



WIRE & WIRE PRODUCTS

ESTABLISHED IN 1964



Interim
Unaudited Consolidated
Financial Statements
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.

INTERIM UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

September 30, 2018 and 2017

NOTICE OF NO AUDITOR REVIEW OF INTERIM FINANCIAL STATEMENTS

Under National Instrument 51-102 “Continuous Disclosure Obligations”, Part 4, Subsection 4.3(3a), if an auditor has not performed a review of the interim financial statements, they must be accompanied by a notice indicating that the financial statements have not been reviewed by an auditor.

The accompanying interim condensed consolidated financial statements of Tree Island Steel Ltd. have been prepared by and are the responsibility of Tree Island Steel Ltd.’s management.

Tree Island Steel Ltd.’s independent auditor, KPMG LLP, has not performed a review of these financial statements in accordance with standards established by the Chartered Professional Accountants of Canada for a review of interim financial statements by an entity’s auditor.

November 2, 2018

INTERIM UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
September 30, 2018 and 2017

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

	As at September 30, 2018	December 31, 2017
Cash	2,456	1,651
Accounts receivable <i>(Note 5)</i>	31,408	26,147
Inventories <i>(Note 6)</i>	80,530	59,992
Prepaid expenses	5,095	3,421
Income taxes recoverable	-	148
Current assets	119,489	91,359
Property, plant and equipment <i>(Note 7)</i>	45,930	41,690
Deferred income tax asset	96	563
Other non-current assets	189	69
Total assets	165,704	133,681
Senior revolving facility <i>(Note 8.1)</i>	47,199	33,468
Accounts payable and accrued liabilities	29,627	18,272
Income taxes payable	158	-
Other current liabilities	298	178
Dividends payable	585	593
Current portion of long-term borrowing <i>(Notes 8.2, 9)</i>	4,038	3,545
Current liabilities	81,905	56,056
Senior term loans <i>(Note 8.2)</i>	11,718	8,808
Long-term debt <i>(Note 9)</i>	5,641	6,381
Other non-current liabilities	1,665	1,186
Deferred income tax liability	3,306	1,981
Total liabilities	104,235	74,412
Shareholders' equity	61,469	59,269
Total liabilities and shareholders' equity	165,704	133,681

See accompanying Notes to the Interim Unaudited Condensed Consolidated Financial Statements

Approved on behalf of Tree Island Steel Ltd.

[Signed]
 "Amar S. Doman"
 Chairman of the Board of Directors

[Signed]
 "Dale R. Maclean"
 Director, President and Chief Executive Officer

INTERIM UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
September 30, 2018 and 2017

INTERIM UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF OPERATIONS

(\$'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>
Sales	55,846	55,643	190,424	180,144
Cost of sales (Note 6)	(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 liabilities at fair value	(123)	248	(89)	504
Financing expenses (Note 10)	(850)	(758)	(2,492)	(2,194)
Income (loss) before income taxes	1,459	(2,861)	7,045	820
Current income tax recovery (expense) (Note 13)	(311)	-	(311)	(2)
Income tax recovery (expense) (Note 13)	(125)	709	(1,814)	(478)
Net income (loss)	1,023	(2,152)	4,920	340
Net income (loss) per share (Note 0)	0.03	(0.07)	0.17	0.01
Dividends per share	0.02	0.02	0.06	0.06
Weighted average number of shares (Note 0)	29,327,529	30,711,062	29,473,611	30,825,595

INTERIM UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

(\$'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>
Net income (loss) for the year	1,023	(2,152)	4,920	340
Unrealized income (loss) on FX translation	(101)	(472)	104	(793)
Comprehensive income (loss)	922	(2,624)	5,024	(453)

See accompanying Notes to the Interim Unaudited Condensed Consolidated Financial Statements

INTERIM UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
September 30, 2018 and 2017

INTERIM UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF SHAREHOLDERS' EQUITY
(\$'000 unless otherwise stated)

