



WIRE & WIRE PRODUCTS

ESTABLISHED IN 1964



**Management's Discussion
and Analysis
Q1 2019**

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

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

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

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Mixed load of product ready to ship to a distributor.

MANAGEMENT DISCUSSION AND ANALYSIS

March 31, 2019 and 2018

The following is a discussion of the financial condition and results of operations of Tree Island Steel ("Tree Island" or the "Company") and its wholly owned operating subsidiary Tree Island Industries (together with Tree Island Steel, referred to as "Tree Island"). This discussion is current to May 2, 2019 and should be read in conjunction with the unaudited interim condensed consolidated financial statements for the three months ended March 31, 2019. Tree Island Steel's unaudited interim condensed consolidated financial statements are prepared in accordance with International Financial Reporting Standards ("IFRS") applicable to the preparation of financial statements and are reported in Canadian dollars. Additional information relating to Tree Island Steel, including the audited consolidated financial statements and Annual Information Form ("AIF") for the year ended December 31, 2018, can be found at www.sedar.com or on Tree Island Steel's website at www.treeisland.com.

1 FORWARD LOOKING STATEMENTS AND RISK

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

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

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

2 NON-IFRS MEASURES

References in this MD&A to “EBITDA” are to provide an EBITDA that we define as operating income and adding back depreciation and foreign exchange gains or losses. EBITDA is not a measure recognized by IFRS and does not have a standardized meaning prescribed by IFRS. We believe that providing an EBITDA is an important supplemental measure for evaluating our performance. You are cautioned that our EBITDA should not be construed as an alternative to net income or loss determined in accordance with IFRS, nor should it be used as an indicator of performance, cash flows from operating, investing and financing activities, as a measure of liquidity or cash flows. Our method of calculating EBITDA may differ from methods used by other issuers and, accordingly, our EBITDA may not be comparable to similar measures presented by other issuers.

3 TREE ISLAND STEEL

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

There were 29,138,755 Shares outstanding as of March 31, 2019 and as of May 2, 2019 there were 28,956,297 Shares outstanding.

3.1 ORGANIZATIONAL STRUCTURE

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

3.2 PRODUCTS

Tree Island is a manufacturer and supplier of premium quality wire products for a broad range of applications. Our goal is to match the appropriate wire product with our customers’ needs. We achieve this by manufacturing most of our products at our own manufacturing facilities, while outsourcing others from qualified manufacturers. We market these products to customers in Canada, the United States and internationally.

We market our products under the following brands:



Our manufactured products offer: consistent, high quality that meet or exceed customers' needs, ASTM standards and applicable codes; broad range of applications; short lead times; technical support and excellent customer service.

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

3.3 MARKETS

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

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

3.4 SEASONALITY

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

4 2019 BUSINESS OVERVIEW AND DEVELOPMENT

4.1 BUSINESS OVERVIEW

Revenues earned in the first quarter of 2019 amounted to \$52.9 million compared to \$66.5 million in the same period last year, mostly attributable to lower sales volume to U.S. customers. The increase in costs to our U.S. customers resulting from the steel import tariffs continue to limit demand for our Industrial product offerings combined with unseasonably adverse weather conditions across North America dampened sales volumes in the Residential construction business. Despite the higher average selling prices, the lower sales demand and lower production volumes resulted in \$4.7 million gross profit for the quarter, compared to \$6.7 million in the same period in 2018. The resulting gross profit margin for the quarter was 9.0% compared to 10.1% in the same period last year. EBITDA in the first quarter of 2019 amounted to \$1.8 million compared to \$3.5 million in the first quarter of 2018.

4.2 Trade Action Review

4.2.1 U.S. Section 232 Trade Expansion Act

On April 20, 2017, the U.S. administration issued an executive order directing the Commerce Department to investigate whether imports of foreign steel are harming U.S. national security. The directive falls under Section 232 of the Trade Expansion Act of 1962, which allows the U.S. president to restrict trade of goods if such trade is determined to be harmful to U.S. national security. Under Section 232, certain steel products imported into the U.S. are subject to a 25% import tariff.

Due to limited availability of domestic sourcing options in the U.S. for certain items, Tree Island has imported certain steel products into the United States that are subject to the import duty of 25%. In addition, certain steel products produced in Canada and sold to U.S. customers are also impacted by the Section 232 tariffs. The exposure and impact to the Company has been partially mitigated by cost management and price increases on the impacted end products associated with Section 232 tariffs.

