



WIRE & WIRE PRODUCTS

ESTABLISHED IN 1964



Management's Discussion  
and Analysis  
Q3 2017

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

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

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

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*Shipment of weldmesh rolls used for concrete reinforcement*

# MANAGEMENT DISCUSSION AND ANALYSIS

September 30, 2017 and 2016

The following is a discussion of the financial condition and results of operations of Tree Island Steel Ltd. ("Tree Island Steel" or the "Company") and its wholly owned operating subsidiary Tree Island Industries Limited (together with Tree Island Steel, referred to as "Tree Island"). This discussion is current to November 2, 2017 and should be read in conjunction with the unaudited interim condensed consolidated financial statements for the three and nine months ended September 30, 2017. Tree Island Steel's unaudited interim condensed consolidated financial statements are prepared in accordance with International Accounting Standard ("IFRS") applicable to the preparation of financial statements and are reported in Canadian dollars. Additional information relating to Tree Island Steel, including the audited consolidated financial statements and Annual Information Form ("AIF") for the year ended December 31, 2016, can be found at [www.sedar.com](http://www.sedar.com) or on Tree Island Steel's website at [www.treeisland.com](http://www.treeisland.com).

## 1 FORWARD LOOKING STATEMENTS AND RISK

This management's discussion and analysis ("MD&A") includes forward-looking information with respect to Tree Island Steel, including our business, operations and strategies, as well as financial performance and conditions. The use of forward-looking words such as, "may," "will," "expect" or similar variations generally identify such statements. Any statements that are not statements of historical fact should be considered to be forward-looking statements. Although we believe that the forward-looking statements are reasonable, they involve risks and uncertainties, including the risks and uncertainties discussed under the heading "Risks Relating to the Company's Business" in the Company's AIF for the year ended December 31, 2016.

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

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

## 2 NON-IFRS MEASURES

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

## 3 TREE ISLAND STEEL LTD.

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

There were 30,580,756 Shares outstanding as of September 30, 2017 and as of November 2, 2017 there were 30,426,856 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<sup>1</sup>:

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.

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

## 4 2017 BUSINESS OVERVIEW AND DEVELOPMENT

### 4.1 BUSINESS OVERVIEW

The spread between finished goods selling prices and raw material input costs continues to be the main factor impacting our business. The price for rod continued to increase but at a slightly slower pace than in prior quarters. The various trade cases and trade actions against the importation of steel rod into the US has deterred shipments from the countries under review. Further, the price of zinc, which is used in the galvanization process, also experienced rapid price increases during Q3 2017. Irrespective of these input cost increases, the price of finished goods in the markets we serve did not increase at a proportionate rate due to aggressive pricing strategies from international and domestic suppliers.

Excluding the stainless product lines from last year's revenues, which was divested at the end of Q3 2016, revenues in Q3 2017 increased by 2.8% when compared to the same period in 2016. Including the stainless product lines in the comparison, revenues in Q3 2017 decreased by 3.6% to \$55.6 million relative to the same period last year. Prices of finished goods in the end markets we serve have generally increased from prior quarters but the pace of the increase continues to lag behind the increase in raw material prices due to competitive pressures. This has resulted in a compression of our margin. Gross profit and EBITDA for Q3 2017 was \$2.3 million and (\$1.5) million, respectively, which is \$7.3 million and \$6.9 million less than the prior year, respectively. The decrease in EBITDA in Q3 2017 was less than the decrease in gross profit as a result of cost savings in SG&A.

On a year-to-date basis, excluding the stainless product lines from the comparison, revenues increased by 4.1%. Revenues during the nine-month period ended September 30, 2017, including the stainless product lines in the comparison, totalled \$180.1 million, 2.8% less than the same period last year. Gross profit decreased by \$16.4 million to \$15.7 million due to the smaller spread between selling prices and raw material input costs. The resulting decrease in gross profit was partially offset by lower SG&A expenses. The end result is an EBITDA of \$5.1 million, \$14.9 million less than the prior year.

