



WIRE & WIRE PRODUCTS

ESTABLISHED IN 1964



Management's Discussion
and Analysis
Q3 2018

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

Our products include 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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Shipment of Engineered Structural Mesh in Calgary used for concrete reinforced girders on a bridge overpass.

MANAGEMENT DISCUSSION AND ANALYSIS

September 30, 2018 and 2017

The following is a discussion of the financial condition and results of operations of Tree Island Steel Ltd. ("Tree Island Steel" or the "Company") and its wholly owned operating subsidiary Tree Island Industries Limited (together with Tree Island Steel, referred to as "Tree Island"). This discussion is current to November 2, 2018 and should be read in conjunction with the unaudited interim condensed consolidated financial statements for the nine months ended September 30, 2018. Tree Island Steel's unaudited interim condensed consolidated financial statements are prepared in accordance with International Financial Reporting Standard ("IFRS") applicable to the preparation of financial statements and are reported in Canadian dollars. Additional information relating to Tree Island Steel, including the audited consolidated financial statements and Annual Information Form ("AIF") for the year ended December 31, 2017, can be found at www.sedar.com or on Tree Island Steel's website at www.treeisland.com.

1 FORWARD LOOKING STATEMENTS AND RISK

This management's discussion and analysis ("MD&A") includes forward-looking information with respect to Tree Island Steel, including our business, operations and strategies, as well as financial performance and conditions. The use of forward-looking words such as, "may," "will," "expect" or similar variations generally identify such statements. Any statements that are not statements of historical fact should be considered to be forward-looking statements. Although we believe that the forward-looking statements are reasonable, they involve risks and uncertainties, including the risks and uncertainties discussed under the heading "Risks Relating to the Company's Business" in the Company's AIF for the year ended December 31, 2017.

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

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

2 NON-IFRS MEASURES

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

3 TREE ISLAND STEEL LTD.

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

There were 29,267,030 Shares outstanding as of September 30, 2018 and as of November 2, 2018 there were 29,216,645 Shares outstanding.

3.1 ORGANIZATIONAL STRUCTURE

Our corporate structure has the following primary entities: Tree Island Industries Limited (“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 (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 sourcing others from qualified manufacturers. We market these products to customers in Canada, the United States and internationally.

We market our products under the following brands:



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

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

3.3 MARKETS

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

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

3.4 SEASONALITY

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

4 2018 BUSINESS OVERVIEW AND DEVELOPMENT

4.1 BUSINESS OVERVIEW

Our third quarter and year-to-date financial results strengthened despite significant challenges and lower sales volumes resulting from U.S. imposition of tariffs on imported steel wire products. Improved average product selling prices and our strategic shift to higher-margin products, which are less susceptible to trade impacts and market competition, were key factors in our ability to respond successfully. We also took the difficult but necessary step to realign our production levels on account of the reduced volumes in the third quarter which impacted staffing levels in our production facilities.

The imposition of Section 232 tariffs by the United States government resulted in a change in customer purchasing behaviour, which impacted our Industrial products sales volume. The decline in revenues in this market segment was offset by higher average selling prices.

For Q3 2018, revenue amounted to \$55.8 million, which was in-line with the same period last year. Gross profit earned during the quarter was \$6.9 million compared to \$2.3 million in the same period last year, an increase of 201.4%. The Company's continuous focus on operational efficiency, improved average selling prices and adjustments made to production level along with the improved product mix were key factors. Gross profit margin in the quarter was 12.4% compared to 4.1% in the same period last year. EBITDA for the quarter was \$3.4 million, compared to a loss of \$1.5 million during the same period in 2017.

For the nine-month period ended September 30, 2018 total revenues of \$190.4 million was 5.7% higher than the same period last year on account of improved average selling prices in relation to cost of raw materials. In combination with our commitment on operational efficiency, gross profit earned for 2018 year-to-date amounted to \$22.1 million and the gross profit margin was 11.6%, compared to the gross profit earned in the corresponding period last year of \$15.7 million with a gross profit margin of 8.7%. EBITDA during the nine-month period of 2018 amounted to \$12.3 million.