	Shareholders' Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total
Balance as at December 31, 2017	225,977	(163,600)	(3,108)	59,269
Repurchase of shares	(279)	-	-	(279)
Net income (loss)	-	1,105	-	1,105
Dividends	-	(591)	-	(591)
Other comprehensive income (loss)	-	-	105	105
Balance as at March 31, 2018	225,698	(163,086)	(3,003)	59,609
Repurchase of shares	(495)	-	-	(495)
Net income (loss)	-	2,792	-	2,792
Dividends	-	(587)	-	(587)
Other comprehensive income (loss)	-	-	100	100
Balance as at June 30, 2018	225,203	(160,881)	(2,903)	61,419
Repurchase of shares	(287)	-	-	(287)
Net income (loss)	-	1,023	-	1,023
Dividends	-	(585)	-	(585)
Other comprehensive income (loss)	-	-	(101)	(101)
Balance as at September 30, 2018	224,916	(160,443)	(3,004)	61,469
Balance as at December 31, 2016	230,423	(159,528)	(2,322)	68,573
Repurchase of shares	(1,349)	-	-	(1,349)
Net Income (loss)	-	1,750	-	1,750
Dividends	-	(615)	-	(615)
Other comprehensive income (loss)	-	-	(84)	(84)
Balance as at March 31, 2017	229,074	(158,393)	(2,406)	68,275
Repurchase of shares	(8)	-	-	(8)
Net Income (loss)	-	735	-	735
Dividends	-	(615)	-	(615)
Other comprehensive income (loss)	-	-	(237)	(237)
Balance as at June 30, 2017	229,066	(158,273)	(2,643)	68,150
Repurchase of shares	(589)	-	-	(589)
Net Income (loss)	-	(2,152)	-	(2,152)
Dividends	-	(611)	-	(611)
Other comprehensive income (loss)	-	-	(472)	(472)
Balance as at September 30, 2017	228,477	(161,036)	(3,115)	64,326

See accompanying Notes to the Interim Unaudited Condensed Consolidated Financial Statements

INTERIM UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
September 30, 2018 and 2017

INTERIM UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS
(\$'000 unless otherwise stated)

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2018	2017	2018	2017
Net income (loss)	1,023	(2,152)	4,920	340
Depreciation	903	814	2,589	2,448
Changes in financial liabilities recognized at fair value	123	(248)	89	(504)
Loss (gain) on sale of property, plant and equipment	2	2	(3)	49
Amortization and write-off of deferred financing	57	12	80	36
Non-cash accretion of long term debt	229	165	704	714
Net financing costs	564	581	1,708	1,444
Deferred income tax expense (recovery)	125	(709)	1,814	478
Exchange revaluation of foreign denominated debt	(137)	220	297	358
Working capital adjustments				
Accounts receivable	4,806	1,719	(5,260)	(6,036)
Inventories	(15,414)	1,272	(20,567)	591
Accounts payable and accrued liabilities	882	(1,293)	10,308	2,506
Prepaid expenses	(534)	1,067	(1,655)	(475)
Income and other taxes	311	-	311	(90)
Other	181	47	(97)	62
Net cash provided by (used in) operating activities	(6,879)	1,497	(4,762)	1,921
Proceeds on sale of property, plant and equipment	4	21	4	25
Purchase of property, plant and equipment	(1,082)	(793)	(5,569)	(5,981)
Net cash provided by (used in) investing activities	(1,078)	(772)	(5,565)	(5,956)
Term loans - advance (repayment)	3,927	(434)	3,055	(1,313)
Repayment of long-term debt	(468)	(450)	(1,392)	(2,082)
Other financing liabilities	293	(152)	441	(4)
Interest paid	(574)	(463)	(1,705)	(1,288)
Deferred financing fees	(183)	-	(183)	-
Increase (decrease) of senior revolving facility	6,868	888	13,731	12,661
Dividend paid	(587)	(615)	(1,771)	(1,851)
Repurchase of common shares	(287)	(589)	(1,061)	(1,946)
Net cash provided by (used in) financing activities	8,989	(1,815)	11,115	4,177
Effect of exchange rate change on cash	(14)	(34)	17	(57)
Increase (decrease) in cash	1,018	(1,124)	805	85
Cash - beginning of period	1,438	2,560	1,651	1,351
Cash - end of period	2,456	1,436	2,456	1,436

See accompanying Notes to the Interim Unaudited Condensed Consolidated Financial Statements

1 NATURE OF BUSINESS

These interim unaudited condensed consolidated financial statements of Tree Island Steel Ltd. ("Tree Island Steel" or the "Company") for the quarter ended September 30, 2018 were authorized for issue in accordance with a resolution of the Board of Directors on November 2, 2018.

Tree Island Steel is the successor to Tree Island Wire Income Fund and was incorporated under the laws of Canada on August 2, 2012 to affect the conversion from an income trust to a corporate entity. The units of Tree Island Wire Income Fund were converted into common shares of the Company ("Shares") upon conversion. The Company is headquartered at 3933 Boundary Road, Richmond, British Columbia, Canada and the Shares are publicly traded on the Toronto Stock Exchange ("TSX") under the symbol TSL.

Tree Island Steel owns 100% of the Shares of Tree Island Industries Ltd. ("TI Canada") (collectively "Tree Island"). TI Canada supplies a diverse range of steel wire and fabricated steel wire products to customers in Canada, the United States, and internationally.