4.2.2 Canadian Safeguard on Steel

On October 25, 2018, the Canadian government issued provisional safeguard measures imposing quotas for 200 days on the import of seven classes of steel goods, which includes wire rod, the Company's primary raw material. Any purchase above the quota would be subject to a 25% tariff. To date, the Company has been able to import wire rod within the provisional quotas and has not been subject to the additional tariff.

In conjunction with the provisional safeguards, the Canadian government had directed the Canadian International Trade Tribunal ("CITT") to conduct an inquiry into and report on the importation of those seven classes of steel goods noted above. The purpose of the inquiry was to determine whether any of the above-mentioned goods imported into Canada were considered to cause serious injury or threat to Canadian producers of like or directly competitive goods.

On April 3, 2019, the CITT submitted its report on the safeguard inquiry. The report found that safeguard measures were not needed for five of the seven classes of steel goods, which includes wire rod, and these safeguard measures will be removed by April 28, 2019. However, the Minister of Finance is reviewing the CITT report to determine if safeguard measures on all of these seven classes of goods should continue or cease, and their decision is expected by May 13, 2019.

5 RESULTS FROM OPERATIONS

(\$'000 unless otherwise stated)

	Three Months Ended March 31,	
	<u>2019</u>	<u>2018¹</u>
Revenue	52,942	66,491
Cost of sales	(46,696)	(58,980)
Depreciation ²	(1,499)	(819)
Gross profit	4,747	6,692
Selling, general and administrative expenses	(4,244)	(4,142)
Operating income	503	2,550
Foreign exchange gain (loss)	(171)	119
Gain (loss) on property, plant and equipment	-	(1)
Other expenses	(12)	(26)
Changes in financial instruments recognized at fair value	-	(91)
Financing expenses ³	(1,221)	(755)
Income (loss) before income taxes	(901)	1,796
Current income tax (expense) recovery	(139)	-
Deferred income tax (expense) recovery	(55)	(693)
Net income (loss)	(1,095)	1,103
Operating income	503	2,550
Add back depreciation	1,499	819
Foreign exchange gain (loss)	(171)	119
EBITDA ⁴	1,831	3,488
Net income (loss) per share - basic (\$/share)	(0.04)	0.04
Dividends per share (\$/share)	0.02	0.02
Financial Position as at:	March 31, 2019	December 31, 2018
Total assets ⁵	184,871	158,449
Total non-current financial liabilities ⁶	53,733	21,928

¹ On adoption of IFRS 16 Leases, the comparative information presented for 2018 have not been restated and is presented as previously reported. See Section 11 ACCOUNTING POLICIES AND STATEMENTS.

² Tree Island recognized depreciation of \$0.7 million from the adoption of IFRS 16 during Q1 2019. See Note 3 of the Q1 2019 Interim Unaudited Condensed Consolidated Financial Statements.

³ Tree Island recognized financing expenses of \$0.4 million from the adoption of IFRS 16 during Q1 2019. See Notes 3 and 10 of the Q1 2019 Interim Unaudited Condensed Consolidated Financial Statements.

⁴ See definition of EBITDA in Section 2 NON-IFRS MEASURES.

⁵ Tree Island recognized right-of-use assets of \$32.0 million at the end of Q1 2019 from the adoption of IFRS 16. See Note 3 of the Q1 2019 Interim Unaudited Condensed Consolidated Financial Statements.

⁶ Tree Island recognized lease liability of \$34.7 million at the end of Q1 2019 from the adoption of IFRS 16. See Note 3 of the Q1 2019 Interim Unaudited Condensed Consolidated Financial Statements.

6 COMPARISON OF RESULTS FOR THE THREE MONTHS ENDED MARCH 31, 2019 AND 2018

<i>(\$'000 unless otherwise stated)</i>	<u>Q1 2019</u>	<u>Q1 2018</u>	<u>Variance Fav/(Unfav)</u>	
SALES	52,942	66,491	(13,549)	(20.4%)

Revenues decreased by 20.4% when compared to prior year primarily due to a combination of the U.S. Section 232 import tariffs impacted our volumes shipped to the U.S., particularly in our Industrial segment, and adverse weather conditions resulted in weaker demand in the Residential construction market.