Going forward, indicators for our Industrial end-markets have been cautious as Section 232 tariffs and various trade actions on both sides of the border continue to be disruptive to the industry. The sentiment in our other markets is also mixed, along with seasonal slowing in residential construction. We will continue to monitor and implement operational changes as needed in this evolving and fluid business environment.

4.2 Trade Action Review

4.2.1 U.S. Section 232 Trade Expansion Act

As of March 23, 2018, certain steel products imported into US are subject to additional import duties of 25%. The United States determined Canada, Mexico and the member countries of the European Union would no longer receive an exemption for the Section 232 tariff of 25% on steel products. As a result, effective June 1, 2018, the 25% tariff applies to certain steel products imported into the United States.

Due to limited availability and domestic sourcing options in the U.S for certain items, Tree Island has purchased imported raw materials into the United States that are subject to the import duty of 25%. Up to September 30, 2018, exposure and financial impact to Tree Island has been mitigated by price increases on the impacted end products to counter the costs associated with the import tariffs.

Certain products produced in Canada and sold to U.S. customers are impacted by the Section 232 tariffs , principally bright and galvanized wire in our Industrial market segment. Tree Island is passing through the Section 232 tariffs on sales of impacted products to U.S. customers. Tree Island has taken operational actions to adjust production levels to align with the lower demand. These actions helped to mitigate the decrease in sales volume.

4.2.2 Canadian Counter-Tariffs on Steel and Aluminum Products

In response to the actions by the U.S. measures, Canada imposed similar tariffs and surtaxes against imports of steel, aluminum, and other products. These import tariffs will only apply to goods originated from the United States and took effect on July 1, 2018.

Due to limited availability and domestic sourcing options in Canada for certain items, Tree Island has imported raw materials into Canada that are subject to the Canadian import duty of 25%. Management is evaluating the extent to which it will continue to import these items from the U.S. while these tariffs are in place. The Company does not have any significant sales into Canada from its U.S. subsidiaries that would be impacted by the Canadian import tariffs.

4.2.3 Canadian Safeguard on Steel

The Canadian government issued provisional safeguard measures imposing quotas for 200 days on the import of seven classes of steel goods: (1) energy tubular; (2) heavy plate; (3) hot-rolled sheet; (4) pre-painted steel; (5) concrete reinforcing bar; (6) wire rod; and (7) stainless steel wire. Tree Island is evaluating the provisional safeguards and is working with the Canadian government on communicating Tree Island's business interests.

In conjunction with the provisional safeguards, the Canadian government has 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 this inquiry is to determine whether any of the above-mentioned goods imported into Canada are considered to cause serious injury or threat to Canadian producers of like or directly competitive goods.

Imports from the United States, Israel and other CIFTA beneficiaries, such as Chile and Mexico (with the exception of energy tubular and wire rod classes of goods) are excluded from the Tribunal's inquiry. Imports of energy tubular and wire rod from Mexico are within the scope of the Tribunal's inquiry. If it makes an affirmative determination for any class of goods, the Tribunal is being directed to recommend the most appropriate remedy to address, over a period of three years, in accordance with Canada's rights and obligations under international trade agreements.

Declarations and undertakings are scheduled for October 29, 2018. A report, including any recommendations is scheduled to be completed by April 3, 2019.

Tree Island at this time cannot determine whether the CITT review will have an impact on Tree Island's Canadian raw material supply chain and purchasing programs.

4.2.4 United States Mexico Canada Agreement ("USMCA")

The USMCA is a pending free trade agreement between Canada Mexico, and the United States. It is a result of the 2017-2018 renegotiation of NAFTA (North American Free Trade Agreement) by its member states. On October 1, 2018, the three countries formally agreed to terms with final ratification and implementation pending.

Steel tariffs imposed by Section 232 are still in place despite reaching a new agreement. There is no assurance that USMCA will have a negative or positive effect on the Company's ability to source or sell its products into the U.S. market.

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

On March 28, 2017 a petition was submitted to the U.S. Department of Commerce and U.S. International Trade Commission initiating a trade case against imports of wire rod into the U.S. from ten countries on behalf of U.S.

domestic producer plaintiffs Gerdau, Nucor, Keystone and Charter Steel. The countries investigated were Belarus, Italy, Russia, South Africa, South Korea, Spain, Turkey, Ukraine, United Arab Emirates and the United Kingdom. The petition was accepted for further investigation on April 18, 2017 and the preliminary determination was made on May 12, 2017. The U.S. International Trade Commission confirmed the final determination on import wire rod duties against all ten countries as of May 1, 2018. Tree Island did not purchase any rod from those countries under investigation.

