



WIRE & WIRE PRODUCTS

ESTABLISHED IN 1964



Quarterly Report
Q1 2018

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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Shipment of weldmesh rolls used for concrete reinforcement.

MANAGEMENT DISCUSSION AND ANALYSIS

March 31, 2018 and 2017

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 3, 2018 and should be read in conjunction with the unaudited interim condensed consolidated financial statements for the three months ended March 31, 2018. 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, 2017, 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, 2017.

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 by the governments of countries in which we operate or source materials from, 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.

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

There were 29,533,999 Shares outstanding as of March 31, 2018 and as of May 3, 2018 there were 29,533,999 Shares 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 our products:

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

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 2018 BUSINESS OVERVIEW AND DEVELOPMENT

4.1 BUSINESS OVERVIEW

During the quarter a series of market price increases were introduced to offset the increase in raw material prices experienced by the industry. Revenues earned in the first quarter of 2018 amounted to \$66.5 million, an increase of 5.5% over the same period last year which was a direct result of the price increases introduced. In the quarter, the volumes were lower than in Q1 2017 on account of strategic actions taken to improve the product mix which resulted in reduction in sales of low margin items as well as adverse weather conditions impacting sales to our construction markets. The ability to improve pricing gained momentum as the quarter progressed with gross profit margins improving month over month in the quarter. The combined result of these actions and due to continued pressure from rising steel costs, gross profit for the three months was lower than the prior period, amounting to \$6.7 million versus \$7.5 million. Gross profit margin in the quarter was 10.1% compared to 11.9% in the same period last year. EBITDA for the quarter amounted to \$3.5 million, compared to \$4.2 million during the same period in 2017.

As we look forward in 2018, we anticipate a continuation of the rising steel costs which we will counteract with equivalent price increases to maintain profitability margins.

4.2 Trade Action Review

4.2.1 U.S. Section 232 Trade Expansion Act

On April 20, 2017, the US administration issued an executive order directing the Commerce Department to investigate whether imports of foreign steel are harming US national security. The directive falls under Section 232 of the Trade Expansion Act of 1962, which allows the US president to restrict trade of a good if such trade is determined to be harmful to US national security.

On March 8, 2018, the President issued Proclamations 9704 and 9705 on Adjusting Imports of Steel and Aluminum into the United States, under Section 232 of the Trade Expansion Act of 1962, as amended (19 U.S.C. 1862), providing for additional import duties for steel mill and aluminum articles, effective March 23, 2018.

As of March 23, 2018 through May 31, 2018, steel mill products imported into US will be subject to additional import duties of 25%, except countries of origin from Canada, Mexico, Australia, Argentina, South Korea, Brazil and member countries of the European Union. As of June 1, 2018, Argentina, Australia, Brazil and South Korea were granted exceptions from the import tariff. Due to limited availability and sourcing options for certain items, Tree Island has imported steel products that are subject to the additional import duty for which the exposure is immaterial to the financial results. The prices for the impacted products have been increased to counter the tariff costs.

4.2.2 North American Free Trade Agreement Renegotiations (“NAFTA”)

With regards to the renegotiation of NAFTA, it is uncertain as to what a revised NAFTA may look like, when it may be completed or whether or not a revised NAFTA will be finalized. There is no assurance that changes to NAFTA will have a negative or positive effect on the Company’s ability to source or sell its products into the US market.

4.2.3 U.S. Trade Case Against Carbon and Certain Alloy Steel Wire Rod

The US Department of Commerce initiated a trade case against imports of wire rod into the US from ten countries on behalf of US domestic producer plaintiffs Gerdau, Nucor, Keystone and Charter Steel. The countries investigated were Belarus, Italy, Russia, South Africa, South Korea, Spain, Turkey, Ukraine, United Arab Emirates and the United Kingdom.

Tree Island did not purchase any rod from those countries under investigation. The duties offer U.S. rod producers the opportunity to increase their prices, resulting in upward price pressure on Tree Island's rod purchases in the US for which we have been implementing price increases to counteract the impact on profitability.

5 RESULTS FROM OPERATIONS

(\$'000 unless otherwise stated)