2 BASIS OF PREPARATION

The interim condensed consolidated financial statements as at and for the three and nine months ended September 30, 2018 have been prepared in accordance with International Accounting Standard ("IAS") 34, "Interim Financial Reporting". They should be read in conjunction with the annual consolidated financial statements and the notes thereto for the year ended December 31, 2017 and do not include all information required for the full annual financial statements. Certain comparative information has been reclassified to conform to the presentation adopted during the period.

3 SIGNIFICANT ACCOUNTING POLICIES, CRITICAL ACCOUNTING JUDGEMENTS AND ESTIMATES

The accounting policies, methods of application and critical judgements and estimates used in the preparation of these consolidated financial statements are consistent with those disclosed in the annual consolidated financial statements as at December 31, 2017.

4 FUTURE IFRS STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE

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

IFRS 16 Leases

IFRS 16 was issued in January 16, 2016 and provides guidance on how leases are to be recognized, measured, presented and disclosed. The standard provides a single lessee accounting model, requiring lessees to recognize a lease as both an asset and a liability for all leases unless the lease term is twelve (12) months or less or the underlying asset has a low value. This standard is a significant change for how a lessee will recognize a lease from the standard it replaces, IAS 17. The accounting of leases by lessors under the new standard remains substantially unchanged from IAS 17. The standard is effective for annual periods beginning on or after January 1, 2019.

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

NOTES TO THE INTERIM UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

September 30, 2018 and 2017

the standard effective January 01, 2019. The Company expects to recognize lease liabilities and right-of-use assets in place of operating leases previously expensed.

At this time, the Company is currently compiling and analyzing data relating to existing contracts that may contain right-of-use assets and lease liabilities. These include rental and services contracts that may contain embedded leases for property, plant and equipment. At this time, the Company anticipates its total assets and total liabilities will increase along with increases to depreciation and interest accounts, and reduction in operating expenses. However, the Company has yet to quantify the effects of the new standard. The process of implementing the new standard and finalizing the assessments will extend into Q4 2018.

5 ACCOUNTS RECEIVABLE

Accounts receivable are non-interest bearing and are generally due on 30-day to 90-day terms. These terms are consistent for related party receivables as disclosed in Note 12. The maximum credit risk that Tree Island was exposed to by way of its accounts receivable is equal to the net amount of \$31.4 million as at September 30, 2018 (\$26.1 million as at December 31, 2017).

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

(\$'000 unless otherwise stated)

	As at September 30, 2018	As at December 31, 2017
Current	26,975	23,590
30 - 60 days past due	2,013	1,255
61 - 90 days past due	1,201	265
Over 91 days past due	1,677	1,375
Total accounts receivable	31,866	26,485
Allowance for doubtful accounts	(458)	(338)
Net accounts receivable	31,408	26,147

At the end of each reporting period, a review of the provision for bad debt and doubtful accounts is performed. It is an assessment of the potential amount of trade accounts receivable that will be paid by customers after the consolidated statements of financial position date. The assessment is made by reference to age, status and risk of each receivable, current economic conditions and historical information. The trade accounts receivable balance is reduced through the use of the allowance for doubtful accounts and the amount of the loss is recognized in the consolidated statement of operations. Reversals to the allowance for doubtful accounts occur when previously allowed for trade accounts receivable are collected. Individual trade accounts receivable, together with any associated allowance previously recognized, are written off when there is no realistic prospect of future recovery. Accounts receivables with related parties are discussed in Note 12.1.

NOTES TO THE INTERIM UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
September 30, 2018 and 2017

The following table represents a summary of the movement of the allowance for doubtful accounts:

(\$'000 unless otherwise stated)

	As at September 30, 2018	As at December 31, 2017
Opening balance – beginning of period	338	259
Additions during the period	113	88
Reversals during the period	5	10
Payments	(2)	(12)
Foreign exchange revaluation	4	(7)
Closing balance – end of period	<u>458</u>	<u>338</u>

See Note 15 on credit risk of trade receivables to understand how credit quality of accounts receivable that are neither past due nor impaired are managed and measured.

6 INVENTORIES

At each period end, the ending inventories on hand are reviewed to determine if a write down to net realizable value is required. Based on this review, it was determined that no write downs were necessary in the three and nine months period ended September 30, 2018 and 2017. The reserve for slow moving inventory as at September 30, 2018 was \$1.8 million (\$1.5 million at September 30, 2017).

