106,751</u>	<u>97,575</u>
Senior credit facility	(37,113)	(26,658)
Accounts payable and accrued liabilities	(19,038)	(18,960)
Dividends payable	(615)	(311)
Other current liabilities	(656)	(2,788)
Current portion of long term debt	(4,519)	(4,455)
Total current liabilities	<u>(61,941)</u>	<u>(53,172)</u>
Net working capital	<u>44,810</u>	<u>44,403</u>

7.2 CASH FLOW

Cash Flow

(\$'000 unless otherwise stated)

	Three Months Ended March 31,	
	2017	2016
Cash provided by (used in) operating activities	3,898	5,845
Working capital adjustments	(5,765)	(1,942)
Net cash provided by (used in) operating activities	<u>(1,867)</u>	<u>3,903</u>
Net cash provided by (used in) investing activities	<u>(3,080)</u>	<u>(428)</u>
Advance on (repayment of) senior term loans	(439)	(293)
Repayment of long-term debt	(476)	(590)
Other payables	284	(736)
Interest paid	(404)	(447)
Advance on (repayment of) senior revolving facility	8,167	103
Dividend payment	(621)	(311)
Share buyback	(1,349)	(32)
Net cash provided by (used in) financing activities	<u>5,162</u>	<u>(2,306)</u>
Exchange rate changes on foreign cash balances	<u>60</u>	<u>(27)</u>
Increase (decrease) in cash balances	<u>275</u>	<u>1,142</u>

For the three months ended March 31, 2017 net cash was used for working capital requirements as noted above. The net cash used in investing activities for the three months ended March 31, 2017 was for capital maintenance activities and deposits for manufacturing equipment.

7.3 SENIOR CREDIT FACILITY

The Company has a senior secured committed banking facility, maturing in April of 2019, which enables the Company to borrow up to \$60.0 million in Canadian and/or US funds. Interest payable on funds borrowed in Canadian currency is at variable rates based on the Canadian interbank bid rates for Canadian dollar banker's acceptance and interest payable on funds borrowed in US currency is at variable rates based on the London Inter-Market Offered Rate ("Libor") for US dollar deposits. The amount advanced under the Senior Credit Facility at any time is limited to a defined percentage of inventories, accounts receivable, machinery and equipment, and real estate, less certain reserves. The Senior Credit Facility is secured by a first charge over Tree Island's assets supported by the appropriate guarantees, pledges and assignments, and requires that certain covenants be met by Tree Island.

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

As at March 31, 2017 the availability was in excess of the Availability Test and the Company was in compliance with its covenants on the Senior Credit Facility.

7.4 LONG TERM DEBT AGREEMENTS

Tree Island entered into a Second Amendment to the long-term debt agreement ("Agreement") on June 11, 2012. Under the terms of this Agreement, the total principal debt amount of approximately US\$15.8 million is to be repaid monthly over a ten year amortization period. Interest is non-compounding, will be accrued on a declining balance starting in June 2017 and is payable over a four year period beginning June 2024 (see Note 9 in the interim financial statements).

8 CAPITAL EXPENDITURES AND CAPACITY

For the three months ended March 31, 2017, we made capital expenditures of \$3.1 million. These expenditures were for capital maintenance activities and deposits for manufacturing equipment. As noted in section 9 of this MD&A there are a further \$3.8 million in capital equipment commitments in 2017. The capital assets we have committed to are expected to be delivered throughout 2017 and prior to the end of the fiscal year with commissioning of the equipment generally taking between one month to three months after arrival.

9 CONTRACTUAL OBLIGATIONS AND COMMITMENTS

As of March 31, 2017, 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 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 2017.

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.

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

Contractual Obligations and Commitments

(\$'000 unless otherwise stated)

	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>2020</u>	<u>2021</u>	<u>Thereafter</u>	<u>Total</u>
Production materials	43,030	-	-	-	-	-	43,030
Machinery and equipment	3,782	-	-	-	-	-	3,782
Operating leases	1,881	2,100	2,048	1,751	1,693	19,249	28,722
Total commitments	<u>48,693</u>	<u>2,100</u>	<u>2,048</u>	<u>1,751</u>	<u>1,693</u>	<u>19,249</u>	<u>75,534</u>
Senior revolving facility	37,113	-	-	-	-	-	37,113
AP and accrued liabilities	19,038	-	-	-	-	-	19,038
Other current liabilities	244	-	-	-	-	-	244
Dividends	615	-	-	-	-	-	615
Senior term loans	1,935	2,464	2,464	5,029	-	-	11,892
Long-term debt	2,584	2,584	2,369	1,423	479	4,950	14,389
Total financial liabilities	<u>61,529</u>	<u>5,048</u>	<u>4,833</u>	<u>6,452</u>	<u>479</u>	<u>4,950</u>	<u>83,291</u>
Total obligations and commitments	<u>110,222</u>	<u>7,148</u>	<u>6,881</u>	<u>8,203</u>	<u>2,172</u>	<u>24,199</u>	<u>158,825</u>

The Company enters into US dollar currency forward contracts for periods consistent with a portion of US dollar currency transaction exposures, generally from one to three months. These are not designated as cash flow, fair value or net investment hedges. As of March 31, 2017, the total notional value of US dollar currency forward contracts outstanding was US\$4.4 million and the fair value mark to market loss on the contracts was \$14k.