	Three Months Ended	
	March 31,	
	<u>2018</u>	<u>2017</u>
Revenue	66,491	63,040
Cost of sales	(58,980)	(54,729)
Depreciation	(819)	(816)
Gross profit	6,692	7,495
Selling, general and administrative expenses	(4,142)	(4,221)
Operating income (loss)	2,550	3,274
Foreign exchange gain (loss)	119	97
Gain (loss) on sale of property, plant and equipment	(1)	(47)
Other Expenses	(26)	-
Changes in financial instruments recognized at fair value	(91)	10
Financing expenses	(755)	(711)
Income (loss) before income taxes	1,796	2,623
Current income tax (expense) recovery	-	(241)
Deferred income tax (expense) recovery	(693)	(632)
Net income (loss)	1,103	1,750
Operating income (loss)	2,550	3,274
Add back depreciation	819	816
Foreign exchange gain (loss)	119	97
EBITDA ¹	3,488	4,187
Net income (loss) per share - basic (\$/share)	0.04	0.06
Dividends per share (\$/share)	0.02	0.02
Sales volume (tons) ²	46,009	51,336
Gross profit per ton (\$/ton)	145	146
EBITDA per ton (\$/ton)	76	82
Financial Position as at:	March 31, 2018	December 31, 2017
Total assets	140,431	133,681
Total non-current financial liabilities	18,524	18,356

¹ See definition of EBITDA in Section 2 NON-IFRS MEASURES.

² Sales volumes excludes tons which were processed as part of tolling arrangements.

6 COMPARISON OF RESULTS FOR THE THREE MONTHS ENDED MARCH 31, 2018 AND 2017

<i>(\$'000 unless otherwise stated)</i>	<u>Q1 2018</u>	<u>Q1 2017</u>	<u>Variance Fav/(Unfav)</u>	
SALES	66,491	63,040	3,451	5.5%

Revenues increased by 5.5% when compared to prior year as a result of price increases implemented to offset the increase in raw material input prices, which was offset by lower volumes in the quarter on account of targeted actions to improve the product mix, particularly, in our residential and industrial markets. In addition, adverse weather conditions resulted in weaker demand in the commercial and residential construction markets.

Revenue by Market Segment

(\$'000 unless otherwise stated)

	Three Months Ended March 31,					
	2018		2017		Variance	
	<u>Revenue</u>	<u>% of Total</u>	<u>Revenue</u>	<u>% of Total</u>	<u>Amount</u>	<u>%</u>
Industrial	21,299	32.0%	21,117	33.5%	182	0.9%
Residential	21,737	32.7%	20,411	32.4%	1,326	6.5%
Commercial	10,831	16.3%	10,382	16.5%	449	4.3%
Agricultural	12,624	19.0%	11,130	17.7%	1,494	13.4%
Total revenue	<u>66,491</u>	<u>100.0%</u>	<u>63,040</u>	<u>100.0%</u>	<u>3,451</u>	<u>5.5%</u>

Revenues generated in the US and Canada increased over the same period last year as a result of higher prices relative to last year.

Revenue by Location

(\$'000 unless otherwise stated)

	Three Months Ended March 31,					
	2018		2017		Variance	
	<u>Revenue</u>	<u>% of Total</u>	<u>Revenue</u>	<u>% of Total</u>	<u>Amount</u>	<u>%</u>
United States	40,446	60.8%	37,298	59.2%	3,148	8.4%
Canada	24,430	36.8%	23,525	37.3%	905	3.8%
International	1,615	2.4%	2,217	3.5%	(602)	(27.2%)
Total	<u>66,491</u>	<u>100.0%</u>	<u>63,040</u>	<u>100.0%</u>	<u>3,451</u>	<u>5.5%</u>
Average C\$/US\$	1.2657		1.3231			

<i>(\$'000 unless otherwise stated)</i>	<u>Q1 2018</u>	<u>Q1 2017</u>	<u>Variance Fav/(Unfav)</u>	
COST OF SALES	59,799	55,545	(4,254)	(7.7%)

The cost of goods sold (including depreciation) increased due to continued increases in raw material costs, for which price increases have been implemented to counteract the impact on profitability.

<i>(\$'000 unless otherwise stated)</i>	<u>Q1 2018</u>	<u>Q1 2017</u>	<u>Variance Fav/(Unfav)</u>	
GROSS PROFIT	6,692	7,495	(803)	(10.7%)

Gross profit for the three months amounted to \$6.7 million versus \$7.5 million during the same period in 2017, mainly the result of lower volumes at the start of the year and attributable to targeted actions to improve the product mix. As the quarter progressed, price increases and improved profitability partially countered the lower volumes.

Gross Profit

(\$'000 unless otherwise stated)

	Three Months Ended March 31,					
	<u>2018</u>		<u>2017</u>		<u>Variance Fav / (Unfav)</u>	
	<u>Profit</u>	<u>% of Total</u>	<u>Profit</u>	<u>% of Total</u>	<u>Amount</u>	<u>%</u>
US\$ gross profit ³	3,593	53.7%	4,290	57.2%	(696)	(16.2%)
C\$ gross profit	3,099	46.3%	3,205	42.8%	(107)	(3.3%)
Total gross profit	<u>6,692</u>	<u>100.0%</u>	<u>7,495</u>	<u>100.0%</u>	<u>(803)</u>	<u>(10.7%)</u>
Average C\$/US\$	1.2657		1.3231			

<i>(\$'000 unless otherwise stated)</i>	<u>Q1 2018</u>	<u>Q1 2017</u>	<u>Variance Fav/(Unfav)</u>	
SG&A EXPENSES	4,142	4,221	79	1.9%

SG&A expenses are consistent when compared to prior year. Our focus continues to remain on managing our costs.

