



WIRE & WIRE PRODUCTS

ESTABLISHED IN 1964



Management's Discussion
and Analysis
Q3 2019

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

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

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

MANAGEMENT’S DISCUSSION AND ANALYSIS 1
SHAREHOLDER INFORMATIONback cover



Mixed loads for shipment to distributors.

MANAGEMENT DISCUSSION AND ANALYSIS

September 30, 2019 and 2018

The following is a discussion of the financial condition and results of operations of Tree Island Steel ("Tree Island" or the "Company") and its wholly owned operating subsidiary Tree Island Industries (together with Tree Island Steel, referred to as "Tree Island"). This discussion is current to October 24, 2019 and should be read in conjunction with the unaudited interim condensed consolidated financial statements for the nine months ended September 30, 2019. Tree Island Steel's unaudited interim condensed consolidated financial statements are prepared in accordance with International Financial Reporting Standards ("IFRS") applicable to the preparation of financial statements and are reported in Canadian dollars. Additional information relating to Tree Island Steel, including the audited consolidated financial statements and Annual Information Form ("AIF") for the year ended December 31, 2018, can be found at www.sedar.com or on Tree Island Steel's website at www.treeisland.com.

1 FORWARD-LOOKING STATEMENTS AND RISK

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

The forward-looking statements contained herein reflect management's current beliefs and are based upon certain assumptions that management believes to be reasonable based on the information currently available to management. By their very nature, forward-looking statements involve inherent risks and uncertainties, both general and specific, and a number of factors could cause actual events or results to differ materially from the results discussed in the forward-looking statements. In evaluating these statements, prospective investors should specifically consider various factors including the risks outlined in the 2018 Annual Information Form under the heading "Risk Factors" which may cause actual results to differ materially from any forward-looking statement. Such risks and uncertainties include, but are not limited to: general economic, market and business conditions, the cyclical nature of our business and demand for our products, financial condition of our customers, competition, volume and price pressure from import competition, deterioration in the Company's liquidity, disruption in the supply of raw materials, volatility in the costs of raw materials, transportation costs, foreign exchange fluctuations, leverage and restrictive covenants, labour relations, trade actions, dependence on key personnel and skilled workers, intellectual property risks, energy costs, un-insured loss, credit risk, operating risk, management of growth, changes in tax, environmental and other legislation, and other risks and uncertainties set forth in our publicly filed materials.

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

2 NON-IFRS MEASURES

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

3 TREE ISLAND STEEL

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

There were 28,831,637 Shares outstanding as of September 30, 2019 and as of October 24, 2019.

3.1 ORGANIZATIONAL STRUCTURE

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

3.2 PRODUCTS

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

We market our products under the following brands:



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

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

3.3 MARKETS

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

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

3.4 SEASONALITY

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

4 2019 BUSINESS OVERVIEW AND DEVELOPMENT

4.1 BUSINESS OVERVIEW

On May 19, 2019, Canada and the U.S. reached an agreement that eliminates all tariffs the U.S. imposed under Section 232 on imports of steel from Canada, and eliminates all tariffs Canada imposed in retaliation to the Section 232 action taken by the U.S. Since the announcement of the agreement, demand for our products has increased but not yet to the levels we had experienced in the past. This relates primarily to sales in the U.S. in our Industrial markets and to a lesser degree in our Agricultural markets which were the markets most impacted by these tariffs.

For the three-month period ended September 30, 2019, revenues amounted to \$49.7 million compared to \$55.8 million in the same period last year. In the quarter, the revenues of products impacted by the tariffs have begun to recover. However, this was offset by lower pricing impacted by reduced raw material prices, industry wide competitive pricing pressures, and a lower demand in the Residential and Commercial segments. The lower selling prices and softer demand in the quarter resulted in a gross profit of \$4.6 million for the quarter, compared to \$6.9 million in the same period in 2018. As a result, EBITDA in the third quarter of 2019 amounted to \$2.5 million compared to \$3.4 million during the third quarter of 2018.

For the nine-month period ended September 30, 2019, revenues amounted to \$155.3 million compared to \$190.4 million in the first nine months of last year, attributable to lower sales volumes to U.S. customers in the Industrial and Agricultural markets, impacted by Section 232 steel tariffs affecting the first half of 2019, and softer market demand in Residential and Commercial markets. These impacts resulted in a gross profit of \$14.3 million for the first nine months of 2019, compared to \$22.1 million in the same period in 2018. As a result, EBITDA in the first three quarters of 2019 amounted to \$6.9 million compared to \$12.3 million during the same period of 2018.