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

The US Department of Commerce initiated a trade case against wire rod from 10 countries on behalf of US domestic producer plaintiffs Gerdau, Nucor, Keystone, and Charter Steel. The countries being investigated are Belarus, Italy, Russia, South Africa, South Korea, Spain, Turkey, Ukraine, United Arab Emirates, and the United Kingdom. Since May 12, 2017, imports from these countries have effectively been shut out.

#### Preliminary Antidumping Duties

The US Department of Commerce has calculated preliminary antidumping duty margins for the countries involved as follows:

Belarus:	280%
Italy:	22.06%
Korea:	10.09%
Russia:	436.8% to 756.93%
South Africa:	135.46% to 142.26%
Spain:	20.25% to 32.64%
Turkey:	2.80% to 8.01%
Ukraine:	34.98% to 44.03%
United Arab Emirates:	84.1%
United Kingdom:	41.96% to 147.63%

### Preliminary Countervailing Duties

The US Department of Commerce has calculated countervailing duties (used where there are subsidies found) against Italy (ranging from 1.7% to 44.18%) and Turkey (ranging from 0% to 2.27%).

### Critical Circumstances

Critical circumstances refers to the application of duties retroactively that may occur if there is a surge of product ahead of the duty date. In this case, the critical circumstances were applied to rod from various countries, with the measures being imposed retroactively, effective 90 days prior to the publication of the preliminary determinations of the respective countries. The countries determined to have critical circumstances include: Russia; certain imports from Spain; South Africa, certain imports from Turkey; and the United Kingdom.

Tree Island did not purchase any rod from those countries under investigation.

### Next Steps

The US Department of Commerce has published the following schedule:

January 8, 2018:	US Department of Commerce final determinations;
February 22, 2018:	US International Trade Commission final determinations; and
March 1, 2018:	issuance of orders.

There are currently duties on wire rod into the US from Brazil, China, Indonesia, Mexico, Moldova, and Trinidad.

## **4.3 US 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 will fall 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.

The US imports 30 million metric tons of steel from over 90 countries with top suppliers including Canada, Mexico, Russia, Brazil, Turkey, and Germany. There have been no official indications about the countries or products targeted or the means of limiting imports either by tariffs or quotas or a combination of both.

## 5 RESULTS FROM OPERATIONS

(\$'000 unless otherwise stated)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	<u>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>
Revenue	55,643	57,726	180,144	185,350
Cost of sales	(52,530)	(47,305)	(161,953)	(150,743)
Depreciation	(814)	(839)	(2,448)	(2,492)
Gross profit	2,299	9,582	15,743	32,115
Selling, general and administrative expenses	(3,872)	(4,880)	(12,417)	(14,573)
Operating income (loss)	(1,573)	4,702	3,326	17,542
Foreign exchange gain (loss)	(737)	(172)	(701)	(93)
Gain (loss) on sale of property, plant and equipment	(41)	12	(115)	12
Changes in financial instruments recognized at fair value	248	(223)	504	607
Financing expenses	(758)	(593)	(2,194)	(2,030)
Income (loss) before income taxes	(2,861)	3,726	820	16,038
Income tax (expense) recovery	709	(1,039)	(480)	(1,762)
Net income (loss)	(2,152)	2,687	340	14,276
Operating income (loss)	(1,573)	4,702	3,326	17,542
Add back depreciation	814	839	2,448	2,492
Foreign exchange gain (loss)	(737)	(172)	(701)	(93)
EBITDA <sup>2</sup>	(1,496)	5,369	5,073	19,941
Net income (loss) per share - basic (\$/share)	(0.07)	0.09	0.01	0.46
Dividends per share (\$/share)	0.02	0.02	0.06	0.05
Sales volume (tons) <sup>3</sup>	42,871	43,633	139,843	139,423
Gross profit per ton (\$/ton)	54	220	113	230
EBITDA per ton (\$/ton)	(35)	123	36	143
Financial Position as at:	September 30, 2017		December 31, 2016	
Total assets	143,370		137,455	
Total non-current financial liabilities	17,732		19,090	