Tree Island had the following categories of inventory:

(\$'000 unless otherwise stated)

	As at September 30, 2018	As at December 31, 2017
Raw materials	29,156	16,529
Finished and semi-finished products	36,480	29,216
Consumable supplies and spare parts	14,894	14,247
Total inventory	<u>80,530</u>	<u>59,992</u>

For the three and nine months period ended September 30, 2018 and 2017, Tree Island recognized, in income, inventory costs for the following:

(\$'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>
Opening inventory	65,117	54,426	59,992	54,467
Raw material purchases	46,812	22,720	133,778	81,238
Finished goods purchased for resale	2,190	3,716	6,051	7,882
Conversion costs	14,425	22,189	46,400	68,887
Closing inventory	<u>(80,530)</u>	<u>(50,521)</u>	<u>(80,530)</u>	<u>(50,521)</u>
Cost of sales	<u>48,014</u>	<u>52,530</u>	<u>165,691</u>	<u>161,953</u>

NOTES TO THE INTERIM UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
September 30, 2018 and 2017

7 PROPERTY, PLANT AND EQUIPMENT

The carrying value of long-lived assets is reviewed when there are indicators of impairment. For the purposes of testing for impairment, or the reversal of impairment, Tree Island Steel's assets are grouped and tested at the CGU level. Tree Island considers both qualitative and quantitative factors when determining whether an asset may be impaired, or when a reversal of impairment is required. Where the carrying value of the assets is not expected to be recoverable from future cash flows, they are written down to their recoverable amount. Tree Island has noted no indicators of impairment for this reporting period.

The net book value of the Company's property, plant and equipment is detailed below:

(\$'000 unless otherwise stated)

	Land & Improvement	Building & Improvement	Machinery & Equipment	Capital in Progress	Total
Cost					
As at December 31, 2016	9,835	43,433	29,550	1,076	83,894
Additions	-	1,464	1,804	2,871	6,139
Disposals	-	(7)	(298)	-	(305)
Foreign exchange translation	(140)	(564)	(496)	(38)	(1,238)
As at December 31, 2017	9,695	44,326	30,560	3,909	88,490
Additions	-	465	1,992	3,988	6,445
Disposals	-	-	(34)	-	(34)
Foreign exchange translation	64	294	239	51	648
As at September 30, 2018	9,759	45,085	32,757	7,948	95,549
Depreciation and impairment					
As at December 31, 2016	8	31,253	13,021	-	44,282
Depreciation for the period	16	1,262	2,252	-	3,530
Disposals	-	(7)	(227)	-	(234)
Foreign exchange translation	7	(277)	(508)	-	(778)
As at December 31, 2017	31	32,231	14,538	-	46,800
Depreciation for the period	12	944	1,633	-	2,589
Disposals	-	-	(28)	-	(28)
Foreign exchange translation	(7)	134	131	-	258
As at September 30, 2018	36	33,309	16,274	-	49,619
Net book value as at					
December 31, 2017	9,664	12,095	16,022	3,909	41,690
September 30, 2018	9,723	11,776	16,483	7,948	45,930

8 SENIOR CREDIT FACILITY

On July 1, 2018, the Company renewed its senior banking facility with Wells Fargo Capital Finance Corporation Canada ("Wells Fargo"). The five-year senior secured committed banking facility (the "Senior Credit Facility") which matures in June of 2023, may be used for Tree Island's financing requirements in Canadian and/or U.S. dollars, and comprises of the following:

- \$60 million of revolving credit facility;
- \$10 million "Fixed Asset Term Loan" applied against existing term loans; and
- \$10 million "Capex Term Loan" to finance future capital expenditures.

NOTES TO THE INTERIM UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

September 30, 2018 and 2017

8.1 Senior Credit Facility

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 includes a \$10.0 million Letter of Credit sub-facility which enables TI Canada and TI USA to open documentary and standby letters of credit for raw material purchases. There was a \$39k Letter of Credit outstanding as at September 30, 2018.

The amount available under the revolving portion of the Senior Credit Facility is limited to the amount of the calculated borrowing base, less issued Letters of Credit. The borrowing base is calculated as 90% of eligible receivables, plus the lesser of (a) 90% of the net orderly liquidation value of inventory and (b) 70% of eligible inventory.

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.

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

(\$'000 unless otherwise stated)

	As at September 30, 2018	As at December 31, 2017
Revolving portion of the senior credit facility	47,199	33,468
Deferred financing costs	(189)	(69)
Total	<u>47,010</u>	<u>33,399</u>

The revolving portion of the Senior Credit Facility denominated in U.S. dollars as at September 30, 2018 is \$21.4 million (\$20.4 million at September 30, 2017).

Deferred financing costs are included in other non-current assets on the statement of consolidated financial position.