Revenue by Market Segment

(\$'000 unless otherwise stated)

	Three Months Ended March 31,					
	2019		2018		Variance	
	<u>Revenue</u>	<u>% of Total</u>	<u>Revenue</u>	<u>% of Total</u>	<u>Amount</u>	<u>%</u>
Industrial	15,779	29.8%	21,299	32.0%	(5,520)	(25.9%)
Commercial	12,523	23.7%	10,831	16.3%	1,692	15.6%
Agricultural	11,636	22.0%	12,624	19.0%	(988)	(7.8%)
Residential	13,004	24.6%	21,737	32.7%	(8,733)	(40.2%)
Total revenue	52,942	100.0%	66,491	100.0%	(13,549)	(20.4%)

Revenues generated in the U.S. decreased over the same period last year as a result of U.S. Section 232 import tariffs impacting our volumes shipped to the U.S. as well as weaker demand in the Residential construction market due to adverse weather conditions in the quarter.

Revenue by Location

(\$'000 unless otherwise stated)

	Three Months Ended March 31,					
	2019		2018		Variance	
	<u>Revenue</u>	<u>% of Total</u>	<u>Revenue</u>	<u>% of Total</u>	<u>Amount</u>	<u>%</u>
United States	26,570	50.2%	40,446	60.8%	(13,876)	(34.3%)
Canada	23,964	45.3%	24,430	36.7%	(466)	(1.9%)
International	2,408	4.5%	1,615	2.5%	793	49.1%
Total	52,942	100.0%	66,491	100.0%	(13,549)	(20.4%)
Average C\$/US\$	1.3289		1.2657			

<i>(\$'000 unless otherwise stated)</i>	<u>Q1 2019</u>	<u>Q1 2018</u>	<u>Variance Fav/(Unfav)</u>	
COST OF SALES	46,696	58,980	12,284	20.8%

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

<i>(\$'000 unless otherwise stated)</i>	<u>Q1 2019</u>	<u>Q1 2018</u>	<u>Variance Fav/(Unfav)</u>	
GROSS PROFIT	4,747	6,692	(1,945)	(29.1%)

Gross profit for the three months amounted to \$4.7 million versus \$6.7 million during the same period in 2018, mainly the result of lower volumes discussed above.

<i>(\$'000 unless otherwise stated)</i>	Q1 2019	Q1 2018	Variance Fav/(Unfav)	
SG&A EXPENSES	4,244	4,142	(102)	(2.5%)

SG&A expenses are consistent when compared to prior year.

<i>(\$'000 unless otherwise stated)</i>	Q1 2019	Q1 2018	Variance Fav/(Unfav)	
EBITDA	1,831	3,488	(1,657)	(47.5%)

EBITDA earned for the quarter is inclusive of \$171 thousand foreign exchange loss in the quarter. The decrease in EBITDA is primarily impacted by the lower gross profit realized in the quarter due to lower sales volumes experienced during the quarter.

<i>(\$'000 unless otherwise stated)</i>	Q1 2019	Q1 2018	Variance Fav/(Unfav)	
FINANCING EXPENSES	1,221	755	(466)	(61.7%)

Financing expenses increased mainly from the adoption of IFRS 16 increasing financing costs by \$0.4 million and higher interest rates on the Senior Credit Facility due to increased borrowings on the Senior Credit Facility for purchases of raw material and other inventories costs over the corresponding period last year.

Financing Expenses

(\$'000 unless otherwise stated)

	Three Months Ended March 31,			
			Variance Fav / (Unfav)	
	<u>2019</u>	<u>2018</u>	<u>Amount</u>	<u>%</u>
Non-cash financing expenses	215	238	23	9.7%
Interest on senior credit facility	462	314	(148)	(47.1%)
Interest on lease liability	357	-	(357)	0.0%
Other interest and financing costs	178	192	14	7.3%
Deferred financing costs	9	11	2	18.2%
Total financing expenses	<u>1,221</u>	<u>755</u>	<u>(466)</u>	<u>(61.7%)</u>

<i>(\$'000 unless otherwise stated)</i>	Q1 2019	Q1 2018	Variance Fav/(Unfav)	
FOREIGN EXCHANGE GAIN (LOSS)	(171)	119	(290)	(243.7%)

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 of March 31, 2019, the Company did not have any U.S. dollar currency forward contracts outstanding.