10 SUMMARY OF QUARTERLY FINANCIAL RESULTS

Summary of Quarterly Financial Results

(\$'000 unless otherwise stated)

	<u>Mar 31,</u> <u>2017</u>	<u>Dec 31,</u> <u>2016</u>	<u>Sep 30,</u> <u>2016</u>	<u>Jun 30,</u> <u>2016</u>	<u>Mar 31,</u> <u>2016</u>	<u>Dec 31,</u> <u>2015</u>	<u>Sep 30,</u> <u>2015</u>	<u>Jun 30,</u> <u>2015</u>
Revenue	63,040	45,903	57,726	65,384	62,240	54,274	61,408	56,541
Gross profit	7,495	5,295	9,583	11,521	11,009	5,933	9,815	8,143
Foreign exchange gain (loss)	97	(282)	(172)	319	(240)	127	152	(130)
EBITDA	4,187	1,032	5,369	7,857	6,712	1,815	6,197	4,730
Net income (loss)	1,750	(711)	2,687	6,360	5,226	5,523	6,445	2,061
Net income (loss) per unit - basic	0.06	(0.02)	0.09	0.20	0.17	0.18	0.21	0.07
Gross profit per ton	146	148	220	226	246	152	226	209
EBITDA per ton	82	29	123	154	150	47	143	122

The table above provides selected quarterly financial information for the eight most recent fiscal quarters to March 31, 2017. Sales volume in the last 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.

In Q3 and Q4 of 2015, an income tax recovery was realized and related to the utilization of previously recognized deferred tax benefits, primarily from the Canadian operations.

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

11 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, 2016 audited consolidated financial statements, the Annual Information Form for the year ended December 31, 2016 and Note 3 to the March 31, 2017 interim unaudited condensed consolidated financial statements.

11.1 CRITICAL ACCOUNTING ESTIMATES

The areas that we consider to have critical accounting estimates are: financial instruments valued at fair value through profit and loss, inventory valuation, allowance for doubtful accounts, property, plant and equipment, and income taxes. These critical estimates and the judgments involved are discussed further in the audited consolidated financial statements for December 31, 2016 (Note 3).

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 May 4, 2017, Futura owns 27.8% 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 months ended March 31, 2017, Tree Island sold, net of rebates, approximately \$1.3 million (\$1.0 million in 2016) of goods to CanWel and trade accounts receivable owing from CanWel as at March 31, 2017 is approximately \$0.5 million (approximately \$0.9 million in 2016). 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 months ended March 31, 2017 was approximately \$1.1 million respectively (approximately \$1.4 million in 2016) which includes wages, salaries, other compensation paid in the period (if any) and social security contributions, paid annual and sick leave, vehicle costs and bonuses. It also includes directors’ fees paid to members of the Board.

13 RISKS AND UNCERTAINTIES

Investment in Tree Island Steel is subject to a number of risks. Our income is dependent upon the wire products business, which is susceptible to a number of risks. A detailed discussion of our significant business risks is provided in the 2016 Annual Information Form under the heading “Risk Factors” which can be found at www.sedar.com.

14 DISCLOSURE CONTROLS AND PROCEDURES AND INTERNAL CONTROL OVER FINANCIAL REPORTING

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

Our management is responsible for designing, establishing, and maintaining an adequate system of internal control over financial reporting. Our internal control system was designed based on the 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 March 31, 2017. These executives also certified that they are responsible for the design of disclosure controls and procedures and internal control over financial reporting. There have been no changes in internal control over financial reporting during the quarter ended March 31, 2017 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

The Company’s Board of Directors and Audit Committee reviewed and approved the March 31, 2017 unaudited interim condensed consolidated financial statements and this MD&A prior to its release.

INTERIM UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2017 and 2016

NOTICE OF NO AUDITOR REVIEW OF INTERIM FINANCIAL STATEMENTS

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

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

Tree Island Steel Ltd.'s independent auditor, Ernst & Young LLP, has not performed a review of these financial statements in accordance with standards established by the Canadian Institute of Chartered Accountants for a review of interim financial statements by an entity's auditor.