5 RESULTS FROM OPERATIONS

(\$'000 unless otherwise stated)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
Revenue	55,846	55,643	190,424	180,144
Cost of sales	(48,014)	(52,530)	(165,691)	(161,953)
Depreciation	(903)	(814)	(2,589)	(2,448)
Gross profit	6,929	2,299	22,144	15,743
Selling, general and administrative expenses	(4,379)	(3,872)	(12,714)	(12,417)
Operating income (loss)	2,550	(1,573)	9,430	3,326
Foreign exchange gain (loss)	(77)	(737)	298	(701)
Gain (loss) on sale of property, plant and equipment	(2)	(41)	2	(115)
Other Expenses	(39)	-	(104)	-
Changes in financial instruments recognized at fair value	(123)	248	(89)	504
Financing expenses	(850)	(758)	(2,492)	(2,194)
Income (loss) before income taxes	1,459	(2,861)	7,045	820
Current income tax (expense) recovery	(311)	-	(311)	(2)
Deferred income tax (expense) recovery	(125)	709	(1,814)	(478)
Net income (loss)	1,023	(2,152)	4,920	340
Operating income (loss)	2,550	(1,573)	9,430	3,326
Add back depreciation	903	814	2,589	2,448
Foreign exchange gain (loss)	(77)	(737)	298	(701)
EBITDA ¹	3,376	(1,496)	12,317	5,073
Net income (loss) per share - basic (\$/share)	0.03	(0.07)	0.17	0.01
Dividends per share (\$/share)	0.02	0.02	0.06	0.06
Financial Position as at:	September 30, 2018		December 31, 2017	
Total assets	165,704		133,681	
Total non-current financial liabilities	22,330		18,356	

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

6 COMPARISON OF RESULTS FOR THE THREE MONTHS ENDED SEPTEMBER 30, 2018 AND 2017

<i>(\$'000 unless otherwise stated)</i>	Q3 2018	Q3 2017	Variance Fav/(Unfav)	
SALES	55,846	55,643	203	0.4%

Revenues for the quarter were in-line with the prior year as a result of higher average selling prices over the prior year offset by lower volumes primarily in the Residential market, on account of actions taken to improve product mix offering, and lower demand from U.S. customers in the Industrial market due to steel import tariffs.

Revenue by Market Segment

(\$'000 unless otherwise stated)

	Three Months Ended September 30,					
	2018		2017		Variance	
	<u>Revenue</u>	<u>% of Total</u>	<u>Revenue</u>	<u>% of Total</u>	<u>Amount</u>	<u>%</u>
Industrial	18,082	32.4%	19,035	34.2%	(953)	(5.0%)
Residential	17,850	32.0%	19,673	35.4%	(1,823)	(9.3%)
Commercial	15,338	27.5%	11,946	21.5%	3,392	28.4%
Agricultural	4,576	8.2%	4,989	9.0%	(413)	(8.3%)
Total revenue	55,846	100.0%	55,643	100.0%	203	0.4%

Revenues generated in the U.S. and Canada were in-line with the same period last year as a result of higher average prices relative to last year.

Revenue by Location

(\$'000 unless otherwise stated)

	Three Months Ended September 30,					
	2018		2017		Variance	
	<u>Revenue</u>	<u>% of Total</u>	<u>Revenue</u>	<u>% of Total</u>	<u>Amount</u>	<u>%</u>
United States	36,773	65.8%	36,404	65.4%	369	1.0%
Canada	17,872	32.0%	17,281	31.1%	591	3.4%
International	1,201	2.2%	1,958	3.5%	(757)	(38.7%)
Total	55,846	100.0%	55,643	100.0%	203	0.4%
Average C\$/US\$	1.3067		1.2529			

<i>(\$'000 unless otherwise stated)</i>	Q3 2018	Q3 2017	Variance Fav/(Unfav)	
COST OF SALES	48,917	53,344	4,427	8.3%

The cost of goods sold (including depreciation) decreased due a reduction in sales volume and our focus on improving profitability of the product mix.