4.2 UNSOLICITED NON-BINDING ACQUISITION PROPOSAL

Tree Island Steel announced on June 28, 2019 that it had been advised of the intention of The Futura Corporation and Arbutus Distributors Ltd. (together, the "Offerors"), entities controlled by certain directors of the Company, to make an unsolicited non-binding proposal ("Proposal") by way of a plan of arrangement to acquire all of the common shares of the Company not already owned by the Offerors.

The board of directors of the Company appointed a special committee of the board made up entirely of directors who were independent of both management and the Offerors (the "Special Committee"). The Special Committee engaged PwC to prepare a formal valuation of the Company and advise on an appropriate response to the Proposal.

On August 31, 2019, the Special Committee was advised by the Offerors of the withdrawal of their Proposal. As a result of the withdrawal of the Proposal by the Offerors, the engagement of the financial adviser to prepare a formal valuation was terminated by the Special Committee before completion of the valuation and the Special Committee was dissolved.

5 RESULTS FROM OPERATIONS

(\$'000 unless otherwise stated)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018 ¹	2019	2018 ¹
Revenue	49,701	55,846	155,261	190,424
Cost of sales	(43,513)	(48,014)	(136,361)	(165,691)
Depreciation ²	(1,565)	(903)	(4,611)	(2,589)
Gross profit	4,623	6,929	14,289	22,144
Selling, general and administrative expenses	(3,762)	(4,379)	(11,790)	(12,714)
Operating income	861	2,550	2,499	9,430
Foreign exchange gain (loss)	70	(77)	(186)	298
Gain (loss) on property, plant and equipment	(3)	(2)	-	2
Restructuring and other expenses	(215)	(39)	(482)	(104)
Changes in financial instruments recognized at fair value	-	(123)	-	(89)
Financing expenses ³	(1,111)	(850)	(3,590)	(2,492)
Income (loss) before income taxes	(398)	1,459	(1,759)	7,045
Current income tax (expense) recovery	-	(311)	(231)	(311)
Deferred income tax (expense) recovery	39	(125)	(1)	(1,814)
Net income (loss)	(359)	1,023	(1,991)	4,920
Operating income	861	2,550	2,499	9,430
Add back depreciation	1,565	903	4,611	2,589
Foreign exchange gain (loss)	70	(77)	(186)	298
EBITDA ⁴	2,496	3,376	6,924	12,317
Net income (loss) per share - basic (\$/share)	(0.01)	0.03	(0.07)	0.17
Dividends per share (\$/share)	0.02	0.02	0.06	0.06
Financial Position as at:	September 30, 2019		December 31, 2018	
Total assets ⁵	174,223		158,449	
Total non-current financial liabilities ⁶	49,395		21,928	

¹ On adoption of IFRS 16 Leases, the comparative information presented for 2018 have not been restated and is presented as previously reported. See Section 12 ACCOUNTING POLICIES AND STATEMENTS.

² Tree Island recognized depreciation from the adoption of IFRS 16 during Q3 2019 of \$0.7 million and \$2.0 million for the year-to-date. See Note 3 of the Q3 2019 Interim Unaudited Condensed Consolidated Financial Statements.

³ Tree Island recognized financing expenses from the adoption of IFRS 16 of \$0.4 million during Q3 2019 and \$1.1 million for the year-to-date. See Notes 3 and 10 of the Q3 2019 Interim Unaudited Condensed Consolidated Financial Statements.

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

⁵ Tree Island recognized right-of-use assets of \$29.8 million at the end of Q3 2019 from the adoption of IFRS 16. See Note 3 of the Q3 2019 Interim Unaudited Condensed Consolidated Financial Statements.

⁶ Tree Island recognized lease liability of \$33.0 million at the end of Q3 2019 from the adoption of IFRS 16. See Note 3 of the Q3 2019 Interim Unaudited Condensed Consolidated Financial Statements.

6 COMPARISON OF RESULTS FOR THE THREE MONTHS ENDED SEPTEMBER 30, 2019 AND 2018

<i>(\$'000 unless otherwise stated)</i>	Q3 2019	Q3 2018	Variance Fav/(Unfav)	
SALES	49,701	55,846	(6,145)	(11.0%)

Revenues decreased by 11.0% when compared to prior year primarily due to lower raw materials prices, aggressive pricing actions from competitors, and lower volumes in our Residential and Commercial market segments.