May 4, 2017

INTERIM UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
March 31, 2017 and 2016

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

	As at March 31, 2017	December 31, 2016
Cash	1,626	1,351
Accounts receivable <i>(Note 5)</i>	35,884	24,463
Inventories <i>(Note 6)</i>	64,133	67,268
Prepaid expenses	5,108	4,231
Current assets	<u>106,751</u>	<u>97,313</u>
Property, plant and equipment <i>(Note 7)</i>	42,055	39,611
Deferred income tax asset	883	417
Other non-current assets	102	114
Total assets	<u><u>149,791</u></u>	<u><u>137,455</u></u>
Senior revolving facility <i>(Note 8.1)</i>	37,113	28,941
Accounts payable and accrued liabilities	19,038	15,363
Income Taxes Payable	412	269
Other current liabilities	244	237
Dividends payable	615	621
Current portion of long-term borrowing <i>(Notes 8.2, 9)</i>	4,519	4,361
Current liabilities	<u>61,941</u>	<u>49,792</u>
Senior term loans <i>(Note 8.2)</i>	9,957	10,612
Long-term debt <i>(Note 9)</i>	7,403	7,652
Other non-current liabilities	1,104	826
Deferred income tax liability	1,106	-
Total liabilities	<u>81,511</u>	<u>68,882</u>
Shareholders' equity	<u>68,280</u>	<u>68,573</u>
Total liabilities and shareholders' equity	<u><u>149,791</u></u>	<u><u>137,455</u></u>

See accompanying Notes to the Interim Unaudited Condensed Consolidated Financial Statements

Approved on behalf of Tree Island Steel Ltd.

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

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

INTERIM UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2017 and 2016

INTERIM UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF OPERATIONS

(\$'000 unless otherwise stated)

	Three Months Ended	
	March 31,	
	<u>2017</u>	<u>2016</u>
Sales	63,040	62,240
Cost of sales (Note 6)	(54,729)	(50,404)
Depreciation	(816)	(826)
Gross profit	<u>7,495</u>	<u>11,010</u>
Selling, general and administrative expenses	(4,221)	(4,882)
Operating income	<u>3,274</u>	<u>6,128</u>
Foreign exchange gain (loss)	97	(240)
Gain (loss) on sale of property, plant and equipment	(47)	-
Changes in financial liabilities at fair value	10	450
Financing expenses (Note 10)	(711)	(716)
Income before income taxes	<u>2,623</u>	<u>5,622</u>
Income tax recovery (expense) (Note 13)	(873)	(393)
Net income	<u>1,750</u>	<u>5,229</u>
Net income per share (Note 17)	0.06	0.17
Weighted average number of shares (Note 17)	31,027,895	31,105,673

INTERIM UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

(\$'000 unless otherwise stated)

	Three Months Ended	
	March 31,	
	<u>2017</u>	<u>2016</u>
Net income for the year	1,750	5,229
Unrealized income (loss) on FX translation	(79)	(1,041)
Comprehensive income	<u>1,671</u>	<u>4,188</u>

See accompanying Notes to the Interim Unaudited Condensed Consolidated Financial Statements

INTERIM UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2017 and 2016

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, 2016	230,423	(159,528)	(2,322)	68,573
Repurchase of Shares	(1,349)	-	-	(1,349)
Net income	-	1,750	-	1,750
Dividends	-	(615)	-	(615)
Other comprehensive income	-	-	(79)	(79)
Balance as at March 31, 2017	<u>229,074</u>	<u>(158,393)</u>	<u>(2,401)</u>	<u>68,280</u>
Balance as at December 31, 2015	230,568	(170,920)	(1,832)	57,816
Repurchase of Shares	(32)	-	-	(32)
Net Income	-	5,227	-	5,227
Dividends	-	(311)	-	(311)
Other comprehensive income (loss)	-	-	(1,041)	(1,041)
Balance as at March 31, 2016	<u>230,536</u>	<u>(166,004)</u>	<u>(2,873)</u>	<u>61,659</u>

See accompanying Notes to the Interim Unaudited Condensed Consolidated Financial Statements

INTERIM UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2017 and 2016

INTERIM UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

(\$'000 unless otherwise stated)