<i>(\$'000 unless otherwise stated)</i>	Q3 2018	Q3 2017	Variance Fav/(Unfav)	
GROSS PROFIT	6,929	2,299	4,630	201.4%

Gross profit for the three months amounted to \$6.9 million versus \$2.3 million during the same period in 2017. The increase in gross profit is primarily a result of improved profitability through better product mix and from price increases implemented to offset the increase in raw material input costs and tariffs.

<i>(\$'000 unless otherwise stated)</i>	Q3 2018	Q3 2017	Variance Fav/(Unfav)	
SG&A EXPENSES	4,379	3,872	(507)	(13.1%)

SG&A expenses are higher than the prior year on account of higher consultation and legal expenses incurred relating to trade actions and higher compensation expenses.

<i>(\$'000 unless otherwise stated)</i>	Q3 2018	Q3 2017	Variance Fav/(Unfav)	
EBITDA	3,376	(1,496)	4,872	325.7%

EBITDA earned for the quarter is inclusive of \$77 thousand foreign exchange loss in the quarter. The increase in EBITDA is primarily a result of improved product mix and improved profitability from price increases implemented to offset the increase in raw material input prices during the quarter.

<i>(\$'000 unless otherwise stated)</i>	Q3 2018	Q3 2017	Variance Fav/(Unfav)	
FINANCING EXPENSES	850	758	(92)	(12.1%)

The interest costs on our credit facilities has increased on account of higher average balances as well as increases in interest rates in the period.

Financing Expenses

(\$'000 unless otherwise stated)

	Three Months Ended September 30,			
	<u>2018</u>	<u>2017</u>	<u>Variance Fav / (Unfav)</u>	
			<u>Amount</u>	<u>%</u>
Non-cash financing expenses	229	248	19	7.7%
Interest on senior credit facility	412	282	(130)	(46.1%)
Other interest and financing costs	152	216	64	29.6%
Deferred financing costs	57	12	(45)	(375.0%)
Total financing expenses	850	758	(92)	(12.1%)

<i>(\$'000 unless otherwise stated)</i>	Q3 2018	Q3 2017	Variance Fav/(Unfav)	
FOREIGN EXCHANGE GAIN (LOSS)	(77)	(737)	660	89.6%

Our Canadian operation, whose functional currency is Canadian dollars has a portion of its assets, liabilities, sales and expenses denominated in currencies other than the Canadian dollar, in particular the U.S. dollar. With raw material costs being denominated in U.S. dollars, having a significant portion of our sales also being denominated in U.S. dollars 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, 2018, the total notional value of U.S. dollar currency forward contracts outstanding was US\$2.3 million.

<i>(\$'000 unless otherwise stated)</i>	Q3 2018	Q3 2017	Variance Fav/(Unfav)	
INCOME TAX EXPENSE	(436)	709	(1,145)	(161.5%)

In Q3 2018, income tax expense is \$0.4 million compared to tax recovery of \$0.7 million for Q3 2017. 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>	Q3 2018	Q3 2017	Variance Fav/(Unfav)	
NET INCOME (LOSS)	1,023	(2,152)	3,175	147.5%

The increase in net income over the prior year is attributable to the higher operating income in the quarter compared to prior year arising from improved profit margins.

7 COMPARISON OF RESULTS FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2018 AND 2017

<i>(\$'000 unless otherwise stated)</i>	YTD 2018	YTD 2017	Variance Fav/(Unfav)	
SALES	190,424	180,144	10,280	5.7%

The increase in year-to-date revenues over the prior year by 5.7% is attributable to the price increases implemented to offset the increase in raw material input costs and tariffs. This helped to mitigate in part the lower volumes to U.S. customers in the Industrial market due to steel import tariffs.