## 6 COMPARISON OF RESULTS FOR THE THREE MONTHS ENDED SEPTEMBER 30, 2017 AND 2016

(\$'000 unless otherwise stated)	<u>Q3 2017</u>	<u>Q3 2016</u>	<u>Variance Fav/(Unfav)</u>	
<b>SALES</b>	55,643	57,726	(2,083)	(3.6%)

Excluding the stainless product lines from the comparison, which was divested at the end of Q3 2016, revenues increased by 2.8% as a result of the combination of more shipments and price increases implemented to offset the increase in raw material input prices. Including the stainless product lines in the comparison, revenues declined year-over-year. Revenues grew in three of the four sectors we participate in, with the exception being the commercial sector. Overall, domestic and international suppliers continue to aggressively price their goods and

<sup>2</sup> See definition of EBITDA in Section 2 NON-IFRS MEASURES.

<sup>3</sup> Sales volumes excludes tons which were processed as part of tolling arrangements.

were gradually easing in price increases during the quarter, the pace of which was noticeably slower than the increase in raw material input prices.

### Revenue by Market Segment

(\$'000 unless otherwise stated)

	Three Months Ended September 30,					
	2017		2016		Variance	
	Revenue	% of Total	Revenue	% of Total	Amount	%
Industrial	19,035	34.2%	18,123	31.4%	912	5.0%
Residential	19,673	35.4%	19,193	33.2%	480	2.5%
Commercial	11,946	21.5%	12,082	20.9%	(136)	(1.1%)
Agricultural	4,989	9.0%	4,737	8.2%	252	5.3%
Subtotal	55,643	100.0%	54,135	93.8%	1,508	2.8%
Stainless <sup>4</sup>	-	0.0%	3,591	6.2%	(3,591)	(100.0%)
Total revenue	55,643	100.0%	57,726	100.0%	(2,083)	(3.6%)

Excluding the stainless product lines from the comparison, revenues generated in the US increased over the same period last year as a result of more shipments and higher prices relative to last year. By contrasts, shipments to Canadian customers were soft and negatively impacted revenue generation within Canada.

### Revenue by Location

(\$'000 unless otherwise stated)

	Three Months Ended September 30,					
	2017		2016		Variance	
	Revenue	% of Total	Revenue	% of Total	Amount	%
United States	36,404	65.4%	33,625	58.2%	2,779	8.3%
Canada	17,281	31.1%	18,270	31.6%	(989)	(5.4%)
International	1,958	3.5%	2,240	3.9%	(282)	(12.6%)
Subtotal	55,643	100.0%	54,135	93.8%	1,508	2.8%
Stainless	-	0.0%	3,591	6.2%	(3,591)	(100.0%)
Total	55,643	100.0%	57,726	100.0%	(2,083)	(3.6%)

Average C\$/US\$ 1.2529 1.3051

(\$'000 unless otherwise stated)	Q3 2017	Q3 2016	Variance Fav/(Unfav)	
<b>COST OF SALES</b>	53,344	48,144	(5,200)	(10.8%)

The cost of goods sold (including depreciation) increased due to an increase in raw material costs, which is reflective of the price increases implemented by rod suppliers across the industry, coupled with the rapid increase in zinc prices during the quarter when compared to the same period last year.

(\$'000 unless otherwise stated)	Q3 2017	Q3 2016	Variance Fav/(Unfav)	
<b>GROSS PROFIT</b>	2,299	9,582	(7,283)	(76.0%)

Gross profit for the three months amounted to \$2.3 million versus \$9.6 million during the same period in 2016 due to the continued impact of average selling prices lagging the increase in raw material input prices.