	Three Months Ended	
	March 31,	
	<u>2017</u>	<u>2016</u>
Net income	1,750	5,229
Depreciation	816	826
Changes in financial liabilities recognized at fair value	(10)	(450)
Loss (gain) on sale of property, plant and equipment	47	-
Amortization and write-off of deferred financing	12	12
Non-cash accretion of long term debt	289	301
Net financing costs	410	403
Deferred income tax expense (recovery)	632	381
Exchange revaluation of foreign denominated debt	(48)	(857)
Working capital adjustments		
Accounts receivable	(11,421)	(6,983)
Inventories	3,135	3,942
Accounts payable and accrued liabilities	3,363	1,864
Prepaid expenses	(880)	(983)
Income and other taxes	145	12
Other	(107)	206
Net cash provided by (used in) operating activities	<u>(1,867)</u>	<u>3,903</u>
Proceeds on sale of property, plant and equipment	2	-
Purchase of property, plant and equipment	(3,082)	(428)
Net cash used in investing activities	<u>(3,080)</u>	<u>(428)</u>
Term loans - advance (repayment)	(439)	(293)
Repayment of long-term debt	(476)	(590)
Other financing liabilities	284	(736)
Interest paid	(404)	(447)
Increase (decrease) of senior revolving facility	8,167	103
Dividend paid	(621)	(311)
Repurchase of common shares	(1,349)	(32)
Net cash provided by (used in) financing activities	<u>5,162</u>	<u>(2,306)</u>
Effect of exchange rate change on cash	<u>60</u>	<u>(27)</u>
Increase (decrease) in cash	275	1,142
Cash - beginning of period	1,351	1,326
Cash - end of period	<u>1,626</u>	<u>2,468</u>

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 March 31, 2017 were authorized for issue in accordance with a resolution of the Board of Directors on May 4, 2017.

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 the three month and three months ended March 31, 2017 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, 2016 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 consolidated financial statements are consistent with those disclosed in the annual consolidated financial statements as at December 31, 2016.

4 FUTURE IFRS STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE

Tree Island prepares its financial statements in accordance with IFRS standards. IASB has issued several new standards that will come into effect over the next two years that may have an impact on the Company's reporting requirements. Tree Island is in the process of assessing whether there will be any significant changes to its consolidated financial statements upon adoption of these new standards, interpretations or amendments. The new standards that may have an impact on the Company's reporting requirements include:

IFRS 9 Financial Instruments

The IASB issued IFRS 9 as a first step in the process to replace IAS 39 *Financial Instruments: Recognition and Measurement*. IFRS 9 introduces new requirements for classifying and measuring financial assets, and could affect Tree Island's accounting for its financial assets. The standard is required to be adopted for annual periods beginning on or after January 1, 2018, with early adoption permitted.

IFRS 15 Revenue from Contracts with Customers

IFRS 15 was issued in May 2014 and establishes a new five-step model that will apply to revenue arising from contracts with customers. Under IFRS 15 revenue is recognised at an amount that reflects the

NOTES TO THE INTERIM UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
March 31, 2017 and 2016

consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The principles in IFRS 15 provide a more structured approach to measuring and recognising revenue. The new revenue standard is applicable to all entities and will supersede all current revenue recognition requirements under IFRS. Either a full or modified retrospective application is required for periods beginning on or after January 1, 2018 with early adoption permitted.

IFRS 16 Leases

IFRS 16 was issued in January 16, 2016 and provides guidance on how leases are to be recognized, measured, presented and disclosed. The standard provides a single lessee accounting model, requiring lessees to recognize a lease as both an asset and a liability for all leases unless the lease term is twelve (12) months or less or the underlying asset has a low value. This standard is a significant change for how a lessee will recognize a lease from the standard it replaces, IAS 17. The accounting of leases by lessors under the new standard remains substantially unchanged from IAS 17. The standard is effective for annual periods beginning on or after January 1, 2019 with early application permitted for entities that apply IFRS 15.

The Company has conducted a preliminary review of IFRS 9 and IFRS 15. Based on the Company's current policy for recognizing revenues and its financial instruments the Company is of the view that the two standards will not result in a significant impact on how the company recognizes and records its revenues and financial instruments. The Company has yet to conclude a preliminary review of the impact of IFRS 16 on its accounting policies and financial statements and cannot at this time conclude whether or not the implementation of IFRS 16 will result in a material impact on how leases are recognized and reported. We will continue to review all three standards, the associated disclosure requirements, our method of adoption for each of the standards and any additional changes, modifications, clarifications or interpretations undertaken by the IASB subsequent to March 31, 2017 to complete our comprehensive evaluation of the impacts of the standards on our consolidated financial statements. At this time the Company does not plan to adopt any of the new standards early and will adopt each one of the standards on the respective effective dates.

5 ACCOUNTS RECEIVABLE

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

(\$'000 unless otherwise stated)

	As at March 31, 2017	As at December 31, 2016
Current	33,261	22,205
30 - 60 days past due	852	772
61 - 90 days past due	336	354
Over 91 days past due	1,693	1,391
Total accounts receivable	36,142	24,722
Allowance for doubtful accounts	(258)	(259)
Net accounts receivable	35,884	24,463

Accounts receivable are non-interest bearing and are generally due on 30-day to 90-day terms. These terms are consistent for related party receivables as disclosed in Note 12. The maximum credit risk that Tree Island was exposed to by way of its accounts receivable is equal to the net amount of \$35.9 million as at March 31, 2017 (\$24.5 million as at December 31, 2016).