<i>(\$'000 unless otherwise stated)</i>	<u>Q1 2018</u>	<u>Q1 2017</u>	<u>Variance Fav/(Unfav)</u>	
EBITDA	3,488	4,187	(699)	(16.7%)

EBITDA earned for the quarter is inclusive of \$119 thousand foreign exchange gain 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 at the start of the quarter.

<i>(\$'000 unless otherwise stated)</i>	<u>Q1 2018</u>	<u>Q1 2017</u>	<u>Variance Fav/(Unfav)</u>	
FINANCING EXPENSES	755	711	(44)	(6.2%)

Interest costs on the senior credit facility are higher due to rising interest rates in both Canada and the US compared to prior year.

Financing Expenses

(\$'000 unless otherwise stated)

	Three Months Ended March 31,			
	<u>2018</u>	<u>2017</u>	<u>Variance Fav / (Unfav)</u>	
			<u>Amount</u>	<u>%</u>
Non-cash financing expenses	238	288	50	17.4%
Interest on senior credit facility	314	233	(81)	(34.8%)
Other interest and financing costs	192	178	(14)	(7.9%)
Deferred financing costs	11	12	1	8.3%
Total financing expenses	<u>755</u>	<u>711</u>	<u>(44)</u>	<u>(6.2%)</u>

³ After foreign exchange translation.

<i>(\$'000 unless otherwise stated)</i>	<u>Q1 2018</u>	<u>Q1 2017</u>	<u>Variance Fav/(Unfav)</u>	
FOREIGN EXCHANGE GAIN (LOSS)	119	97	22	22.7%

Our Canadian operation, whose functional currency is Canadian dollar, has a portion of its assets, liabilities, sales and expenses denominated in currencies other than the Canadian dollar, in particular the US dollar. With raw material costs being denominated in US dollar, having a significant portion of our sales also being denominated in US dollar creates a natural partial hedge. Foreign currency forward contracts are used to manage a portion of the remaining currency risk. Foreign exchange gains and losses are unpredictable in nature and therefore can vary significantly over time. As at March 31, 2018, the total notional value of US dollar currency forward contracts outstanding was US\$1.5 million.

<i>(\$'000 unless otherwise stated)</i>	<u>Q1 2018</u>	<u>Q1 2017</u>	<u>Variance Fav/(Unfav)</u>	
INCOME TAX EXPENSE	(693)	(873)	180	20.6%

In Q1 2018, income tax expense is \$0.7 million compared to tax expense of \$0.9 million for Q1 2017. The income tax expense was made up of deferred tax expense in the current year. The income tax expense is based on a statutory rate of 27% for Canadian taxable income and 21% 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 2018</u>	<u>Q1 2017</u>	<u>Variance Fav/(Unfav)</u>	
NET INCOME (LOSS)	1,103	1,750	(647)	(37.0%)

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

7 FINANCIAL CONDITION AND LIQUIDITY

7.1 WORKING CAPITAL

Working Capital

(\$'000 unless otherwise stated)

	As at March 31,	
	<u>2018</u>	<u>2017</u>
Cash	1,527	1,626
Accounts receivable	36,426	35,884
Inventories	55,340	64,133
Other current assets	4,734	5,108
Total current assets	98,027	106,751
Senior credit facility	(35,947)	(37,113)
Accounts payable and accrued liabilities	(21,862)	(19,044)
Dividends payable	(593)	(615)
Other current liabilities	(293)	(656)
Current portion of long term debt	(3,604)	(4,519)
Total current liabilities	(62,299)	(61,947)
Net working capital	35,728	44,804

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, 2018 was \$0.5 million more than last year, reflecting increase in sales revenues relative to last year. The decrease in the senior credit facility reflects a decrease in investment in our inventories of raw material.

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 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.

7.2 CASH FLOW

Cash Flow

(\$'000 unless otherwise stated)

	Three Months Ended March 31,	
	2018	2017
Cash provided by (used in) operating activities	3,709	3,898
Working capital adjustments	(3,409)	(5,764)
Net cash provided by (used in) operating activities	300	(1,866)
Net cash provided by (used in) investing activities	(651)	(3,080)
Advance on (repayment of) senior term loans	(435)	(439)
Repayment of long-term debt	(456)	(476)
Other payables	(10)	284
Interest paid	(493)	(404)
Advance on (repayment of) senior revolving facility	2,478	8,167
Dividend payment	(593)	(621)
Share buyback	(278)	(1,349)
Net cash provided by (used in) financing activities	213	5,162
Exchange rate changes on foreign cash balances	14	60
Increase (decrease) in cash balances	(124)	276

For the three months ended March 31, 2018, there was a net decrease in cash. The net cash used in investing activities for the three months ended March 31, 2018 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, 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 March 31, 2018 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, 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 interim financial statements).