<i>(\$'000 unless otherwise stated)</i>	Q1 2019	Q1 2018	Variance Fav/(Unfav)	
INCOME TAX EXPENSE	(194)	(693)	499	72.0%

In Q1 2019, income tax expense is \$0.2 million compared to tax expense of \$0.7 million for Q1 2018. The income tax expense is based on a statutory rate of 27% for Canadian taxable income and 21% for U.S. based taxable income applied to the income of the respective subsidiaries before taxes, with adjustments for permanent differences between accounting and taxable income.

<i>(\$'000 unless otherwise stated)</i>	<u>Q1 2019</u>	<u>Q1 2018</u>	<u>Variance Fav/(Unfav)</u>	
NET INCOME (LOSS)	(1,095)	1,103	(2,198)	(199.3%)

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

7 FINANCIAL CONDITION AND LIQUIDITY

7.1 WORKING CAPITAL

A summary of the composition of our working capital as at March 31, 2019 compared to 2018 is provided below:

Working Capital

(\$'000 unless otherwise stated)

	As at March 31,	
	<u>2019</u>	<u>2018</u>
Cash	1,885	1,527
Accounts receivable	31,124	36,426
Inventories	66,858	55,340
Other current assets	6,245	4,734
Total current assets	<u>106,112</u>	<u>98,027</u>
Senior credit facility	(49,273)	(35,947)
Accounts payable and accrued liabilities	(19,521)	(21,862)
Dividends payable	(583)	(593)
Other current liabilities	(631)	(293)
Current portion of long term debt	(4,778)	(3,604)
Current portion of lease liabilities	(1,259)	-
Total current liabilities	<u>(76,045)</u>	<u>(62,299)</u>
Net working capital	<u>30,067</u>	<u>35,728</u>

Our business requires an ongoing investment in working capital, comprised primarily of accounts receivable and inventories, financed primarily by credit in the form of our Senior Credit Facility and accounts payable and accrued liabilities. Our largest investment in working capital is in our inventories. We have arrangements with our key suppliers to provide us with financing or trade credit for the purchase of the raw materials needed for our operations.

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

Accounts receivable as at March 31, 2019 was lower than at the same period last year, reflecting the decrease in sales in Q1 2019 compared to the same period in the prior year. Inventories levels were higher as at March 31, 2019 when compared to the same period in 2018 as a result of higher cost of raw materials and increased levels of certain other inventories on hand resulting from the decline in volumes to our U.S. markets on the imposition of Section 232 tariffs.

The Senior Credit Facility and increased borrowings on the Senior Credit Facility are reflective of the higher levels of raw materials and other inventories on hand.

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

We manage our inventories with an emphasis on a continuous inflow of raw materials to meet our production needs balanced with strategic purchases, barring unforeseen events such as the Section 232 tariffs impacting potential end markets. We have also established processes to regularly adjust the production levels of finished goods stocked in our warehouses so that we can both satisfy customer needs, growth requirements and meet our objective of minimizing inventories on hand.

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

7.2 CASH FLOW

Cash Flow

(\$'000 unless otherwise stated)

	Three Months Ended March 31,	
	<u>2019</u>	<u>2018</u>
Cash provided by (used in) operating activities	1,436	3,709
Working capital adjustments	3,469	(3,409)
Net cash provided by (used in) operating activities	<u>4,905</u>	<u>300</u>
Net cash provided by (used in) investing activities	<u>(611)</u>	<u>(651)</u>
Advance on (repayment of) senior term loans	(492)	(435)
Repayment of long-term debt	(476)	(456)
Other payables	(9)	(10)
Lease interest paid	(357)	-
Other interest paid	(656)	(493)
Deferred financing expenses	(39)	-
Advance on (repayment of) senior revolving facility	(523)	2,478
Lease liability payment	(451)	-
Dividend payment	(584)	(593)
Share buyback	(96)	(278)
Net cash provided by (used in) financing activities	<u>(3,683)</u>	<u>213</u>
Exchange rate changes on foreign cash balances	<u>(3)</u>	<u>14</u>
Increase (decrease) in cash balances	<u>608</u>	<u>(124)</u>

For the three months ended March 31, 2019, there was a net increase in cash. The net cash provided in operating activities for the three months ended March 31, 2019 was mainly a result of the reduction of inventory levels on

hand compared to levels at December 31, 2018. The net cash used in financing activities for the three months ended March 31, 2019 was for repayment of the senior revolving facility .