The Senior Credit Facility has financial tests and other covenants with which the Company and its subsidiaries must comply, the primary one being based on the remaining funds within the senior credit facility that is available ("Availability Test"). Only if the Availability Test falls below a certain threshold then other covenants, which include a rolling four quarters defined fixed charge coverage ratio of 1:1, are tested. As well, the Senior Credit Facility contains restrictive covenants that limit the discretion of the Company's management with respect to certain business matters. These covenants place restrictions on, among other things, the ability of the Company's operating subsidiaries to incur additional indebtedness, to create liens or other encumbrances, to pay dividends or make certain other payments, investments, loans and guarantees and to sell or otherwise dispose of assets and merge or consolidate with another entity.

As at September 30, 2018, the availability was in excess of the Availability Test and the Company was in compliance with its financial covenants on the Senior Credit Facility.

NOTES TO THE INTERIM UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
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8.2 Senior Term Loans

Under the terms of the Senior Credit Facility, the Company has designated portions up to a total of \$20 million facility as two term loans denominated in either Canadian or U.S. dollars, and is available for 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 second term loan of the Senior Credit Facility for financing a new concrete mesh machine in our U.S. Operations.

The following amounts are outstanding under the Senior Term Loans:

(\$'000 unless otherwise stated)

	As at September 30, 2018	As at December 31, 2017
Senior term loans - beginning of period	10,546	12,369
Principal payments	(1,018)	(1,749)
Principal settlement	(9,565)	-
New Term Loan advanced	13,758	-
Principal payments – new term loan facilities	(119)	-
Foreign exchange revaluation	37	(74)
Senior term loans - end of period	13,639	10,546
Less: current portion	(1,921)	(1,738)
Total term loans	<u>11,718</u>	<u>8,808</u>

9 LONG-TERM DEBT

In June of 2012, the Company entered into long-term debt agreements with a trade creditor. The repayment schedule of the long-term debt extends to June 2028. The principal is payable over a 10 year amortization period. The interest is non-compounding at a rate of 4%, commenced accruing as of June 2017 and will become payable monthly over 4 years commencing June 2024. Principal payments, which started in 2009, are monthly in the amounts of US\$100k in years 1 and 2, US\$110k in years 3 and 4, US\$120k in years 5, 6 and 7, and US\$190k in years 8, 9, 10 and US\$90k in years 11, 12 and 13. Present value of the debt was determined using discounted cash flows and a credit adjusted discount rate of 9%. Using the effective interest rate method, the debt discount is amortized as accretion and charged to interest expense over the term of the amended long-term debt agreements.

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

NOTES TO THE INTERIM UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
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The elements of the long-term debt are listed below:

(\$'000 unless otherwise stated)

	As at September 30, 2018	As at December 31, 2017
Beginning of period	8,187	10,256
Payments	(1,392)	(2,542)
Foreign exchange revaluation	258	(601)
Accretion of debt discount	704	1,074
End of period	7,757	8,187
Less: current portion	(2,117)	(1,806)
Net long-term debt	<u>5,641</u>	<u>6,381</u>

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

10 FINANCING EXPENSES

(\$'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>
Non-cash accretion of debt discount and interest on long term debt	229	248	704	827
Interest on senior credit facility	412	282	1,074	765
Other interest and financing costs	152	216	634	566
Amortization of deferred financing costs	57	12	80	36
Total	<u>850</u>	<u>758</u>	<u>2,492</u>	<u>2,194</u>

11 SHAREHOLDERS' CAPITAL

Tree Island is authorized to issue an unlimited number of Shares. The Shares have no par value. There were no Shares issued and 382,769 Shares were cancelled in the nine months ended September 30, 2018. Shares issued and outstanding are as follows:

(\$'000 except for Shares)

	Shares	Gross	Issuance Cost ²	Net
Shareholders' capital - December 31, 2016	31,064,573	241,823	11,400	230,423
Repurchase of common shares	(1,414,774)	(4,446)	-	(4,446)
Shareholders' capital - December 31, 2017	29,649,799	237,377	11,400	225,977
Repurchase of common shares	(382,769)	(1,061)	-	(1,061)
Shareholders' capital - September 30, 2018	<u>29,267,030</u>	<u>236,316</u>	<u>11,400</u>	<u>224,916</u>

² Issuance costs were incurred as a result of the November 2002 Initial Public Offering and October 2004 Secondary Offering.

NOTES TO THE INTERIM UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

September 30, 2018 and 2017

11.1 NORMAL COURSE ISSUER BID

The Company has an ongoing normal course issuer bid (the "Bid"). The previous Bid was effective from September 21, 2017 to September 20, 2018 to purchase up to 1,500,000 Shares. The Company renewed the Bid, effective September 21, 2018 and expiring September 20, 2019. The renewed Bid allows the Company to purchase up to 1,460,000 Shares in the period. Tree Island has no obligation to purchase any Shares under the Bid.