8 CAPITAL EXPENDITURES AND CAPACITY

For the three months ended March 31, 2018, we made capital expenditures of \$0.7 million. These expenditures were for capital maintenance activities and commissioning manufacturing equipment. As noted in section 9 of this MD&A there are a further \$3.5 million in capital equipment commitments in 2018. The capital assets we have committed to are expected to be delivered in the third quarter of 2018 with commissioning of the equipment generally taking between one month to three months after arrival.

9 CONTRACTUAL OBLIGATIONS AND COMMITMENTS

As of March 31, 2018, 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 Q3 2018.

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 committed amounts are expected to be paid by the latter half of 2018.

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>2018</u>	<u>2019</u>	<u>2020</u>	<u>2021</u>	<u>2022</u>	<u>Thereafter</u>	<u>Total</u>
Production materials	58,448	-	-	-	-	-	58,448
Machinery and equipment	3,531	-	-	-	-	-	3,531
Operating leases	2,229	2,601	2,519	2,501	2,374	16,995	29,219
Total commitments	<u>64,208</u>	<u>2,601</u>	<u>2,519</u>	<u>2,501</u>	<u>2,374</u>	<u>16,995</u>	<u>91,198</u>
Senior revolving facility	35,947	-	-	-	-	-	35,947
AP and accrued liabilities	21,862	-	-	-	-	-	21,862
Other current liabilities	293	-	-	-	-	-	293
Dividends	593	-	-	-	-	-	593
Senior term loans	1,311	1,747	7,075	-	-	-	10,133
Long-term debt	1,393	2,443	1,871	1,377	464	4,838	12,386
Total financial liabilities	<u>61,399</u>	<u>4,190</u>	<u>8,946</u>	<u>1,377</u>	<u>464</u>	<u>4,838</u>	<u>81,214</u>
Total obligations and commitments	<u>125,607</u>	<u>6,791</u>	<u>11,465</u>	<u>3,878</u>	<u>2,838</u>	<u>21,833</u>	<u>172,412</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, 2018, the total notional value of US dollar currency forward contracts outstanding was US\$1.5 million and the fair value mark to market gain on the contracts was \$2 thousand.

10 SUMMARY OF QUARTERLY FINANCIAL RESULTS

The table below provides selected quarterly financial information for the eight most recent fiscal quarters to March 31, 2018. 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)

	Mar 31, <u>2018</u>	Dec 31, <u>2017</u>	Sep 30, <u>2017</u>	Jun 30, <u>2017</u>	Mar 31, <u>2017</u>	Dec 31, <u>2016</u>	Sep 30, <u>2016</u>	Jun 30, <u>2016</u>
Revenue	66,491	54,561	55,643	61,455	63,040	45,903	57,726	65,384
Gross profit	6,692	2,452	2,299	5,941	7,499	5,295	9,583	11,521
Foreign exchange gain (loss)	119	119	(737)	(61)	97	(282)	(172)	319
EBITDA	3,488	1,932	(1,496)	2,375	4,190	1,032	5,369	7,857
Net income (loss)	1,103	(1,974)	(2,152)	735	1,753	(711)	2,687	6,360
Net income (loss) per unit - basic	0.04	(0.07)	(0.07)	0.04	0.06	(0.02)	0.09	0.20
Gross profit per ton	145	60	54	130	146	148	220	226
EBITDA per ton	76	48	(35)	52	82	29	123	154

Commentary:

- The stainless product lines were divested at the end of Q3, 2016.
- The rapid rise in raw material costs had a negative impact on the gross profit and EBITDA for most of 2017.

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, 2017 audited consolidated financial statements, the Annual Information Form for the year ended December 31, 2017 and Note 3 to the March 31, 2018 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, 2017 (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 3, 2018, Futura owns 29.1% of the fully diluted Shares of the Company.

In addition, Mr. Doman is Chairman and CEO of CanWel Building Materials Group Ltd. (“CanWel”). For the three months ended March 31, 2018, Tree Island sold, net of rebates, approximately \$1.5 million (\$1.3 million in 2017) of goods to CanWel and trade accounts receivable owing from CanWel as at March 31, 2018 is approximately \$0.8 million (approximately \$0.5 million in 2017). 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, 2018 was approximately \$0.5 million (approximately \$1.1 million in 2017) 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 2017 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, 2018. 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, 2018 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, 2018 unaudited interim condensed consolidated financial statements and this MD&A prior to its release.