Revenue by Market Segment

(\$'000 unless otherwise stated)

	Three Months Ended September 30,					
	2019		2018		Variance	
	<u>Revenue</u>	<u>% of Total</u>	<u>Revenue</u>	<u>% of Total</u>	<u>Amount</u>	<u>%</u>
Industrial	18,037	36.3%	18,082	32.4%	(45)	(0.1%)
Commercial	13,252	26.7%	15,338	27.5%	(2,086)	(3.7%)
Agricultural	3,720	7.5%	4,576	8.2%	(856)	(1.5%)
Residential	14,692	29.6%	17,850	32.0%	(3,158)	(5.7%)
Total revenue	<u>49,701</u>	<u>100.0%</u>	<u>55,846</u>	<u>100.0%</u>	<u>(6,145)</u>	<u>(11.0%)</u>

Revenues generated in the US and Canada were both impacted by the factors noted above.

Revenue by Location

(\$'000 unless otherwise stated)

	Three Months Ended September 30,					
	2019		2018		Variance	
	<u>Revenue</u>	<u>% of Total</u>	<u>Revenue</u>	<u>% of Total</u>	<u>Amount</u>	<u>%</u>
United States	32,199	64.8%	36,773	65.8%	(4,574)	(12.4%)
Canada	16,057	32.3%	17,872	32.0%	(1,815)	(10.2%)
International	1,445	2.9%	1,201	2.2%	244	20.3%
Total	<u>49,701</u>	<u>100.0%</u>	<u>55,846</u>	<u>100.0%</u>	<u>(6,145)</u>	<u>(11.0%)</u>

Average C\$/US\$	1.3205	1.3067
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<i>(\$'000 unless otherwise stated)</i>	Q3 2019	Q3 2018	Variance Fav/(Unfav)	
COST OF SALES	43,513	48,014	4,501	9.4%

The cost of goods sold decreased when compared to last year due to lower raw material costs and a rebalance in production to match lower volumes as part of our ongoing commitment to cost management.

<i>(\$'000 unless otherwise stated)</i>	<u>Q3 2019</u>	<u>Q3 2018</u>	<u>Variance Fav/(Unfav)</u>	
GROSS PROFIT	4,623	6,929	(2,306)	(33.3%)

Gross profit for the three months amounted to \$4.6 million versus \$6.9 million during the same period in 2018, mainly the result of the impact of aggressive pricing and lower volumes in the Residential and Commercial construction markets.

<i>(\$'000 unless otherwise stated)</i>	<u>Q3 2019</u>	<u>Q3 2018</u>	<u>Variance Fav/(Unfav)</u>	
SG&A EXPENSES	3,762	4,379	617	14.1%

SG&A expenses are lower when compared to prior year, which was a result of the cost management actions taken.

<i>(\$'000 unless otherwise stated)</i>	<u>Q3 2019</u>	<u>Q3 2018</u>	<u>Variance Fav/(Unfav)</u>	
EBITDA	2,496	3,376	(880)	(26.1%)

EBITDA earned for the quarter is inclusive of \$70 thousand foreign exchange gain in the quarter. The decrease in EBITDA is primarily impacted by the lower gross profit realized in the quarter. In addition, the adoption of IFRS 16 in 2019 resulted in the recognition of depreciation related to the right-of-use assets of \$0.7 million in the quarter whereas prior year comparative results have not been restated to reflect such depreciation.

<i>(\$'000 unless otherwise stated)</i>	<u>Q3 2019</u>	<u>Q3 2018</u>	<u>Variance Fav/(Unfav)</u>	
FINANCING EXPENSES	1,111	850	(261)	(30.7%)

Financing expenses increased mainly from the adoption of IFRS 16 increasing financing costs by \$0.4 million.

Financing Expenses

(\$'000 unless otherwise stated)

	Three Months Ended September 30,			
			<u>Variance Fav / (Unfav)</u>	
	<u>2019</u>	<u>2018</u>	<u>Amount</u>	<u>%</u>
Non-cash financing expenses	178	229	51	22.3%
Interest on senior credit facility	388	412	24	5.8%
Interest on lease liability	354	-	(354)	(100.0%)
Other interest and financing costs	182	152	(30)	(19.7%)
Deferred financing costs	9	57	48	84.2%
Total financing expenses	<u>1,111</u>	<u>850</u>	<u>(261)</u>	<u>(30.7%)</u>

<i>(\$'000 unless otherwise stated)</i>	<u>Q3 2019</u>	<u>Q3 2018</u>	<u>Variance Fav/(Unfav)</u>	
FOREIGN EXCHANGE GAIN (LOSS)	70	(77)	147	190.9%

Our Canadian operation, whose functional currency is Canadian dollar, has a portion of its assets, liabilities, sales and expenses denominated in currencies other than the Canadian dollar, in particular the US dollar. With raw material costs being denominated in US dollar, having a significant portion of our sales also being denominated in US dollar creates a natural partial hedge. Foreign currency forward contracts are used to manage a portion of the remaining currency risk. Foreign exchange gains and losses are unpredictable in nature and therefore can vary significantly over time. As of September 30, 2019, the Company has US \$0.3 million in US dollar currency forward contracts outstanding.