At the end of each reporting period a review of the provision for bad and doubtful accounts is performed. It is an assessment of the potential amount of trade accounts receivable that will be paid by customers after the consolidated statements of financial position date. The assessment is made by reference to age, status and risk of each receivable, current economic conditions and historical information. The trade accounts receivable balance is

NOTES TO THE INTERIM UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
March 31, 2017 and 2016

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 receivables with related parties are discussed in Note 12.1.

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

(\$'000 unless otherwise stated)

	As at March 31, 2017	As at December 31, 2016
Opening balance – beginning of period	259	189
Additions during the period	-	148
Reversals during the period	-	(15)
Payments	-	(7)
Write-offs during the period	-	(57)
Foreign exchange revaluation	(1)	1
Closing balance – end of period	<u>258</u>	<u>259</u>

See Note 15 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

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 three months periods ended March 31, 2017 and 2016. The reserves for slow moving inventory as at March 31, 2017 were \$1.7 million (\$2.4 million at March 31, 2016). Total stainless steel raw materials inventory as at March 31, 2017 were \$1.2 million (\$1.7 million as at December 31, 2016).

Tree Island had the following categories of inventory:

(\$'000 unless otherwise stated)

	As at March 31, 2017	As at December 31, 2016
Raw materials	20,268	21,805
Finished and semi-finished products	30,686	32,809
Consumable supplies and spare parts	13,179	12,654
Total inventory	<u>64,133</u>	<u>67,268</u>

NOTES TO THE INTERIM UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
March 31, 2017 and 2016

For the three month periods ended March 31, 2017 and 2016, Tree Island recognized, in income, inventory costs for the following:

(\$'000 unless otherwise stated)

	Three Months Ended March 31,	
	<u>2017</u>	<u>2016</u>
Opening inventory	54,467	45,187
Raw material purchases	25,777	23,775
Finished goods purchased for resale	1,595	2,233
Conversion costs	23,941	23,526
Closing inventory	(51,051)	(44,317)
Cost of sales	<u>54,729</u>	<u>50,404</u>

7 PROPERTY, PLANT AND EQUIPMENT

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

(\$'000 unless otherwise stated)

	Land & Improvement	Building & Improvement	Machinery & Equipment	Capital in Progress	Total
Cost					
As at December 31, 2015	9,650	41,863	28,472	1,815	81,800
Additions	243	3,723	3,103	(734)	6,335
Disposals	-	(1,924)	(1,732)	-	(3,656)
Foreign exchange translation	(58)	(230)	(293)	(5)	(586)
As at December 31, 2016	9,835	43,432	29,550	1,076	83,893
Additions	-	30	565	2,801	3,396
Disposals	-	-	(210)	-	(210)
Foreign exchange translation	(17)	(67)	(60)	(4)	(148)
As at March 31, 2017	<u>9,818</u>	<u>43,395</u>	<u>29,845</u>	<u>3,873</u>	<u>86,931</u>
Depreciation and impairment					
As at December 31, 2015	-	32,201	11,886	-	44,087
Depreciation for the period	8	1,133	2,178	-	3,319
Disposals	-	(1,911)	(936)	-	(2,847)
Foreign exchange translation	-	(170)	(107)	-	(277)
As at December 31, 2016	8	31,253	13,021	-	44,282
Depreciation for the period	4	310	505	-	819
Disposals	-	-	(162)	-	(162)
Foreign exchange translation	8	(31)	(40)	-	(63)
As at March 31, 2017	<u>20</u>	<u>31,532</u>	<u>13,324</u>	<u>-</u>	<u>44,876</u>
Net book value as at					
December 31, 2016	9,827	12,179	16,529	1,076	39,611
March 31, 2017	9,798	11,863	16,521	3,873	42,055

The carrying value of long-lived assets is reviewed each reporting period. For the purposes of testing for impairment, or the reversal of impairment, Tree Island Steel's assets are grouped and tested at the CGU level. Tree Island considers both qualitative and quantitative factors when determining whether an asset may be impaired, or when a

NOTES TO THE INTERIM UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2017 and 2016

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.

8 SENIOR CREDIT FACILITY

On April 21, 2014 the Company renewed its senior banking facility with Wells Fargo Capital Finance Corporation Canada (“Wells Fargo”). The five year senior secured committed banking facility (the “Senior Credit Facility”) was increased from \$40 million to \$60 million and matures in April of 2019. Under the terms of the Senior Credit Facility, up to \$60 million may be borrowed for Tree Island’s financing requirements in Canadian and/or US dollars. 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.

8.1 Senior Credit Facility

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 \$39k Letter of Credit outstanding as at March 31, 2017.