INTERIM UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2018 and 2017

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 Chartered Professional Accountants of Canada for a review of interim financial statements by an entity’s auditor.

May 3, 2018

INTERIM UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
March 31, 2018 and 2017

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

	As at March 31, 2018	December 31, 2017
Cash	1,527	1,651
Accounts receivable <i>(Note 5)</i>	36,426	26,147
Inventories <i>(Note 6)</i>	55,340	59,992
Prepaid expenses	4,582	3,421
Income taxes recoverable	152	148
Current assets	98,027	91,359
Property, plant and equipment <i>(Note 7)</i>	41,863	41,690
Deferred income tax asset	482	563
Other non-current assets	59	69
Total assets	140,431	133,681
Senior revolving facility <i>(Note 8.1)</i>	35,947	33,468
Accounts payable and accrued liabilities	21,862	18,272
Other current liabilities	293	178
Dividends payable	593	593
Current portion of long-term borrowing <i>(Notes 8.2, 9)</i>	3,604	3,545
Current liabilities	62,299	56,056
Senior term loans <i>(Note 8.2)</i>	8,386	8,808
Long-term debt <i>(Note 9)</i>	6,336	6,381
Other non-current liabilities	1,224	1,186
Deferred income tax liability	2,578	1,981
Total liabilities	80,823	74,412
Shareholders' equity	59,608	59,269
Total liabilities and shareholders' equity	140,431	133,681

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, 2018 and 2017

INTERIM UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF OPERATIONS

(\$'000 unless otherwise stated)

	Three Months Ended March 31,	
	<u>2018</u>	<u>2017</u>
Sales	66,491	63,040
Cost of sales (Note 6)	(58,980)	(54,729)
Depreciation	(819)	(816)
Gross profit	6,692	7,495
Selling, general and administrative expenses	(4,142)	(4,221)
Operating income (loss)	2,550	3,274
Foreign exchange gain (loss)	119	97
Gain (loss) on sale of property, plant and equipment	(1)	(47)
Other expenses	(26)	-
Changes in financial liabilities at fair value	(91)	10
Financing expenses (Note 10)	(755)	(711)
Income (loss) before income taxes	1,796	2,623
Current income tax recovery (expense) (Note 13)	-	(241)
Income tax recovery (expense) (Note 13)	(693)	(632)
Net income (loss)	1,103	1,750
Net income (loss) per share (Note 17)	0.04	0.06
Dividends per share	0.02	0.02
Weighted average number of shares (Note 17)	29,613,889	31,027,895

INTERIM UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

(\$'000 unless otherwise stated)

	Three Months Ended March 31,	
	<u>2018</u>	<u>2017</u>
Net income (loss) for the year	1,103	1,750
Unrealized income (loss) on FX translation	104	(79)
Comprehensive income (loss)	1,207	1,671

See accompanying Notes to the Interim Unaudited Condensed Consolidated Financial Statements

INTERIM UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
March 31, 2018 and 2017

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, 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
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 (loss)	-	-	(79)	(79)
Balance as at March 31, 2017	229,074	(158,393)	(2,401)	68,280

See accompanying Notes to the Interim Unaudited Condensed Consolidated Financial Statements

INTERIM UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2018 and 2017

INTERIM UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

(\$'000 unless otherwise stated)

	Three Months Ended	
	March 31,	
	2018	2017
Net income (loss)	1,103	1,750
Depreciation	819	816
Changes in financial liabilities recognized at fair value	91	(10)
Loss (gain) on sale of property, plant and equipment	1	47
Amortization and write-off of deferred financing	11	12
Non-cash accretion of long term debt	238	289
Net financing costs	506	410
Deferred income tax expense (recovery)	693	632
Exchange revaluation of foreign denominated debt	247	(48)
Working capital adjustments		
Accounts receivable	(10,278)	(11,421)
Inventories	4,623	3,135
Accounts payable and accrued liabilities	3,509	3,363
Prepaid expenses	(1,161)	(880)
Income and other taxes	-	145
Other	(102)	(106)
Net cash provided by operating activities	300	(1,866)
Proceeds on sale of property, plant and equipment	-	2
Purchase of property, plant and equipment	(651)	(3,082)
Net cash used in investing activities	(651)	(3,080)
Term loans - advance (repayment)	(435)	(439)
Repayment of long-term debt	(456)	(476)
Other financing liabilities	(10)	284
Interest paid	(493)	(404)
Increase (decrease) of senior revolving facility	2,478	8,167
Dividend paid	(593)	(621)
Repurchase of common shares	(278)	(1,349)
Net cash provided by (used in) financing activities	213	5,162
Effect of exchange rate change on cash	14	60
Increase (decrease) in cash	(124)	276
Cash - beginning of period	1,651	1,351
Cash - end of period	1,527	1,627

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, 2018 were authorized for issue in accordance with a resolution of the Board of Directors on May 3, 2018.