On adoption of IFRS 16 Leases, the comparative information presented for 2018 have not been restated and is presented as previously reported. See Section 11 ACCOUNTING POLICIES AND STATEMENTS.

7.3 SENIOR CREDIT FACILITY

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

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

The Senior Credit Facility is secured by a first charge over Tree Island's assets supported by the appropriate guarantees, pledges and assignments, and requires that certain covenants be met by Tree Island. The Senior Credit Facility has defined covenants, the primary one being based on the remaining funds within the Senior Credit Facility that is available (“Availability Test”). Only if this amount falls below a certain threshold, then other covenants, which include a defined fixed charge coverage ratio, are tested. In addition, there are other restrictive covenants that limit the discretion of management with respect to certain business matters.

As at March 31, 2019 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

On June 11, 2012, Tree Island entered into a Second Amendment to the long-term debt agreement (“Agreement”). Under the terms of this Agreement, the total principal debt amount of approximately US\$15.8 million is to be repaid monthly over a ten year amortization period, of which US\$6.9 million is outstanding as at March 31, 2019. Interest, which began accruing in June 2017, is non-compounding. The interest owed is payable over a four year period beginning June 2024 (see Note 9 in the consolidated financial statements).

8 CAPITAL EXPENDITURES AND CAPACITY

For the three months ended March 31, 2019, we made capital expenditures of \$0.6 million. These expenditures were for capital maintenance activities and new manufacturing equipment.

9 CONTRACTUAL OBLIGATIONS AND COMMITMENTS

As of March 31, 2019, we were committed to the contracts, operating leases and debt repayments (including scheduled interest payments on interest bearing debt) set out below, which will be financed through working capital and our senior credit facility.

The production materials include raw materials, such as wire rod and zinc, and finished goods. The raw materials, wire rod and zinc, are used in the day-to-day operations of our manufacturing facilities and are in the normal course of our business activities. Finished goods are purchased for resale without further processing and are also in the normal course of our business activities. All committed production materials are to be delivered prior to the end of Q3 2019.

From time to time, we make investments to update, replace or make additions to our existing capital assets, which includes, but is not limited to, the buildings we occupy and capital equipment. These investments are in the normal course of our business activity. There are no capital commitments at the end of this reporting period.

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

From time to time, the Company enters into U.S. dollar currency forward contracts for periods consistent with a portion of U.S. dollar currency transaction exposures, generally from one to three months. These are not designated as cash flow, fair value or net investment hedges. As of March 31, 2019, the Company did not have any U.S. dollar currency forward contracts outstanding.

Contractual Obligations and Commitments

(\$'000 unless otherwise stated)

	<u>2019</u>	<u>2020</u>	<u>2021</u>	<u>2022</u>	<u>2023</u>	<u>Thereafter</u>	<u>Total</u>
Production materials	27,405	-	-	-	-	-	27,405
Total commitments	<u>27,405</u>	-	-	-	-	-	<u>27,405</u>
Senior revolving facility	49,273	-	-	-	-	-	49,273
AP and accrued liabilities	19,521	-	-	-	-	-	19,521
Other current liabilities	318	-	-	-	-	-	318
Dividends	583	-	-	-	-	-	583
Lease liabilities	2,326	3,127	3,135	3,185	2,580	38,040	52,393
Senior term loans	1,481	1,975	1,975	1,975	1,975	3,383	12,764
Long-term debt	2,452	1,539	1,427	480	-	4,999	10,897
Total financial liabilities	<u>75,954</u>	<u>6,641</u>	<u>6,537</u>	<u>5,640</u>	<u>4,555</u>	<u>46,422</u>	<u>145,749</u>
Total obligations and commitments	<u>103,359</u>	<u>6,641</u>	<u>6,537</u>	<u>5,640</u>	<u>4,555</u>	<u>46,422</u>	<u>173,154</u>

10 SUMMARY OF QUARTERLY FINANCIAL RESULTS

The table below provides selected quarterly financial information for the eight most recent fiscal quarters to March 31, 2019. Sales volume in the fourth quarter of the year has traditionally been the lowest in the year due to the seasonality of our business and the markets we sell to. Quarter-over-quarter results may also be impacted by unusual or infrequently occurring items.