<i>(\$'000 unless otherwise stated)</i>	<u>Q3 2019</u>	<u>Q3 2018</u>	<u>Variance Fav/(Unfav)</u>	
INCOME TAX EXPENSE	39	(436)	475	108.9%

In Q3 2019, income tax recovery is \$39 thousand compared to tax expense of \$0.4 million for Q3 2018. The income tax recovery 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>Q3 2019</u>	<u>Q3 2018</u>	<u>Variance Fav/(Unfav)</u>	
NET INCOME (LOSS)	(359)	1,023	(1,382)	(135.1%)

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

7 COMPARISON OF RESULTS FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2019 AND 2018

<i>(\$'000 unless otherwise stated)</i>	<u>YTD 2019</u>	<u>YTD 2018</u>	<u>Variance Fav/(Unfav)</u>	
SALES	155,261	190,424	(35,163)	(18.5%)

The decrease in year-to-date revenues over the prior year by 18.5% is primarily due to a combination of lower volumes shipped to the U.S. from our Industrial segment on account of U.S. Section 232 import tariffs affecting the first half of the year, aggressive competitive pricing, and softer market demand.

Revenue by Market Segment

(\$'000 unless otherwise stated)

	Nine Months Ended September 30,					
	2019		2018		Variance	
	<u>Revenue</u>	<u>% of Total</u>	<u>Revenue</u>	<u>% of Total</u>	<u>Amount</u>	<u>%</u>
Industrial	49,548	31.9%	64,139	33.7%	(14,591)	(7.7%)
Commercial	40,522	26.1%	40,422	21.2%	100	0.1%
Agricultural	21,831	14.1%	24,657	12.9%	(2,826)	(1.5%)
Residential	43,360	27.9%	61,206	32.1%	(17,846)	(9.4%)
Total revenue	155,261	100.0%	190,424	100.0%	(35,163)	(18.5%)

Revenues generated in the US and Canada decreased over the same period last year as a result of lower Industrial market volumes on the first half of the year, aggressive competitor pricing and reduced market demand.

Revenue by Location

(\$'000 unless otherwise stated)

	Nine Months Ended September 30 ,					
	2019		2018		Variance	
	Revenue	% of Total	Revenue	% of Total	Amount	%
United States	90,922	58.6%	120,003	63.0%	(29,081)	(24.2%)
Canada	58,660	37.7%	65,389	34.4%	(6,729)	(10.3%)
International	5,679	3.7%	5,032	2.6%	647	12.9%
Total	155,261	100.0%	190,424	100.0%	(35,163)	(18.5%)
Average C\$/US\$	1.3289		1.2867			

(\$'000 unless otherwise stated)	YTD 2019	YTD 2018	Variance Fav/(Unfav)	
COST OF SALES	136,361	165,691	29,330	17.7%

The cost of goods sold decreased when compared to last year due to lower raw materials costs and a rebalance in production to match lower volumes as part of our ongoing commitment to cost management.

(\$'000 unless otherwise stated)	YTD 2019	YTD 2018	Variance Fav/(Unfav)	
GROSS PROFIT	14,289	22,144	(7,855)	(35.5%)

Gross profit for the nine months amounted to \$14.3 million versus \$22.1 million during the same period in 2018, mainly the result of lower Industrial market volumes, aggressive competitive pricing actions and softer market demand.

(\$'000 unless otherwise stated)	YTD 2019	YTD 2018	Variance Fav/(Unfav)	
SG&A EXPENSES	11,790	12,714	924	7.3%

SG&A expenses are lower when compared to prior year, which was a result of cost reduction actions taken.

(\$'000 unless otherwise stated)	YTD 2019	YTD 2018	Variance Fav/(Unfav)	
EBITDA	6,924	12,317	(5,393)	(43.8%)

EBITDA earned for the nine months is inclusive of the foreign exchange loss of \$186 thousand in the period. The decrease in EBITDA is primarily a result of the lower gross profit discussed above. Also the adoption of IFRS 16 in 2019 resulted in the recognition of depreciation related to the right-of-use assets of \$2 million in the period whereas prior year comparative results have not been restated to reflect such depreciation.