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 three months ended March 31, 2018 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, 2017 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, 2017.

4 FUTURE IFRS STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE

Tree Island prepares its financial statements in accordance with IFRS standards. Tree Island is in the process of assessing whether there will be any significant changes to its consolidated financial statements upon adoption of any new standards, interpretations or amendments. The new standards that may have an impact on the Company's reporting requirements include:

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 is in the process of a comprehensive evaluation of the impacts of IFRS 16 on its accounting policies and financial statements. At this time, the Company does not plan to adopt the new standard early and will adopt

NOTES TO THE INTERIM UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
March 31, 2018 and 2017

the standard on its respective effective date. The Company expects to recognize lease liabilities and right of use assets in respect of operating leases previously expensed.

5 ACCOUNTS RECEIVABLE

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

(\$’000 unless otherwise stated)

	As at March 31, 2018	As at December 31, 2017
Current	34,061	23,590
30 - 60 days past due	1,164	1,255
61 - 90 days past due	355	265
Over 91 days past due	1,228	1,375
Total accounts receivable	36,808	26,485
Allowance for doubtful accounts	(382)	(338)
Net accounts receivable	36,426	26,147

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 \$36.4 million as at March 31, 2018 (\$26.1 million as at December 31, 2017).

At the end of each reporting period, a review of the provision for bad and doubtful accounts is performed. It is an assessment of the potential amount of trade accounts receivable that will be paid by customers after the consolidated statements of financial position date. The assessment is made by reference to age, status and risk of each receivable, current economic conditions and historical information. The trade accounts receivable balance is reduced through the use of the allowance for doubtful accounts and the amount of the loss is recognized in the consolidated statement of operations. Reversals to the allowance for doubtful accounts occur when previously allowed for trade accounts receivable are collected. Individual trade accounts receivable, together with any associated allowance previously recognized, are written off when there is no realistic prospect of future recovery. 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, 2018	As at December 31, 2017
Opening balance – beginning of period	338	259
Additions during the period	10	88
Reversals during the period	3	10
Payments	-	(12)
Write-offs during the period	-	-
Foreign exchange revaluation	31	(7)
Closing balance – end of period	382	338

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.

NOTES TO THE INTERIM UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
March 31, 2018 and 2017

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 the three months period ended March 31, 2018 and 2017. The reserve for slow moving inventory as at March 31, 2018 was \$1.5 million (\$1.7 million at March 31, 2017).

Tree Island had the following categories of inventory:

(\$'000 unless otherwise stated)

	As at March 31, 2018	As at December 31, 2017
	<u> </u>	<u> </u>
Raw materials	13,527	16,529
Finished and semi-finished products	28,291	29,216
Consumable supplies and spare parts	13,522	14,247
Total inventory	<u>55,340</u>	<u>59,992</u>

For the three month periods ended March 31, 2018 and 2017, Tree Island recognized, in income, inventory costs for the following:

(\$'000 unless otherwise stated)

	Three Months Ended March 31,	
	<u>2018</u>	<u>2017</u>
Opening inventory	58,013	64,133
Raw material purchases	38,427	33,981
Finished goods purchased for resale	1,863	2,221
Conversion costs	16,017	18,527
Closing inventory	(55,340)	(64,133)
Cost of sales	<u>58,980</u>	<u>54,729</u>

NOTES TO THE INTERIM UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
March 31, 2018 and 2017

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, 2016	9,835	43,433	29,550	1,076	83,894
Additions	-	1,464	1,804	2,871	6,139
Disposals	-	(7)	(298)	-	(305)
Foreign exchange translation	(140)	(564)	(496)	(38)	(1,238)
As at December 31, 2017	9,695	44,326	30,560	3,909	88,490
Additions	-	20	839	(205)	654
Disposals	-	-	-	-	-
Foreign exchange translation	56	256	208	45	565
As at March 31, 2018	9,751	44,602	31,607	3,749	89,709
Depreciation and impairment					
As at December 31, 2016	8	31,253	13,021	-	44,282
Depreciation for the period	16	1,262	2,252	-	3,530
Disposals	-	(7)	(227)	-	(234)
Foreign exchange translation	7	(277)	(508)	-	(778)
As at December 31, 2017	31	32,231	14,538	-	46,800
Depreciation for the period	4	310	506	-	820
Disposals	-	-	-	-	-
Foreign exchange translation	23	118	85	-	226
As at March 31, 2018	58	32,659	15,129	-	47,846
Net book value as at					
December 31, 2017	9,664	12,095	16,022	3,909	41,690
March 31, 2018	9,693	11,943	16,478	3,749	41,863

The carrying value of long-lived assets is reviewed when there are indicators of impairment. 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.