The amount available under the revolving portion of the Senior Credit Facility is limited to the amount of the calculated borrowing base, less issued Letters of Credit, and less principal due under the Senior Term Loan (Note 8.2). The borrowing base is calculated as 90% of eligible receivables, plus the lesser of (a) 90% of the net orderly liquidation value of inventory and (b) 64% of eligible inventory.

Interest payable on funds borrowed in Canadian currency is at variable rates based on the Canadian interbank bid rates for Canadian dollar banker’s acceptance and interest payable on funds borrowed in US currency is at variable rates based on the London Inter-Market Offered Rate (“Libor”) for US dollar deposits.

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

(\$’000 unless otherwise stated)

	As at March 31, 2017	As at December 31, 2016
Revolving portion of the senior credit facility	37,113	28,941
Deferred financing costs	(102)	(113)
Total	<u>37,011</u>	<u>28,828</u>

The revolving portion of the Senior Credit Facility denominated in US dollars as at March 31, 2017 is \$18.1 million (\$10.6 million in 2016).

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. Quarterly, the Company is required to meet a rolling four quarters defined fixed charge coverage ratio of 1:1 (“Availability Test”) if the availability on the Senior Credit Facility falls below a required minimum availability. As well, the Senior Credit Facility contains restrictive covenants that limit the discretion of the Company’s management with respect to certain business matters. These covenants place restrictions on, among other things, the ability of the Company’s operating subsidiaries to incur additional indebtedness, to create liens or other encumbrances, to

NOTES TO THE INTERIM UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2017 and 2016

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 March 31, 2017, 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 the option to designate portions of the total \$60 million facility as one or more term loans (individually referred to as a "Senior Term Loan" and collectively as "Senior Term Loans"), denominated in either Canadian or US dollars. The Company currently has three Senior Term Loans applied against the Senior Credit Facility, two of which are denominated in Canadian dollars and the other is denominated in US dollars.

The following amounts are outstanding under the Senior Term Loans:

(\$'000 unless otherwise stated)

	As at March 31, 2017	As at December 31, 2016
Senior term loans - beginning of period	12,368	14,031
Foreign exchange revaluation	(37)	(55)
Payments	(439)	(1,608)
Senior term loans - end of period	11,892	12,368
Less: current portion	(1,935)	(1,756)
Total	<u>9,957</u>	<u>10,612</u>

9 LONG-TERM DEBT

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

(\$'000 unless otherwise stated)

	As at March 31, 2017	As at December 31, 2016
Beginning of period	10,256	12,139
Payments	(475)	(2,615)
Foreign exchange revaluation	(83)	(412)
Accretion of debt discount	289	1,144
End of period	9,987	10,256
Less: current portion	(2,584)	(2,604)
Net long-term debt	<u>7,403</u>	<u>7,652</u>

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. The principal is payable over a 10 year amortization period. The interest is non-compounding interest at 4% and commences accruing June 2017 and will become payable monthly over 4 years commencing June 2024. Principal payments, which started in 2009, are monthly in the amounts of US\$100k in years 1 and 2, US\$110k in years 3 and 4, US\$120k in years 5, 6 and 7, and US\$190k in years 8, 9 and 10. Present value of the debt was determined using discounted cash flows and a credit adjusted discount rate of 9%. The discount rate, together with the stated interest, comprises the debt discount. Using the effective interest rate

NOTES TO THE INTERIM UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
March 31, 2017 and 2016

method, the debt discount is amortized as accretion and charged to interest expense over the term of the amended long-term debt agreements.

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

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

10 FINANCING EXPENSES

(\$'000 unless otherwise stated)

	Three Months Ended March 31,	
	<u>2017</u>	<u>2016</u>
Non-cash accretion of debt discount and interest on long term debt	288	301
Interest on senior credit facility	233	200
Other interest and financing costs	178	203
Amortization of deferred financing costs	12	12
Total	<u>711</u>	<u>716</u>

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 320,600 Shares were cancelled in the three months ended March 31, 2017. Shares issued and outstanding are as follows:

(\$'000 except for Shares)

	Shares	Gross	Issuance Cost ⁶	Net
Shareholders' capital - December 31, 2015	31,105,673	241,968	11,400	230,568
Repurchase of common shares	(41,100)	(145)	-	(145)
Shareholders' capital - December 31, 2016	31,064,573	241,823	11,400	230,423
Repurchase of common shares	(320,600)	(1,349)	-	(1,349)
Shareholders' capital - March 31, 2017	<u>30,743,973</u>	<u>240,474</u>	<u>11,400</u>	<u>229,074</u>

11.1 NORMAL COURSE ISSUER BID

The Company renewed its normal course issuer bid (the "Bid"), effective as of September 21, 2016, to purchase up to 1,610,000 Shares. The expiration date of the normal course issuer bid is September 20, 2017 or at an earlier date should Tree Island complete its purchases. Tree Island has no obligation to purchase any Shares under the Bid.