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

## Gross Profit

(\$'000 unless otherwise stated)

	Three Months Ended September 30,					
	2017		2016		Variance Fav / (Unfav)	
	Gross Profit	% of Total	Gross Profit	% of Total	Amount	%
US\$ gross profit <sup>5</sup>	570	24.8%	5,963	62.2%	(5,394)	(90.4%)
C\$ gross profit	1,729	75.2%	3,619	37.8%	(1,889)	(52.2%)
Total gross profit	2,299	100.0%	9,582	100.0%	(7,283)	(76.0%)
Average C\$/US\$	1.2529		1.3051			

(\$'000 unless otherwise stated)	Q3 2017	Q3 2016	Variance Fav/(Unfav)	
<b>SG&amp;A EXPENSES</b>	3,872	4,880	1,008	20.7%

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

(\$'000 unless otherwise stated)	Q3 2017	Q3 2016	Variance Fav/(Unfav)	
<b>EBITDA</b>	(1,496)	5,369	(6,865)	(127.9%)

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

(\$'000 unless otherwise stated)	Q3 2017	Q3 2016	Variance Fav/(Unfav)	
<b>FINANCING EXPENSES</b>	758	593	(165)	(27.8%)

The value of total inventory on hand, particularly for raw materials and finished goods, increased as a result of the higher prices for raw materials. This resulted in additional borrowings to finance the additional value for the raw materials and finished goods which, in turn, contributed to the increase in financing costs over the prior year.

## Financing Expenses

(\$'000 unless otherwise stated)

	Three Months Ended September 30,			
	2017	2016	Variance Fav / (Unfav)	
			Amount	%
Non-cash financing expenses	248	279	31	11.1%
Interest on senior credit facility	282	147	(135)	(91.8%)
Other interest and financing costs	216	155	(61)	(39.4%)
Deferred financing costs	12	12	-	0.0%
Total financing expenses	758	593	(165)	(27.8%)

(\$'000 unless otherwise stated)	Q3 2017	Q3 2016	Variance Fav/(Unfav)	
<b>FOREIGN EXCHANGE GAIN (LOSS)</b>	(737)	(172)	(565)	(328.5%)

The loss on foreign exchange is the result of losses in currency forward contracts settled in the period. The average transaction rate for our currency forward contracts during the quarter was C\$1.37 per US\$ compared to an average

<sup>5</sup> After foreign exchange translation.

spot price of C\$1.25 per US\$. 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 September 30, 2017, the total notional value of US dollar currency forward contracts outstanding was US\$0.9 million.

<i>(\$'000 unless otherwise stated)</i>	<b>Q3 2017</b>	<b>Q3 2016</b>	<b>Variance Fav/(Unfav)</b>	
<b>INCOME TAX RECOVERY (EXPENSE)</b>	709	(1,039)	1,748	168.2%

In Q3 2017 an income tax recovery of \$709k was booked compared to tax expense of \$1.0 million for Q3 2016. This is the result of negative income in the quarter. The income tax expense is based on a statutory rate of 26% for Canadian taxable income and 31% for US based taxable income applied to the income of the respective subsidiaries before taxes, with adjustments for permanent differences between accounting and taxable income.

<i>(\$'000 unless otherwise stated)</i>	<b>Q3 2017</b>	<b>Q3 2016</b>	<b>Variance Fav/(Unfav)</b>	
<b>NET INCOME (LOSS)</b>	(2,152)	2,687	(4,839)	(180.1%)

The decrease in net income over the prior year is attributable to the lower operating income on account of lower realized gross profit due to the narrow spread between selling prices and raw material costs.

## 7 COMPARISON OF RESULTS FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2017 AND 2016

<i>(\$'000 unless otherwise stated)</i>	<b>YTD 2017</b>	<b>YTD 2016</b>	<b>Variance Fav/(Unfav)</b>	
<b>SALES</b>	180,144	185,350	(5,206)	(2.8%)

Excluding the stainless product lines from the comparison against last year, which was divested at the end of Q3 2016, revenues on a year-to-date basis improved by 4.1%. Including the stainless product lines in the comparison, year-to-date revenues decreased over the prior year. Stronger growth in revenues during Q1 2017 from the remaining business sectors partially offset the absence of the stainless product lines. Higher prices earned when compared to last year helped to offset the softer demand from the construction markets.