For the period January 1, 2018 to September 20, 2018 the Company purchased 362,169 Shares under the previous Bid at a total cost of \$1.0 million (at an average price of \$2.77 per Share). Under the current Bid from September 21, 2018, the Company purchased 20,600 at a total cost of \$0.1 million (at an average price of \$2.80 per Share). All 382,769 Shares purchased were cancelled prior to September 30, 2018. Subsequent to September 30, 2018, 50,385 Shares were purchased at \$2.51 per Share for a total value of \$0.1 million. All 50,385 Shares were cancelled.

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 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.

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 and nine months ended September 30, 2018 was approximately \$0.5 million and \$1.5 million (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.

13 INCOME TAXES

A provision for income taxes is recognized for Tree Island Steel, TII and its wholly owned subsidiaries.

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September 30, 2018 and 2017

13.1 INCOME TAX EXPENSE

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

(\$'000 unless otherwise stated)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	<u>2018</u>	<u>2017</u>	<u>2018</u>	<u>2017</u>
Current tax expense	(311)	-	(311)	(2)
Deferred tax expense	(125)	709	(1,814)	(478)
Total recorded in the Statement of Operations	<u>(436)</u>	<u>709</u>	<u>(2,125)</u>	<u>(480)</u>

14 FINANCIAL INSTRUMENTS

14.1 FAIR VALUE OF FINANCIAL INSTRUMENTS

Tree Island records certain of its financial instruments at fair value using various techniques. These include estimates of fair values based on prevailing market rates (bid and ask prices, as appropriate) for instruments with similar characteristics and risk profiles or internal or external valuation models, such as discounted cash flow analysis and option pricing models, using, to the extent possible, observable market-based inputs.

(\$'000 unless otherwise stated)

	As at September 30, 2018		As at December 31, 2017	
	<u>Carrying Amount</u>	<u>Fair Value</u>	<u>Carrying Amount</u>	<u>Fair Value</u>
Cash and cash investments	2,456	2,456	1,651	1,651
Accounts receivable	31,408	31,408	26,147	26,147
Total financial assets	<u>33,864</u>	<u>33,864</u>	<u>27,798</u>	<u>27,798</u>
Senior revolving facility	47,199	47,199	33,468	33,468
Accounts payable and accrued liabilities	29,627	29,627	18,272	18,272
Senior term loans	13,639	13,639	10,546	10,546
Long-term debt	7,757	7,700	8,187	7,920
Foreign exchange forward contracts	23	23	-	-
Commodity purchase contract embedded derivative	-	-	67	67
Total financial liabilities	<u>98,245</u>	<u>98,188</u>	<u>70,540</u>	<u>70,273</u>

The fair values of the financial assets and financial liabilities are included at the amount at which the instrument could be exchanged in a current transaction between willing parties, other than a forced or liquidation sale. The following methods and assumptions were used to estimate the fair values:

- Cash, accounts receivable, the revolving portion of the senior credit facility and accounts payable and accrued liabilities approximate their carrying amounts largely due to the short-term nature of these instruments;
- Fair value on the Company's senior term loan, and long-term debt are based on estimated market interest rate on similar borrowings. The fair value of the senior term loan approximate fair value as the interest

NOTES TO THE INTERIM UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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rates approximate market. A one percent (1%) change in the market interest rate would change the fair value of long term debt by \$0.1 million;

- Fair value of the commodity purchase contract embedded derivatives are estimated using observable spot rates for zinc: and
- Fair value of the forward exchange contracts are estimated using observable foreign exchange spot and forward rates. The Company does not consider interest rates or the credit quality of counterparties as significant inputs to the valuation.

14.2 FAIR VALUE HIERARCHY

The financial instruments have been categorized on a fair value hierarchy based on whether the inputs to those valuation techniques are observable (inputs reflect market data obtained from independent sources) or unobservable (inputs reflect the Company's market assumptions).

The three levels of fair value estimation are:

Level 1: Quoted (unadjusted) market prices in active markets for identical assets or liabilities;

Level 2: Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable; and

Level 3: Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

The following table summarizes the classification of the Company's financial assets (indicated by parentheses in the table below) and liabilities into three levels based upon a fair value hierarchy that reflects the significance of the inputs used in making the measurements.

(\$'000 unless otherwise stated)

	Level 1	Level 2
Senior revolving facility	-	47,199
Senior term loans	-	13,639
Long-term debt	-	7,700
Foreign exchange forward contract	-	23

15 RISK EXPOSURE AND MANAGEMENT

Tree Island is exposed to various risks associated with its financial instruments. These risks are categorized as credit risk, liquidity risk and market risk.