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.

NOTES TO THE INTERIM UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2018 and 2017

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.

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, 2018.

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) 70% of eligible inventory.

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

(\$'000 unless otherwise stated)

	As at March 31, 2018	As at December 31, 2017
Revolving portion of the senior credit facility	35,947	33,468
Deferred financing costs	(59)	(69)
Total	<u>35,888</u>	<u>33,399</u>

The revolving portion of the Senior Credit Facility denominated in US dollars as at March 31, 2018 is \$14.7 million (\$18.1 million at March 31, 2017).

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 March 31, 2018, 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 one is denominated in US dollars.

NOTES TO THE INTERIM UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
March 31, 2018 and 2017

The following amounts are outstanding under the Senior Term Loans:

(\$'000 unless otherwise stated)

	As at March 31, 2018	As at December 31, 2017
Senior term loans - beginning of period	10,546	12,369
Foreign exchange revaluation	22	(74)
Payments	(435)	(1,749)
Senior term loans - end of period	10,133	10,546
Less: current portion	(1,747)	(1,738)
Total	<u>8,380</u>	<u>8,808</u>

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. The principal is payable over a 10 year amortization period. The interest is non-compounding at a rate of 4%, commenced accruing as of 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, 10 and \$90k in years 11, 12 and 13. Present value of the debt was determined using discounted cash flows and a credit adjusted discount rate of 9%. Using the effective interest rate method, the debt discount is amortized as accretion and charged to interest expense over the term of the amended long-term debt agreements.

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

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

(\$'000 unless otherwise stated)

	As at March 31, 2018	As at December 31, 2017
Beginning of period	8,187	10,256
Payments	(456)	(2,542)
Foreign exchange revaluation	224	(601)
Accretion of debt discount	238	1,074
End of period	8,193	8,187
Less: current portion	(1,857)	(1,806)
Net long-term debt	<u>6,336</u>	<u>6,381</u>

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

NOTES TO THE INTERIM UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
March 31, 2018 and 2017

10 FINANCING EXPENSES

(\$'000 unless otherwise stated)

	Three Months Ended March 31,	
	<u>2018</u>	<u>2017</u>
Non-cash accretion of debt discount and interest on long term debt	238	288
Interest on senior credit facility	314	233
Other interest and financing costs	192	178
Amortization of deferred financing costs	11	12
Total	755	711

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 115,800 Shares were cancelled in the three months ended March 31, 2018. Shares issued and outstanding are as follows:

(\$'000 except for Shares)

	Shares	Gross	Issuance Cost ⁴	Net
Shareholders' capital - December 31, 2016	31,064,573	241,823	11,400	230,423
Repurchase of common shares	(1,414,774)	(4,446)	-	(4,446)
Shareholders' capital - December 31, 2017	29,649,799	237,377	11,400	225,977
Repurchase of common shares	(115,800)	(279)	-	(279)
Shareholders' capital - March 31, 2018	29,533,999	237,098	11,400	225,698

11.1 NORMAL COURSE ISSUER BID

The Company had a normal course issuer bid (the "Bid") effective from September 21, 2017 to September 20, 2018 to purchase up to 1,500,000 Shares. Tree Island has no obligations to purchase any Shares under the bid. For the period January 1, 2018 to March 31, 2018 the Company purchased 115,800 Shares under the Bid at a total cost of \$0.3 million (at an average price of \$2.40 per Share). All 115,800 Shares were cancelled prior to March 31, 2018.

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 3, 2018, Futura owns 29.1% of the fully diluted Shares of the Company.

⁴ Issuance costs were incurred as a result of the November 2002 Initial Public Offering and October 2004 Secondary Offering.

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In addition, Mr. Doman is Chairman and CEO of CanWel Building Materials Group Ltd. ("CanWel"). For the three months ended March 31, 2018, Tree Island sold, net of rebates, approximately \$1.5 million (\$1.3 million in 2017) of goods to CanWel and trade accounts receivable owing from CanWel as at March 31, 2018 is approximately \$0.8 million (approximately \$0.5 million in 2017). 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, 2018 was approximately \$0.5 million (approximately \$1.1 million in 2017) 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 EXPENSE

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

(\$'000 unless otherwise stated)

	Three Months Ended March 31,	
	<u>2018</u>	<u>2017</u>
Current tax expense	-	(241)
Deferred tax expense	(693)	(632)
Total recorded in the Statement of Operations	<u>(693)</u>	<u>(873)</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;