Revenue by Market Segment

(\$'000 unless otherwise stated)

	Nine Months Ended September 30,					
	2018		2017		Variance	
	<u>Revenue</u>	<u>% of Total</u>	<u>Revenue</u>	<u>% of Total</u>	<u>Amount</u>	<u>%</u>
Industrial	64,139	33.7%	62,979	35.0%	1,160	1.8%
Residential	61,206	32.1%	58,405	32.4%	2,801	4.8%
Commercial	40,422	21.2%	34,336	19.1%	6,086	17.7%
Agricultural	24,657	12.9%	24,424	13.6%	233	1.0%
Total revenue	190,424	100.0%	180,144	100.0%	10,280	5.7%

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

Revenue by Location

(\$'000 unless otherwise stated)

	Nine Months Ended September 30,					
	2018		2017		Variance	
	<u>Revenue</u>	<u>% of Total</u>	<u>Revenue</u>	<u>% of Total</u>	<u>Amount</u>	<u>%</u>
United States	120,003	63.0%	112,796	62.6%	7,207	6.4%
Canada	65,389	34.4%	60,530	33.6%	4,859	8.0%
International	5,032	2.6%	6,818	3.8%	(1,786)	(26.2%)
Total	190,424	100.0%	180,144	100.0%	10,280	5.7%
Average C\$/US\$	1.2867		1.3069			

<i>(\$'000 unless otherwise stated)</i>	YTD 2018	YTD 2017	Variance Fav/(Unfav)	
COST OF SALES	168,280	164,401	(3,879)	(2.4%)

The cost of goods sold (including depreciation) increased relative to last year due to increased costs of raw materials, for which price increases have been implemented to counteract the impact on profitability. The cost of conversion, as a percentage of revenues, is in-line with that of prior year.

<i>(\$'000 unless otherwise stated)</i>	<u>YTD 2018</u>	<u>YTD 2017</u>	<u>Variance Fav/(Unfav)</u>	
GROSS PROFIT	22,144	15,743	6,401	40.7%

Gross profit for the nine months amounted to \$22.1 million versus \$15.7 million during the same period in 2017 due to the increases of average selling prices year-to-date and improved product mix. Gross margin for the nine months is 11.6% compared to 8.7% for the year prior.

<i>(\$'000 unless otherwise stated)</i>	<u>YTD 2018</u>	<u>YTD 2017</u>	<u>Variance Fav/(Unfav)</u>	
SG&A EXPENSES	12,714	12,417	(297)	(2.4%)

SG&A expenses are consistent when compared to prior year with the increase related to higher costs for compensation and expenses associated with the recent trade actions.

<i>(\$'000 unless otherwise stated)</i>	<u>YTD 2018</u>	<u>YTD 2017</u>	<u>Variance Fav/(Unfav)</u>	
EBITDA	12,317	5,073	7,244	142.8%

EBITDA earned for the nine months is inclusive of the foreign exchange gain of \$298 thousand in the period. The increase in EBITDA is primarily a result of the higher gross profit margins.

<i>(\$'000 unless otherwise stated)</i>	<u>YTD 2018</u>	<u>YTD 2017</u>	<u>Variance Fav/(Unfav)</u>	
FINANCING EXPENSES	2,492	2,194	(298)	(13.6%)

The interest costs on our credit facilities has increased on account of higher average balances as well as increases in interest rates in the period.

Financing Expenses

(\$'000 unless otherwise stated)

	Nine Months Ended September 30,			
	<u>2018</u>	<u>2017</u>	<u>Variance Fav / (Unfav)</u>	
			<u>Amount</u>	<u>%</u>
Non-cash financing expenses	704	827	123	14.9%
Interest on senior credit facility	1,074	765	(309)	(40.4%)
Other interest and financing costs	634	566	(68)	(12.0%)
Deferred financing costs	80	36	(44)	(122.2%)
Total financing expenses	<u>2,492</u>	<u>2,194</u>	<u>(298)</u>	<u>(13.6%)</u>

<i>(\$'000 unless otherwise stated)</i>	<u>YTD 2018</u>	<u>YTD 2017</u>	<u>Variance Fav/(Unfav)</u>	
FOREIGN EXCHANGE GAIN (LOSS)	298	(701)	999	142.5%

Our Canadian operation, whose functional currency is Canadian dollars has a portion of its assets, liabilities, sales and expenses denominated in currencies other than the Canadian dollar, in particular the U.S. dollar. With raw material costs being denominated in U.S. dollars, having a significant portion of our sales also being denominated in U.S. dollars 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, 2018, the total notional value of U.S. dollar currency forward contracts outstanding was US\$2.3 million.