15.1 CREDIT RISK

Credit risk consists of credit losses arising in the event of non-payment of accounts receivable of customer accounts. However, the credit risk is minimized through selling to well-established customers of high-credit quality. The credit worthiness of customers is assessed using credit scores supplied by a third party and through direct monitoring of their financial well-being on a continual basis. Management establishes guidelines for customer credit limits and should thresholds in these areas be reached, appropriate precautions are taken to improve collectability. Provisions

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for potential credit losses (allowance for doubtful accounts) are maintained and any such losses to date have been within management's expectations.

15.2 LIQUIDITY RISK

Liquidity arises from our financial obligations and in the management of our assets, liabilities and capital structure. This risk is managed by regular evaluation of our liquid financial resources to fund current and long-term obligations and to meet its capital commitments in a cost-effective manner.

The main factors that affect liquidity include realized sales prices, production levels, cash production costs, working capital requirements, future capital expenditure requirements, scheduled payments on financial liabilities and lease obligations, credit capacity and expected future debt and equity capital market conditions.

Liquidity requirements are met through a variety of sources including cash balances on hand, cash generated from operations, existing credit facilities, and debt and equity capital markets. Management monitors and manages liquidity risk by preparing annual budgets, monthly projections to the end of the fiscal year and regular monitoring of financial liabilities against the constraints of the available revolving credit facilities.

The table below summarizes the future undiscounted contractual cash flow requirements for financial liabilities (including scheduled interest payments on interest bearing liabilities) as at September 30, 2018 and December 31, 2017:

(\$'000 unless otherwise stated)

	Carrying Amount	Contractual Cash Flow	Less Than 1 Year	1 – 2 Years	Greater Than 2 Years
Senior revolving facility	47,199	47,199	47,199	-	-
Accounts payable and accrued liabilities	29,627	29,627	29,627	-	-
Senior term loans	13,639	13,638	1,921	3,930	7,787
Long-term debt	7,757	11,468	2,117	4,314	5,037
As at September 30, 2018	98,222	101,932	80,864	8,244	12,824
Senior revolving facility	33,468	33,468	33,468	-	-
Accounts payable and accrued liabilities	18,272	18,272	18,272	-	-
Senior term loans	10,546	10,546	1,738	8,808	-
Long-term debt	8,187	12,502	1,806	4,198	6,498
As at December 31, 2017	70,473	74,788	55,284	13,006	6,498

15.3 FOREIGN CURRENCY RISK

The significant market risk exposures affecting the financial instruments are those related to foreign currency exchange rates and interest rates. For the period ending September 30, 2018, a \$0.01 increase (decrease) in the Canadian dollar to U.S. dollar exchange rate will increase (decrease) net comprehensive income by \$25 thousand.

Tree Island's U.S. dollar-denominated cash, accounts receivable, accounts payable and accrued liabilities, Senior Credit Facility and long-term debt are exposed to foreign currency exchange rate risk because the value of these financial instruments will fluctuate with changes in the U.S./Canadian dollar exchange rate. 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.

NOTES TO THE INTERIM UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

September 30, 2018 and 2017

15.4 INTEREST RATE RISK

Tree Island is exposed to interest rate risk on its Senior Credit Facility, which is further discussed in Note 8. A one percent increase in the interest rates charged on the Senior Credit Facility would increase financing expenses by \$0.5 million annually. Tree Island does not use derivative instruments to manage the interest rate risk.

15.5 RAW MATERIAL PRICE RISK

Tree Island is exposed to changes in the price of the materials used in its production process and, from time to time, enters into contracts to purchase a portion of the zinc to be used. These are not designated as cash flow, fair value or net investment hedges. As of September 30, 2018 the fair value of zinc purchase contracts was a notional amount of \$0.4 million and the mark to market gain on the contracts was immaterial.

Due to limited availability and sourcing options for certain items, Tree Island has imported steel products that are subject to an import duty of 25%. Up to September 30, 2018, exposure and financial impact to Tree Island is not material as price increases have been implemented for the impacted steel products to counter the costs associated with the import tariffs.

16 MANAGEMENT OF CAPITAL

The Company's objectives when managing its capital are:

- To maintain a capital base so as to preserve and enhance investor, creditor, and market confidence and to sustain viability and future development of the business; and
- To manage capital in a manner that will comply with the financial covenants on the Senior Credit Facility, term loan and long-term debt agreements as described further in Notes 8.1, 8.2 and 9.

Management manages the capital structure in accordance with these objectives, as well as considerations given to changes in economic conditions and the risk characteristics of the underlying assets, in particular by close monitoring of cash flows and compliance with external debt covenants.