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- 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 commodity purchase contract embedded derivatives are estimated using observable spot rates for zinc: and
- Fair value of the forward exchange 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, 2018		As at December 31, 2017	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Cash and cash investments	1,527	1,527	1,651	1,651
Accounts receivable	36,426	36,426	26,147	26,147
Foreign exchange forward contracts	2	2	-	-
Total financial assets	<u>37,955</u>	<u>37,955</u>	<u>27,798</u>	<u>27,798</u>
Senior revolving facility	35,947	35,947	33,468	33,468
Accounts payable and accrued liabilities	21,862	21,862	18,272	18,272
Senior term loans	10,133	10,133	10,546	10,546
Long-term debt	8,193	7,877	8,187	9,750
Commodity purchase contract embedded derivative	25	25	67	67
Total financial liabilities	<u>76,160</u>	<u>75,844</u>	<u>70,540</u>	<u>72,103</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:

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 (indicated by parentheses in the table below) and liabilities into three levels based upon a fair value hierarchy that reflects the significance of the inputs used in making the measurements.

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(\$'000 unless otherwise stated)

	Level 1	Level 2
Senior revolving facility	-	35,947
Senior term loans	-	10,133
Long-term debt	-	7,877
Commodity purchase contract embedded derivative	-	25
Foreign exchange forward contract	-	-

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 March 31, 2018 and December 31, 2017:

NOTES TO THE INTERIM UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
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(\$'000 unless otherwise stated)

	Carrying Amount	Contractual Cash Flow	Less Than 1 Year	1 – 2 Years	Greater Than 2 Years
Senior revolving facility	35,947	35,947	35,947	-	-
Accounts payable and accrued liabilities	21,862	21,862	21,862	-	-
Senior term loans	10,133	10,133	1,747	8,822	(436)
Long-term debt	8,193	12,386	1,857	4,314	6,215
As at March 31, 2018	<u>76,135</u>	<u>80,328</u>	<u>61,413</u>	<u>13,136</u>	<u>5,779</u>
Senior revolving facility	33,468	33,468	33,468	-	-
Accounts payable and accrued liabilities	18,272	18,272	18,272	-	-
Senior term loans	10,546	10,546	1,738	8,808	-
Long-term debt	8,187	12,502	1,806	4,198	6,498
As at December 31, 2017	<u>70,473</u>	<u>74,788</u>	<u>55,284</u>	<u>13,006</u>	<u>6,498</u>

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, 2018, a \$0.01 increase (decrease) in the Canadian dollar to US dollar exchange rate will increase (decrease) net comprehensive income by \$30 thousand.

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, 2018, the total notional value of US dollar currency forward contracts outstanding was US\$1.5 million and the fair value mark to market gain on the contracts was \$2 thousand.

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 \$0.4 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 of September 30, 2017 the fair value of zinc forward contracts was a notional amount of \$3.1 million and the mark to market loss on the contracts was \$25 thousand.

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

NOTES TO THE INTERIM UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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- 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, 2018</u>	<u>As at December 31, 2017</u>
Total shareholders' equity	59,608	59,269
Senior revolving facility	35,947	33,468
Senior term loans	10,133	10,546
Long-term debt	8,193	8,187
Total capital	<u>113,881</u>	<u>111,470</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>2018</u>	<u>2017</u>
Net income (loss) for the period	1,103	1,750
Weighted average number of shares outstanding:	29,613,889	31,027,895
Net income (loss) per share (\$/share)	0.04	0.06

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, 2018 the Company does not have any instruments issued that could be dilutive.

The company has repurchased and cancelled 115,800 Shares in the three months ended March 31, 2018 (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.

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18.2 PURCHASE COMMITMENTS

As at March 31, 2018, Tree Island’s wholly owned subsidiaries have committed to production material purchases (including finished goods) totalling \$55.4 million (\$43.0 million – March 31, 2017) and capital equipment purchase commitments of \$3.5 million (\$3.8 million – March 31, 2017). The committed product material purchases, which are to be delivered before the end of Q3 2018, and capital equipment purchases, which are to be delivered before the end of Q2 2018, 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, 2018 and 2017 were as follows:

(\$’000 unless otherwise stated)

	<u>Three Months Ended March 31,</u>	
	<u>2018</u>	<u>2017</u>
Industrial	21,299	21,117
Residential	21,737	20,411
Commercial	10,831	10,382
Agricultural	12,624	11,130
Total revenue	<u>66,491</u>	<u>63,040</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.

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)

	<u>Three Months Ended March 31,</u>	
	<u>2018</u>	<u>2017</u>
United States	40,446	37,298
Canada	24,430	23,525
International	1,615	2,217
Total revenue	<u>66,491</u>	<u>63,040</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, 2018</u>	<u>December 31, 2017</u>
United States	12,563	12,315
Canada	29,359	29,444
Total non-current assets	<u>41,922</u>	<u>41,759</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*

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.