### Revenue by Market Segment

*(\$'000 unless otherwise stated)*

	Nine Months Ended September 30,					
	2017		2016		Variance	
	Revenue	% of Total	Revenue	% of Total	Amount	%
Industrial	62,979	35.0%	58,078	31.3%	4,901	8.4%
Residential	58,405	32.4%	58,945	31.8%	(540)	(0.9%)
Commercial	34,336	19.1%	34,624	18.7%	(288)	(0.8%)
Agricultural	24,424	13.6%	21,332	11.5%	3,092	14.5%
Subtotal	180,144	100.0%	172,979	93.3%	7,165	4.1%
Stainless	-	0.0%	12,371	6.7%	(12,371)	(100.0%)
Total revenue	180,144	100.0%	185,350	100.0%	(5,206)	(2.8%)

When compared to the same period last year, demand from the end markets in the US was generally firm for the first nine months. Coupled with the price increases and excluding the stainless product lines from the comparison, revenues generated in the US was better than the prior year. Revenues in Canada were also better than the prior

year as price increases implemented to offset the increase in raw materials input prices offset softer demand from the construction markets.

### Revenue by Location

(\$'000 unless otherwise stated)

	Nine Months Ended September 30 ,					
	2017		2016		Variance	
	Revenue	% of Total	Revenue	% of Total	Amount	%
United States	112,796	62.6%	107,301	57.9%	5,495	5.1%
Canada	60,530	33.6%	59,570	38.8%	960	1.6%
International	6,818	3.8%	6,108	3.3%	710	11.6%
Subtotal	180,144	100.0%	172,979	93.3%	7,165	4.1%
Stainless	-	0.0%	12,371	6.7%	(12,371)	(100.0%)
Total	180,144	100.0%	185,350	100.0%	(5,206)	(2.8%)
Average C\$/US\$	1.3069		1.3205			

(\$'000 unless otherwise stated)	YTD 2017	YTD 2016	Variance Fav/(Unfav)	
<b>COST OF SALES</b>	164,401	153,235	(11,166)	(7.3%)

Cost of sales amounted to 91.3% of revenues compared to 82.7% last year as a result of the increase in raw material costs, particularly for rod and zinc which is used in the galvanizing process. The cost of conversion, as a percentage of revenues, is generally in-line with that of prior year.

(\$'000 unless otherwise stated)	YTD 2017	YTD 2016	Variance Fav/(Unfav)	
<b>GROSS PROFIT</b>	15,743	32,115	(16,372)	(51.0%)

Gross profit for the nine months amounted to \$15.7 million versus \$32.1 million during the same period in 2016 as the price adjustments for finished goods in the end markets we serve lagged the rapid increase in raw material input costs. Gross margin for the nine months was 8.7% compared to 17.3% in the prior year.

### Gross Profit

(\$'000 unless otherwise stated)

	Nine Months Ended September 30 ,					
	2017		2016		Variance Fav / (Unfav)	
	Gross Profit	% of Total	Gross Profit	% of Total	Amount	%
US\$ gross profit	8,204	52.1%	19,511	60.8%	(11,306)	(57.9%)
C\$ gross profit	7,539	47.9%	12,604	39.2%	(5,066)	(40.2%)
Total gross profit	15,743	100.0%	32,115	100.0%	(16,372)	(51.0%)
Average C\$/US\$	1.3069		1.3205			

(\$'000 unless otherwise stated)	YTD 2017	YTD 2016	Variance Fav/(Unfav)	
<b>SG&amp;A EXPENSES</b>	12,417	14,573	2,156	14.8%

The decrease in SG&A expenses is a result of our focus to manage costs and lower compensation related items when compared to the prior year.

<i>(\$'000 unless otherwise stated)</i>	<u>YTD 2017</u>	<u>YTD 2016</u>	<u>Variance Fav/(Unfav)</u>	
<b>EBITDA</b>	5,073	19,941	(14,868)	(74.6%)

EBITDA earned for the nine months is inclusive of the foreign exchange loss in the period. The decrease in EBITDA is primarily impacted by the lower gross profit realized.