(\$'000 unless otherwise stated)

	<u>As at September 30, 2018</u>	<u>As at December 31, 2017</u>
Total shareholders' equity	61,469	59,269
Senior revolving facility	47,199	33,468
Senior term loans	13,639	10,546
Long-term debt	7,757	8,187
Total capital	<u>130,064</u>	<u>111,470</u>

NOTES TO THE INTERIM UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
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17 NET INCOME PER SHARE

The following reflects the income and Share data used in the basic and diluted earnings per Share computations:

(\$'000 unless otherwise stated)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	<u>2018</u>	<u>2017</u>	<u>2018</u>	<u>2017</u>
Net income (loss) for the period	1,023	(2,152)	4,920	340
Weighted average number of shares outstanding:	29,327,529	30,711,062	29,473,611	30,825,595
Net income (loss) per share (\$/share)	0.03	(0.07)	0.17	0.01

Basic earnings per Share amounts are calculated by dividing net income for the year by the weighted average number of Shares outstanding during the year.

Diluted earnings per Share amounts, if applicable, are calculated by dividing the net income for the year (after adjusting for interest and accretion, net of tax) by the weighted average number of Shares outstanding during the year plus the weighted average number of Shares that would be issued on conversion of all the dilutive potential units into Shares. As at September 30, 2018 there are no instruments issued that could be dilutive.

The Company has repurchased and cancelled 382,769 Shares in the nine months ended September 30, 2018 (Note 11).

18 PROVISIONS AND COMMITMENTS

18.1 LITIGATION AND CLAIMS

From time to time, Tree Island is party to certain legal actions and claims. As of September 30, 2018 there are no actions or claims that individually, or in the aggregate, is expected to have a material adverse effect on its financial position, statement of operations or cash flows.

18.2 PURCHASE COMMITMENTS

As at September 30, 2018, Tree Island's wholly owned subsidiaries have committed to production material purchases (including finished goods) totalling \$21.6 million (\$22.8 million – September 30, 2017) and capital equipment purchase commitments of \$0.6 million (\$3.6 million – September 30, 2017). The committed product material purchases, which are to be delivered before the end of Q1 2019, and capital equipment purchases, which are to be delivered before the end of Q1 2019, are in the normal course of our business activity.

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19 SEGMENTED INFORMATION

19.1 MARKET SEGMENTS

Revenues for each group for the three months ended September 30, 2018 and 2017 were as follows:

(\$'000 unless otherwise stated)

	<u>Three Months Ended September 30,</u>		<u>Nine Months Ended September 30,</u>	
	<u>2018</u>	<u>2017</u>	<u>2018</u>	<u>2017</u>
Industrial	18,082	19,035	64,139	62,979
Residential	17,850	19,673	61,206	58,405
Commercial	15,338	11,946	40,422	34,336
Agricultural	4,576	4,989	24,657	24,424
Total revenue	<u>55,846</u>	<u>55,643</u>	<u>190,424</u>	<u>180,144</u>

Tree Island operates primarily within one industry, the steel wire products industry, with no separately reportable operating segments. Tree Island groups its products into the following: industrial, residential construction, commercial construction and agricultural. No one customer is more than 10% of total revenue.

19.2 GEOGRAPHIC SEGMENTS

The products are sold primarily to customers in the United States and Canada and are attributed to geographic areas based on the location of customers:

(\$'000 unless otherwise stated)

	<u>Three Months Ended September 30,</u>		<u>Nine Months Ended September 30,</u>	
	<u>2018</u>	<u>2017</u>	<u>2018</u>	<u>2017</u>
United States	36,773	36,404	120,003	112,796
Canada	17,872	17,281	65,389	60,530
International	1,201	1,958	5,032	6,818
Total revenue	<u>55,846</u>	<u>55,643</u>	<u>190,424</u>	<u>180,144</u>

Non-current assets for this purpose consist of property, plant and equipment and other non-current assets. These assets are attributed to geographic areas based on the locations of the subsidiary company owning the assets.

(\$'000 unless otherwise stated)

	<u>September 30, 2018</u>	<u>December 31, 2017</u>
United States	16,655	12,315
Canada	29,464	29,444
Total non-current assets	<u>46,119</u>	<u>41,759</u>

SHAREHOLDER INFORMATION

TREE ISLAND STEEL
LTD.

Board of Directors:

Amar S. Doman –
Chairman of the Board

Dale R. MacLean

Peter Bull

Harry Rosenfeld

Michael Fitch

Sam Fleiser

Theodore A. Leja

Joe Downes

Leadership Team:

Dale R. MacLean
*President and Chief
Executive Officer*

Remy Stachowiak
Chief Operating Officer

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

Shares:

Market Information

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

Registrar and Transfer Agent

Computershare Investor
Services Inc.

Corporate Head Office:

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

Website:

www.treeisland.com

Investor Relations:

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

Auditors:

KPMG LLP
Vancouver, B.C.