⁶ Issuance costs were incurred as a result of the November 2002 Initial Public Offering and October 2004 Secondary Offering.

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For the period January 1, 2017 to March 31, 2017 the Company purchased 320,600 Shares under the Bid at a total cost of \$1.3 million (at an average price of \$4.21 per Share). All 320,600 Shares were cancelled prior to March 31, 2017.

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 November 3, 2017, Futura owns 27.8% 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 months ended March 31, 2017, Tree Island sold, net of rebates, approximately \$1.3 million (\$1.0 million in 2016) of goods to CanWel and trade accounts receivable owing from CanWel as at March 31, 2017 is approximately \$0.5 million (approximately \$0.9 million in 2016). 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 months ended March 31, 2017 was approximately \$1.1 million (approximately \$1.4 million in 2016) which includes wages, salaries, other compensation paid in the period (if any) and social security contributions, paid annual and sick leave, vehicle costs and bonuses. It also includes directors’ fees paid to members of the Board.

13 INCOME TAXES

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

13.1 INCOME TAX RECOVERY (EXPENSE)

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

(\$’000 unless otherwise stated)

	Three Months Ended	
	March 31,	
	<u>2017</u>	<u>2016</u>
Current tax recovery (expense)	(241)	(12)
Deferred tax recovery (expense)	(632)	(381)
Total recorded in the Statement of Operations	<u>(873)</u>	<u>(393)</u>

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;
- Fair value on the Company's Senior Term Loan, and long-term debt are based on estimated market interest rate on similar borrowings. The fair value of the Senior Term Loan approximate fair value as the interest rates approximate market. A one percent (1%) change in the market interest rate would change the fair value of long term debt by \$0.3 million;
- Fair value of the forward exchange forward contracts are estimated using observable foreign exchange spot and forward rates. The Company does not consider interest rates or the credit quality of counterparties as significant inputs to the valuation.

(\$'000 unless otherwise stated)

	As at March 31, 2017		As at December 31, 2016	
	Carrying		Carrying	
	<u>Amount</u>	<u>Fair Value</u>	<u>Amount</u>	<u>Fair Value</u>
Cash and cash investments	1,626	1,626	1,351	1,351
Accounts receivable	35,884	35,884	24,463	24,463
Total financial assets	<u>37,510</u>	<u>37,510</u>	<u>25,814</u>	<u>25,814</u>
Senior revolving facility	37,113	37,113	28,941	28,941
Accounts payable and accrued liabilities	19,038	19,038	15,363	15,363
Senior term loans	11,892	11,892	12,368	12,368
Long-term debt	9,987	9,942	10,256	9,750
Foreign exchange forward contracts	14	14	-	-
Total financial liabilities	<u>78,044</u>	<u>77,999</u>	<u>66,928</u>	<u>66,422</u>

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:

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

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

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

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

(\$'000 unless otherwise stated)

	Level 1	Level 2	Level 3
Senior revolving facility	-	37,113	-
Senior term loans	-	11,892	-
Long-term debt	-	-	9,942
Foreign exchange forward contract	-	14	-

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

Item	Valuation Technique	Significant Observable Inputs	Sensitivity of the input to fair value
Long-term debt	DCF	Change in discount rate	A 1% increase (decrease) in the discount rate will result in a decrease (increase) in fair value of approximately \$322k

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.

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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 March 31, 2017 and December 31, 2016:

(\$'000 unless otherwise stated)

	Carrying Amount	Contractual Cash Flow	Less Than 1 Year	1 – 2 Years	Greater Than 2 Years
Senior revolving facility	37,113	37,113	37,113	-	-
Accounts payable and accrued liabilities	19,038	19,038	19,038	-	-
Senior term loans	11,892	11,892	1,935	4,928	5,029
Long-term debt	9,987	14,389	2,584	4,953	6,852
As at March 31, 2017	78,030	82,432	60,670	9,881	11,881
Senior revolving facility	28,941	28,941	28,941	-	-
Accounts payable and accrued liabilities	15,363	15,363	15,363	-	-
Senior term loans	12,368	12,368	1,756	3,532	7,080
Long-term debt	10,256	15,984	2,604	4,477	8,903
As at December 31, 2016	66,928	72,656	48,664	8,009	15,983

15.3 FOREIGN CURRENCY RISK

The significant market risk exposures affecting the financial instruments are those related to foreign currency exchange rates and interest rates. For the period ending March 31, 2017, a \$0.01 increase (decrease) in the Canadian dollar to US dollar exchange rate will increase (decrease) net comprehensive income by \$0.4 million.