<i>(\$'000 unless otherwise stated)</i>	<u>YTD 2017</u>	<u>YTD 2016</u>	<u>Variance Fav/(Unfav)</u>	
<b>FINANCING EXPENSES</b>	2,194	2,030	(164)	(8.1%)

#### Financing Expenses

*(\$'000 unless otherwise stated)*

	Nine Months Ended September 30,			
			Variance Fav / (Unfav)	
	<u>2017</u>	<u>2016</u>	<u>Amount</u>	<u>%</u>
Non-cash financing expenses	827	866	39	4.5%
Interest on senior credit facility	765	502	(263)	(52.4%)
Other interest and financing costs	566	626	60	9.6%
Deferred financing costs	36	36	-	0.0%
Total financing expenses	<u>2,194</u>	<u>2,030</u>	<u>(164)</u>	<u>(8.1%)</u>

Our financing expenses are slightly more than the prior year due to the higher amounts borrowed, which is reflective of the increase in value of raw materials and finished goods in inventory due to the higher prices for rod and zinc.

<i>(\$'000 unless otherwise stated)</i>	<u>YTD 2017</u>	<u>YTD 2016</u>	<u>Variance Fav/(Unfav)</u>	
<b>FOREIGN EXCHANGE GAIN (LOSS)</b>	(701)	(93)	(608)	(653.8%)

The loss on foreign exchange is the result of losses in currency forward contracts settled in the period. The average transaction rate for our currency forward contracts during the first nine months of the year was C\$1.35 per US\$ compared to an average spot price of C\$1.31 per US\$. 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 September 30, 2017, the total notional value of US dollar currency forward contracts outstanding was US\$0.9 million.

<i>(\$'000 unless otherwise stated)</i>	<u>YTD 2017</u>	<u>YTD 2016</u>	<u>Variance Fav/(Unfav)</u>	
<b>INCOME TAX EXPENSE</b>	(480)	(1,762)	1,282	72.8%

For the nine months ended September 30, 2017 an income tax expense of \$0.5 million was booked compared to tax expense of \$1.8 million for the same period in 2016. In the prior period we were able to utilize tax benefits to reduce taxable income. The income tax expense is based on a statutory rate of 26% for Canadian taxable income and 31% for US based taxable income applied to the income of the respective subsidiaries before taxes, with adjustments for permanent differences between accounting and taxable income.

<i>(\$'000 unless otherwise stated)</i>	<u>YTD 2017</u>	<u>YTD 2016</u>	<u>Variance Fav/(Unfav)</u>	
<b>NET INCOME</b>	340	14,276	(13,936)	(97.6%)

The decrease in net income over the prior year is attributable to the lower operating income on account of lower realized gross profit due to the narrow spread between selling prices and raw material costs.

## 8 FINANCIAL CONDITION AND LIQUIDITY

### 8.1 WORKING CAPITAL

#### Working Capital

(\$'000 unless otherwise stated)

	As at September 30,	
	2017	2016
Cash	1,436	6,124
Accounts receivable	29,778	31,750
Inventories	64,747	58,992
Other current assets	4,711	6,932
Total current assets	<u>100,672</u>	<u>103,798</u>
Senior credit facility	(40,439)	(25,371)
Accounts payable and accrued liabilities	(16,448)	(18,903)
Dividends payable	(611)	(622)
Other current liabilities	(280)	(2,768)
Current portion of long term debt	(3,534)	(3,795)
Total current liabilities	<u>(61,312)</u>	<u>(51,459)</u>
Net working capital	<u>39,360</u>	<u>52,339</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 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 September 30, 2017 was \$2.0 million less than last year, reflecting the lower sales revenues relative to last year as a result of the absence of the stainless products lines. The increase in the senior credit facility reflects the increase in the value of inventories which increased due to the rising costs of raw materials, particularly rod and zinc.

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

We manage our inventories with an emphasis on a continuous inflow of raw materials to meet our production needs balanced with strategic purchases. We have also established processes to regularly adjust the levels of finished goods stocked in our warehouses so that we can both satisfy customer needs, growth requirements and meet our objective of minimizing inventories on hand. The increase in the value of inventory is predominantly due to the rising costs of raw materials, which also translates into higher values for finished goods in inventory.