Summary of Quarterly Financial Results

(\$'000 unless otherwise stated)

	Mar 31, <u>2019</u>	Dec 31, <u>2018</u>	Sep 30, <u>2018</u>	Jun 30, <u>2018</u>	Mar 31, <u>2018</u>	Dec 31, <u>2017</u>	Sep 30, <u>2017</u>	Jun 30, <u>2017</u>
Revenue	52,942	44,882	55,846	68,087	66,491	54,561	55,643	61,455
Gross profit	4,747	3,686	6,936	8,509	6,706	2,452	2,299	5,943
Foreign exchange gain (loss)	(171)	408	(77)	256	119	119	(737)	(61)
EBITDA	1,831	1,065	3,383	5,451	3,490	1,932	(1,496)	2,375
Net income (loss)	(1,095)	(2,334)	1,030	2,792	1,105	(1,974)	(2,152)	735
Net income (loss) per unit - basic	(0.04)	(0.08)	0.03	0.09	0.04	(0.07)	(0.07)	0.04

Commentary:

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

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

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, 2018 audited consolidated financial statements, the Annual Information Form for the year ended December 31, 2018 and Note 3 to the March 31, 2019 unaudited interim 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, 2018 (Note 3).

11.2 CHANGES IN ACCOUNTING POLICIES

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

Tree Island adopted IFRS 16 using the modified retrospective approach on January 1, 2019. Under this method, the cumulative effect of initially applying the standard is recognized in retained earnings at January 1, 2019. Accordingly,

the comparative information presented for 2018 has not been restated and is presented as previously reported under IAS 17 and related interpretations.

On transition, Tree Island elected to apply the transition practical expedient allowing the standard to be applied only to contracts that were previously identified as leases under IAS 17. Tree Island also elected to use the recognition exemptions for lease contracts that, at the commencement date, have a lease term of 12 months or less and do not contain a purchase option (short-term leases), and lease contracts for which the underlying asset is of low value (low-value assets). The transition and impact are further discussed in Note 3 to the March 31, 2019 unaudited interim condensed consolidated financial statements.

12 RELATED PARTY TRANSACTIONS

12.1 TRANSACTIONS WITH ASSOCIATED COMPANIES

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

Based on Tree Island Steel’s outstanding Shares as at May 2, 2019, Futura owns 30.5% 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, 2019, Tree Island sold, net of rebates, approximately \$0.8 million (\$1.5 million in 2018) of goods to CanWel and trade accounts receivable owing from CanWel as at March 31, 2019 is approximately \$0.6 million (approximately \$0.8 million in 2018). Outstanding trade accounts receivable from CanWel at period end are unsecured, interest free and settlement occurs in cash.

12.2 TRANSACTIONS WITH KEY MANAGEMENT PERSONNEL

Included in the definition of key management for purposes of disclosure of related party transactions are members of Board of Directors and officers of Tree Island Steel. Amounts for key management personnel for the three months ended March 31, 2019 was approximately \$0.6 million (approximately \$0.5 million in 2018) which includes wages, salaries and social security contributions, paid annual and sick leave, vehicle costs and bonuses and severance amount payable to an officer. It also includes directors’ fees paid to members of the Board.

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. Risks pertaining to current economic conditions are discussed in the section above under the heading “2019 Business Overview and Development”. A detailed discussion of our significant business risks is provided in the 2018 Annual Information Form under the heading “Risk Factors” which can be found at www.sedar.com.

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, 2019. These executives also certified that they are responsible for the design of disclosure controls and procedures and internal control over financial reporting. There have been no changes in internal control over financial reporting during the quarter ended March 31, 2019 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

The Company’s Board of Directors and Audit Committee reviewed and approved the March 31, 2019 unaudited interim condensed consolidated financial statements and this MD&A prior to its release.

SHAREHOLDER INFORMATION

TREE ISLAND STEEL
LTD.

Board of Directors:

Amar S. Doman –
Chairman of the Board

Dale R. MacLean

Peter Bull

Harry Rosenfeld

Michael Fitch

Sam Fleiser

Theodore A. Leja

Joe Downes

Leadership Team:

Dale R. MacLean
*President and Chief
Executive Officer*

Remy Stachowiak
Chief Operating Officer

Nancy Davies
*Chief Financial Officer and
Vice President, Finance*

Shares:

Market Information

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

Registrar and Transfer Agent

Computershare Investor
Services Inc.

Corporate Head Office:

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

Website:

www.treeisland.com

Investor Relations:

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

Auditors:

KPMG LLP
Vancouver, B.C.