<i>(\$'000 unless otherwise stated)</i>	<u>YTD 2018</u>	<u>YTD 2017</u>	<u>Variance Fav/(Unfav)</u>	
INCOME TAX EXPENSE	(2,125)	(480)	(1,645)	(342.7%)

For the nine months ended September 30, 2018 an income tax expense of \$2.1 million was booked compared to tax expense of \$0.5 million for the same period in 2017. 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>YTD 2018</u>	<u>YTD 2017</u>	<u>Variance Fav/(Unfav)</u>	
NET INCOME	4,920	340	4,580	1,347.1%

The increase in net income over the prior year is attributable to the higher operating income year-to-date compared to prior year arising from improved profit margins.

8 FINANCIAL CONDITION AND LIQUIDITY

8.1 WORKING CAPITAL

Working Capital

(\$'000 unless otherwise stated)

	<u>As at September 30,</u>	
	<u>2018</u>	<u>2017</u>
Cash	2,456	1,436
Accounts receivable	31,408	29,778
Inventories	80,530	64,747
Other current assets	5,095	4,711
Total current assets	<u>119,489</u>	<u>100,672</u>
Senior credit facility	(47,199)	(40,439)
Accounts payable and accrued liabilities	(29,627)	(16,448)
Dividends payable	(585)	(611)
Other current liabilities	(456)	(280)
Current portion of long term debt	(4,038)	(3,534)
Total current liabilities	<u>(81,905)</u>	<u>(61,312)</u>
Net working capital	<u>37,584</u>	<u>39,360</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 payable as at September 30, 2018 was \$13.2 million more than last year, primarily reflecting the increase in raw material costs relative to last year.

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

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

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

8.2 CASH FLOW

Cash Flow

(\$'000 unless otherwise stated)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	<u>2018</u>	<u>2017</u>	<u>2018</u>	<u>2017</u>
Cash provided by (used in) operating activities	2,889	(1,315)	12,198	5,363
Working capital adjustments	(9,768)	2,812	(16,960)	(3,442)
Net cash provided by (used in) operating activities	<u>(6,879)</u>	<u>1,497</u>	<u>(4,762)</u>	<u>1,921</u>
Net cash provided by (used in) investing activities	<u>(1,078)</u>	<u>(772)</u>	<u>(5,565)</u>	<u>(5,956)</u>
Advance on (repayment of) senior term loans	3,927	(434)	3,055	(1,313)
Repayment of long-term debt	(468)	(450)	(1,392)	(2,082)
Other payables	293	(152)	441	(4)
Interest paid	(574)	(463)	(1,705)	(1,288)
Deferred financing expenses	(183)	-	(183)	-
Advance on (repayment of) senior revolving facility	6,868	888	13,731	12,661
Dividend payment	(587)	(615)	(1,771)	(1,851)
Share buyback	(287)	(589)	(1,061)	(1,946)
Net cash provided by (used in) financing activities	<u>8,989</u>	<u>(1,815)</u>	<u>11,115</u>	<u>4,177</u>
Exchange rate changes on foreign cash balances	<u>(14)</u>	<u>(34)</u>	<u>17</u>	<u>(57)</u>
Increase (decrease) in cash balances	<u>1,018</u>	<u>(1,124)</u>	<u>805</u>	<u>85</u>

For the three and nine months ended September 30, 2018, there was a net increase in cash. The net cash used in investing activities for the three and nine months ended September 30, 2018 was for capital maintenance activities and capital expenditures for manufacturing equipment.

8.3 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 September 30, 2018 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

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 \$7.8 million is outstanding as at September 30, 2018. 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, 2018, we made capital expenditures of \$1.9 million and for the year-to-date we made capital expenditures of \$6.5 million. These expenditures were for capital maintenance activities and commissioning manufacturing equipment. As noted in section 10 of this MD&A there are a further \$0.6 million in capital equipment commitments in 2018. The capital assets we have committed to are expected to be delivered in the fourth quarter 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, 2018, we were committed to the contracts, operating leases and debt repayments (including scheduled interest payments on interest bearing debt) set out below, which will be financed through working capital and our senior credit facility.