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

## 8.2 CASH FLOW

### Cash Flow

(\$'000 unless otherwise stated)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	<u>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>
Cash provided by (used in) operating activities	(1,315)	5,503	5,363	19,195
Working capital adjustments	2,812	(832)	(3,442)	(4,474)
Net cash provided by (used in) operating activities	<u>1,497</u>	<u>4,671</u>	<u>1,921</u>	<u>14,721</u>
Net cash provided by (used in) investing activities	<u>(772)</u>	<u>(1,145)</u>	<u>(5,956)</u>	<u>(2,274)</u>
Advance on (repayment of) senior term loans	(434)	(438)	(1,313)	(1,168)
Repayment of long-term debt	(450)	(471)	(2,082)	(2,132)
Other payables	(152)	(28)	(4)	(764)
Interest paid	(463)	(297)	(1,288)	(1,067)
Advance on (repayment of) senior revolving facility	888	2,607	12,661	(1,184)
Dividend payment	(615)	(622)	(1,851)	(1,244)
Share buyback	(589)	-	(1,946)	(67)
Net cash provided by (used in) financing activities	<u>(1,815)</u>	<u>751</u>	<u>4,177</u>	<u>(7,626)</u>
Exchange rate changes on foreign cash balances	<u>(34)</u>	<u>3</u>	<u>(57)</u>	<u>(23)</u>
Increase (decrease) in cash balances	<u>(1,124)</u>	<u>4,280</u>	<u>85</u>	<u>4,798</u>

For the three months ended September 30, 2017 net cash decreased due to investing and financing activities. The net cash used in investing activities for the nine months ended September 30, 2017 was for capital maintenance activities and deposits for manufacturing equipment.

## 8.3 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 September 30, 2017 the availability was in excess of the Availability Test and the Company was in compliance with its covenants on the senior credit facility.

## 8.4 LONG TERM DEBT AGREEMENTS

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).

## 9 CAPITAL EXPENDITURES AND CAPACITY

For the three months ended September 30, 2017, we made capital expenditures of \$0.8 million and for the year-to-date we made capital expenditures of \$6.0 million. These expenditures were for capital maintenance activities and deposits for manufacturing equipment. As noted in section 10 of this MD&A there are a further \$3.6 million in capital equipment commitments in 2017. The capital assets we have committed to are expected to be delivered throughout the remainder of 2017 and into the first half of 2018 with commissioning of the equipment generally taking between one month to three months after arrival.

## 10 CONTRACTUAL OBLIGATIONS AND COMMITMENTS

As of September 30, 2017, we were committed to the contracts, operating leases and debt repayments (including scheduled interest payments on interest bearing debt) set out below, which will be financed through working capital and our senior credit facility.

### Contractual Obligations and Commitments

(\$'000 unless otherwise stated)

	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>2020</u>	<u>2021</u>	<u>Thereafter</u>	<u>Total</u>
Production materials	14,565	8,206	-	-	-	-	22,771
Machinery and equipment	501.11	3,141	-	-	-	-	3,642
Operating leases	680	2,081	1,999	1,703	1,645	18,052	26,160
Total commitments	<u>15,746</u>	<u>13,428</u>	<u>1,999</u>	<u>1,703</u>	<u>1,645</u>	<u>18,052</u>	<u>52,573</u>
Senior revolving facility	40,439	-	-	-	-	-	40,439
AP and accrued liabilities	16,448	-	-	-	-	-	16,448
Other current liabilities	280	-	-	-	-	-	280
Dividends	611	-	-	-	-	-	611
Senior term loans	434	1,737	1,737	7,068	-	-	10,976
Long-term debt	449	2,421	2,220	1,333	1,333	5,085	12,841
Total financial liabilities	<u>58,661</u>	<u>4,158</u>	<u>3,957</u>	<u>8,401</u>	<u>1,333</u>	<u>5,085</u>	<u>81,595</u>
Total obligations and commitments	<u>74,407</u>	<u>17,586</u>	<u>5,956</u>	<u>10,104</u>	<u>2,978</u>	<u>23,137</u>	<u>134,168</u>

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 Q1 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 end of Q2 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.

