



**WIRE & WIRE PRODUCTS**

**ESTABLISHED IN 1964**



**Management's Discussion  
and Analysis  
Q1 2017**

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

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

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

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*Nail Production at the San Bernardino Facility*

# MANAGEMENT DISCUSSION AND ANALYSIS

March 31, 2017 and 2016

The following is a discussion of the financial condition and results of operations of Tree Island Steel Ltd. ("Tree Island Steel" or the "Company") and its wholly owned operating subsidiary Tree Island Industries Limited (together with Tree Island Steel, referred to as "Tree Island"). This discussion is current to May 4, 2017 and should be read in conjunction with the unaudited interim condensed consolidated financial statements for the three months ended March 31, 2017. Tree Island Steel's unaudited interim condensed consolidated financial statements are prepared in accordance with International Accounting Standard ("IFRS") applicable to the preparation of financial statements and are reported in Canadian dollars. Additional information relating to Tree Island Steel, including the audited consolidated financial statements and Annual Information Form ("AIF") for the year ended December 31, 2016, can be found at [www.sedar.com](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 30,743,973 Shares outstanding as of March 31, 2017 and as of May 4, 2017 the same amount of Shares was outstanding.

### 3.1 ORGANIZATIONAL STRUCTURE

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

### 3.2 PRODUCTS

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

We market our products under the following brands:



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

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

### 3.3 MARKETS

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

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

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

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

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

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

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

## 5 RESULTS FROM OPERATIONS

(\$'000 unless otherwise stated)

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

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

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

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

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

<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.

### Revenue by Market Segment

(\$'000 unless otherwise stated)

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

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

### Revenue by Location

(\$'000 unless otherwise stated)

	Three Months Ended March 31,					
	2017		2016		Variance	
	Revenue	% of Total	Revenue	% of Total	Amount	%
United States	37,298	59.2%	39,992	64.3%	(2,694)	-6.7%
Canada	23,525	37.3%	20,130	32.3%	3,395	16.9%
International	2,217	3.5%	2,118	3.4%	99	4.7%
Total	63,040	100.0%	62,240	100.0%	800	1.3%
Average C\$/US\$	1.3231		1.3715			

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

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

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

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

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

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

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

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

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

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

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

Financing costs are consistent with the prior period.

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

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

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

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

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

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

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

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

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

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

## 7 FINANCIAL CONDITION AND LIQUIDITY

### 7.1 WORKING CAPITAL

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

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

Accounts receivable as at March 31, 2017 was \$1.4 million more than last year, reflecting increase in sales revenues. The increase in the Senior Credit Facility reflects the increase in inventory levels required for the production requirements to satisfy sales requirements. The value of inventories also increased on account of the rising costs of raw materials experienced in the quarter.

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

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

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

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

### Working Capital

(\$'000 unless otherwise stated)

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

## 7.2 CASH FLOW

### Cash Flow

(\$'000 unless otherwise stated)

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

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

### **7.3 SENIOR CREDIT FACILITY**

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

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

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

### **7.4 LONG TERM DEBT AGREEMENTS**

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

## **8 CAPITAL EXPENDITURES AND CAPACITY**

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

## **9 CONTRACTUAL OBLIGATIONS AND COMMITMENTS**

As of March 31, 2017, we were committed to the contracts, operating leases and debt repayments (including scheduled interest payments on interest bearing debt) set out below, which will be financed through working capital and our Senior Credit Facility.

The production materials include raw materials, such as wire rod and zinc, and finished goods. The raw materials are used in the day-to-day operations of our manufacturing facilities and are in the normal course of our business activities. Finished goods are purchased for resale without further processing and are also in the normal course of our business activities. All committed production materials are to be delivered prior to the end of 2017.

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

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

### Contractual Obligations and Commitments

(\$'000 unless otherwise stated)

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

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

## 10 SUMMARY OF QUARTERLY FINANCIAL RESULTS

### Summary of Quarterly Financial Results

(\$'000 unless otherwise stated)

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

The table above provides selected quarterly financial information for the eight most recent fiscal quarters to March 31, 2017. Sales volume in the last quarter of the year has traditionally been the lowest in the year due to the

seasonality of our business and the markets we sell to. Quarter-over-quarter results may also be impacted by unusual or infrequently occurring items.

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

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

## **11 ACCOUNTING POLICIES AND STATEMENTS**

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

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

### **11.1 CRITICAL ACCOUNTING ESTIMATES**

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

## **12 RELATED PARTY TRANSACTIONS**

### **12.1 TRANSACTIONS WITH ASSOCIATED COMPANIES**

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

Based on Tree Island Steel’s outstanding Shares as at May 4, 2017, Futura owns 27.8% of the fully diluted Shares of the Company.

In addition, Mr. Doman is Chairman and CEO of CanWel Building Materials Group Ltd. (“CanWel”). For the three months ended March 31, 2017, Tree Island sold, net of rebates, approximately \$1.3 million (\$1.0 million in 2016) of goods to CanWel and trade accounts receivable owing from CanWel as at March 31, 2017 is approximately \$0.5 million (approximately \$0.9 million in 2016). Outstanding trade accounts receivable from CanWel at period end are unsecured, interest free and settlement occurs in cash.

### **12.2 TRANSACTIONS WITH KEY MANAGEMENT PERSONNEL**

Included in the definition of key management for purposes of disclosure of related party transactions are members of Board of Directors and officers of Tree Island Steel. Amounts for key management personnel for the three months ended March 31, 2017 was approximately \$1.1 million respectively (approximately \$1.4 million in 2016) which includes wages, salaries, other compensation paid in the period (if any) and social security contributions, paid annual and sick leave, vehicle costs and bonuses. It also includes directors’ fees paid to members of the Board.

### **13 RISKS AND UNCERTAINTIES**

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

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

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

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

Our Chief Executive Officer and Chief Financial Officer certified the appropriateness of the financial disclosures in the interim financial report together with the other financial information included in the interim filings for the period ended March 31, 2017. These executives also certified that they are responsible for the design of disclosure controls and procedures and internal control over financial reporting. There have been no changes in internal control over financial reporting during the quarter ended March 31, 2017 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

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

## 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.