Tree Island's US dollar-denominated cash, accounts receivable, accounts payable and accrued liabilities, Senior Credit Facility and long-term debt are exposed to foreign currency exchange rate risk because the value of these financial instruments will fluctuate with changes in the US/Canadian dollar exchange rate. The Company enters into US dollar currency forward contracts for periods consistent with a portion of US dollar currency transaction exposures, generally from one to three months. These are not designated as cash flow, fair value or net investment hedges. As of March 31, 2017, the total notional value of US dollar currency forward contracts outstanding was US\$4.4 million and the fair value mark to market loss on the contracts was \$14k.

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15.4 INTEREST RATE RISK

Tree Island is exposed to interest rate risk on its Senior Credit Facility, which is further discussed in Note 8. 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.

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, term loan 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, as well as considerations given to changes in economic conditions and the risk characteristics of the underlying assets, in particular by close monitoring of cash flows and compliance with external debt covenants.

(\$'000 unless otherwise stated)

	<u>As at March 31, 2017</u>	<u>As at December 31, 2016</u>
Total shareholders' equity	68,280	68,572
Senior revolving facility	37,113	28,941
Senior term loans	11,892	12,368
Long-term debt	<u>9,987</u>	<u>10,256</u>
Total capital	<u><u>127,272</u></u>	<u><u>120,137</u></u>

17 NET INCOME PER SHARE

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

(\$'000 unless otherwise stated)

	<u>Three Months Ended</u> <u>March 31,</u>	
	<u>2017</u>	<u>2016</u>
Net income for the period	1,750	5,229
Weighted average number of shares outstanding:	31,027,895	31,105,673
Net income per share (\$/share)	0.06	0.17

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March 31, 2017 and 2016

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

Diluted earnings per Share amounts, if applicable, are calculated by dividing the net income for the year (after adjusting for interest and accretion, net of tax) 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 March 31, 2017 the Company does not have any instruments issued that could be dilutive.

The company has repurchased and cancelled 320,600 Shares in the three months ended March 31, 2017 (Note 11).

18 PROVISIONS AND COMMITMENTS

18.1 LITIGATION AND CLAIMS

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

18.2 PURCHASE COMMITMENTS

As at March 31, 2017, Tree Island's wholly owned subsidiaries have committed to production material purchases (including finished goods) totalling \$43.0 million (\$33.0 million – March 31, 2016) and capital equipment purchase commitments of \$3.8 million. The committed product material purchase and capital equipment purchases are to be delivered before the end of fiscal 2017 and are in the normal course of our business activity.

19 SEGMENTED INFORMATION

19.1 MARKET SEGMENTS

Revenues for each group for the three months ended March 31, 2017 and 2016 were as follows:

(\$'000 unless otherwise stated)

	Three Months Ended March 31,	
	<u>2017</u>	<u>2016</u>
Industrial	21,871	19,831
Residential	20,045	18,720
Commercial	10,197	10,452
Agricultural	10,927	9,128
Specialty	-	4,109
Total revenue	<u>63,040</u>	<u>62,240</u>

Tree Island operates primarily within one industry, the steel wire products industry, with no separately reportable operating segments. Tree Island groups its products into the following: industrial, residential construction, commercial construction and agricultural. No one customer is more than 10% of total revenue.

On September 30, 2016 the Company's Stainless product lines and its related machinery, equipment and business assets were divested to a third party. The Stainless product lines were included in the Specialty market. Sales of Specialty products not included as part of the divestiture of the Stainless business has been reclassified as Industrial products for 2017 and for 2016 for comparative purposes.

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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 March 31,	
	<u>2017</u>	<u>2016</u>
United States	37,298	39,992
Canada	23,525	20,130
International	<u>2,217</u>	<u>2,118</u>
Total revenue	<u>63,040</u>	<u>62,240</u>

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

(\$'000 unless otherwise stated)

	<u>March 31, 2017</u>	<u>December 31, 2016</u>
United States	12,938	11,154
Canada	<u>29,219</u>	<u>28,571</u>
Total non-current assets	<u>42,157</u>	<u>39,725</u>

SHAREHOLDER INFORMATION

TREE ISLAND STEEL
LTD.

Board of Directors:

Amar S. Doman –
Chairman of the Board

Dale R. MacLean

Peter Bull

Harry Rosenfeld

Michael Fitch

Sam Fleiser

Theodore A. Leja

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*

James Miller
*Vice President, Corporate
Development and
Procurement*

Shares:

Market Information

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

Registrar and Transfer Agent

Computershare Investor
Services Inc.

Corporate Head Office:

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

Website:

www.treeisland.com

Investor Relations:

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

Auditors:

Ernst & Young LLP
Vancouver, B.C.