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 September 30, 2017, the total notional value of US dollar currency forward contracts outstanding was US\$0.9 million and the fair value mark to market loss on the contracts was \$22k.

## 11 SUMMARY OF QUARTERLY FINANCIAL RESULTS

### Summary of Quarterly Financial Results

(\$'000 unless otherwise stated)

	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>	Mar 31, <u>2016</u>	Dec 31, <u>2015</u>
Revenue	55,643	61,455	63,046	45,903	57,726	65,384	62,240	54,274
Gross profit	2,299	5,942	7,502	5,295	9,583	11,521	11,009	5,933
Foreign exchange gain (loss)	(737)	(61)	97	(282)	(172)	319	(240)	127
EBITDA	(1,496)	2,376	4,193	1,032	5,369	7,857	6,712	1,815
Net income (loss)	(2,152)	736	1,756	(711)	2,687	6,360	5,226	5,523
Net income (loss) per unit - basic	(0.07)	0.04	0.06	(0.02)	0.09	0.20	0.17	0.18
Gross profit per ton	54	130	146	148	220	226	246	152
EBITDA per ton	(35)	52	82	29	123	154	150	47

The table above provides selected quarterly financial information for the eight most recent fiscal quarters to September 30, 2017. 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.

The stainless product lines were divested at the end of Q3, 2016.

From Q1 to Q3, 2017 inclusive, gross profit and EBITDA were negatively impacted by the rapid rise in raw material costs.

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

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

## **12 ACCOUNTING POLICIES AND STATEMENTS**

Certain of our accounting policies involve critical accounting estimates that require us to make subjective or complex judgments about matters that are inherently uncertain and because of the likelihood that materially different amounts could be reported under differing conditions or using different assumptions. We evaluate these estimates and assumptions regularly.

Our significant accounting policies are described in Note 3 of the December 31, 2016 audited consolidated financial statements, the Annual Information Form for the year ended December 31, 2016 and Note 3 to the September 30, 2017 interim unaudited condensed consolidated financial statements.

### **12.1 CRITICAL ACCOUNTING ESTIMATES**

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

## **13 RELATED PARTY TRANSACTIONS**

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

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

Based on Tree Island Steel’s outstanding Shares as at November 2, 2017, Futura owns 28.1% 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 and nine months ended September 30, 2017, Tree Island sold, net of rebates, approximately \$0.6 million and \$2.5 million respectively (\$0.8 million and \$2.6 million respectively in 2016) of goods to CanWel and trade accounts receivable owing from CanWel as at September 30, 2017 is approximately \$0.2 million (approximately \$0.2 million in 2016). Outstanding trade accounts receivable from CanWel at period end are unsecured, interest free and settlement occurs in cash.

### **13.2 TRANSACTIONS WITH KEY MANAGEMENT PERSONNEL**

Included in the definition of key management for purposes of disclosure of related party transactions are members of Board of Directors and officers of Tree Island Steel. Amounts for key management personnel for the three and nine months ended September 30, 2017 was approximately \$0.5 million and \$2.2 million respectively (approximately \$0.5 and \$2.3 million respectively in 2016) which includes wages, salaries, other compensation paid in the period (if any) and social security contributions, paid annual and sick leave, vehicle costs and bonuses. It also includes directors’ fees paid to members of the Board.

## **14 RISKS AND UNCERTAINTIES**

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

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

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

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

Our 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 September 30, 2017. These executives also certified that they are responsible for the design of disclosure controls and procedures and internal control over financial reporting. There have been no changes in internal control over financial reporting during the quarter ended September 30, 2017 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

The Company’s Board of Directors and Audit Committee reviewed and approved the September 30, 2017 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*

James Miller  
*Vice President, Corporate  
Development and  
Procurement*

### Shares:

#### *Market Information*

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

#### *Registrar and Transfer Agent*

Computershare Investor  
Services Inc.

### Corporate Head Office:

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

### Website:

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

### Investor Relations:

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

### Auditors:

Ernst & Young LLP  
Vancouver, B.C.