Contractual Obligations and Commitments

(\$'000 unless otherwise stated)

	<u>2018</u>	<u>2019</u>	<u>2020</u>	<u>2021</u>	<u>2022</u>	<u>Thereafter</u>	<u>Total</u>
Production materials	15,870	5,721	-	-	-	-	21,591
Machinery and equipment	66	503	-	-	-	-	569
Operating leases	776	2,774	2,659	2,633	2,504	17,180	28,526
Total commitments	<u>16,712</u>	<u>8,998</u>	<u>2,659</u>	<u>2,633</u>	<u>2,504</u>	<u>17,180</u>	<u>50,686</u>
Senior revolving facility	47,199	-	-	-	-	-	47,199
AP and accrued liabilities	29,627	-	-	-	-	-	29,627
Other current liabilities	298	-	-	-	-	-	298
Dividends	585	-	-	-	-	-	585
Senior term loans	447	1,965	1,965	1,965	1,965	5,331	13,638
Long-term debt	475	2,443	1,871	1,377	464	4,838	11,468
Total financial liabilities	<u>78,631</u>	<u>4,408</u>	<u>3,836</u>	<u>3,342</u>	<u>2,429</u>	<u>10,169</u>	<u>102,815</u>
Total obligations and commitments	<u>95,343</u>	<u>13,406</u>	<u>6,495</u>	<u>5,975</u>	<u>4,933</u>	<u>27,349</u>	<u>153,501</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 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. For the capital assets we have committed to purchase but have not yet received, amounts remaining to be paid are purchase commitments. All capital asset commitments amounts are expected to be paid by the end of Q1 2019.

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 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 September 30, 2018, the total notional value of U.S. dollar currency forward contracts outstanding was US\$2.3 million and the fair value mark to market loss on the contracts were immaterial.

11 SUMMARY OF QUARTERLY FINANCIAL RESULTS

The table below provides selected quarterly financial information for the eight most recent fiscal quarters to September 30, 2018. Sales volume in the fourth quarter of the year has traditionally been the lowest in the year due to the seasonality of our business and the markets we sell to. Quarter-over-quarter results may also be impacted by unusual or infrequently occurring items.

Summary of Quarterly Financial Results

(\$'000 unless otherwise stated)

	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>	Mar 31, <u>2017</u>	Dec 31, <u>2016</u>
Revenue	55,846	68,087	66,491	54,561	55,643	61,455	63,040	45,903
Gross profit	6,929	8,505	6,703	2,452	2,299	5,943	7,495	5,296
Foreign exchange gain (loss)	(77)	256	119	119	(737)	(61)	97	(282)
EBITDA	3,376	5,448	3,488	1,932	(1,496)	2,375	4,187	1,031
Net income (loss)	1,023	2,789	1,103	(1,974)	(2,152)	735	1,750	(705)
Net income (loss) per unit - basic	0.03	0.09	0.04	(0.07)	(0.07)	0.04	0.06	(0.02)

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.

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, 2017 audited consolidated financial statements, the Annual Information Form for the year ended December 31, 2017 and Note 3 to the September 30, 2018 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, 2017 (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, 2018, Futura owns 29.9% 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, 2018, Tree Island sold, net of rebates, approximately \$0.7 million and \$3.1 million (\$0.6 million and \$2.5 million in 2017) of goods to CanWel and trade accounts receivable owing from CanWel as at September 30, 2018 was approximately \$0.2 million (approximately \$0.2 million in 2017). 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, 2018 was approximately \$0.5 million and \$1.5 million respectively (approximately \$0.5 million and \$2.2 million in 2017) which includes wages, salaries, other compensation paid in the period (if any) and social security contributions, paid annual and sick leave, vehicle costs and bonuses. It also includes directors’ fees paid to members of the Board.

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. Risks pertaining to current economic conditions are discussed in the section above under the heading “2018 Business Overview and Development”. A detailed discussion of our significant business risks is provided in the 2017 Annual Information Form under the heading “Risk Factors” which can be found at www.sedar.com.

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, 2018. These executives also certified that they are responsible for the design of disclosure controls and procedures and internal control over financial reporting. There have been no changes in internal control over financial reporting during the quarter ended September 30, 2018 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

The Company’s Board of Directors and Audit Committee reviewed and approved the September 30, 2018 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:

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

Auditors:

KPMG LLP
Vancouver, B.C.