<i>(\$'000 unless otherwise stated)</i>	<u>YTD 2019</u>	<u>YTD 2018</u>	<u>Variance Fav/(Unfav)</u>	
FINANCING EXPENSES	3,590	2,492	(1,098)	(44.1%)

Financing Expenses

(\$'000 unless otherwise stated)

	Nine Months Ended September 30,			
	<u>2019</u>	<u>2018</u>	<u>Variance Fav / (Unfav)</u>	
			<u>Amount</u>	<u>%</u>
Non-cash financing expenses	603	704	101	14.3%
Interest on senior credit facility	1,272	1,074	(198)	(18.4%)
Interest on lease liability	1,070	-	(1,070)	(100.0%)
Other interest and financing costs	618	634	16	2.5%
Deferred financing costs	27	80	53	66.3%
Total financing expenses	3,590	2,492	(1,098)	(44.1%)

Financing expenses increased mainly from the adoption of IFRS 16 increasing financing costs by \$1.1 million.

<i>(\$'000 unless otherwise stated)</i>	<u>YTD 2019</u>	<u>YTD 2018</u>	<u>Variance Fav/(Unfav)</u>	
FOREIGN EXCHANGE GAIN (LOSS)	(186)	298	(484)	(162.4%)

Our Canadian operation, whose functional currency is Canadian dollar has a portion of its assets, liabilities, sales and expenses denominated in currencies other than the Canadian dollar, in particular the US dollar. With raw material costs being denominated in US dollar, having a significant portion of our sales also being denominated in US dollar creates a natural partial hedge. Foreign currency forward contracts are used to manage a portion of the remaining currency risk. Foreign exchange gains and losses are unpredictable in nature and therefore can vary significantly over time. As at September 30, 2019, the Company has US \$0.3 million in US dollar currency forward contracts outstanding.

<i>(\$'000 unless otherwise stated)</i>	<u>YTD 2019</u>	<u>YTD 2018</u>	<u>Variance Fav/(Unfav)</u>	
INCOME TAX EXPENSE	(232)	(2,125)	1,893	89.1%

For the nine months ended September 30, 2019 an income tax expense of \$0.2 million was booked compared to \$2.1 million for the same period in 2018. The income tax expense/recovery 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 2019</u>	<u>YTD 2018</u>	<u>Variance Fav/(Unfav)</u>	
NET INCOME	(1,991)	4,920	(6,911)	(140.5%)

The decrease in net income over the prior year is attributable to the lower gross profit in the first nine months compared to prior year.

8 FINANCIAL CONDITION AND LIQUIDITY

8.1 WORKING CAPITAL

A summary of the composition of our working capital as at September 30, 2019 compared to 2018 is provided below:

Working Capital

(\$'000 unless otherwise stated)

	As at September 30,	
	2019	2018
Cash	1,476	2,456
Accounts receivable	26,242	31,408
Inventories	65,924	80,530
Other current assets	4,730	5,095
Total current assets	<u>98,372</u>	<u>119,489</u>
Senior credit facility	(42,040)	(47,199)
Accounts payable and accrued liabilities	(23,622)	(29,627)
Dividends payable	(577)	(585)
Other current liabilities	(263)	(456)
Current portion of long term debt	(4,274)	(4,038)
Current portion of lease liabilities	(1,644)	-
Total current liabilities	<u>(72,420)</u>	<u>(81,905)</u>
Net working capital	<u>25,952</u>	<u>37,584</u>

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

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

Accounts receivable as at September 30, 2019 was lower than at the same period last year, reflecting the decrease in sales in the first nine months of 2019 compared to the same period in the prior year.

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

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

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

8.2 CASH FLOW

Cash Flow

(\$'000 unless otherwise stated)

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	<u>2019</u>	<u>2018</u>	<u>2019</u>	<u>2018</u>
Cash provided by (used in) operating activities	2,404	2,889	5,869	12,198
Working capital adjustments	7,607	(9,768)	13,820	(16,960)
Net cash provided by (used in) operating activities	<u>10,011</u>	<u>(6,879)</u>	<u>19,689</u>	<u>(4,762)</u>
Net cash provided by (used in) investing activities	<u>(681)</u>	<u>(1,078)</u>	<u>(1,619)</u>	<u>(5,565)</u>
Advance on (repayment of) senior term loans	(492)	3,927	(1,479)	3,055
Repayment of long-term debt	(734)	(468)	(1,776)	(1,392)
Lease liability payment	(433)	-	(1,306)	-
Other financial liabilities	(13)	293	(35)	441
Lease interest paid	(354)	-	(1,069)	-
Other interest paid	(599)	(574)	(1,944)	(1,705)
Deferred financing expenses	-	(183)	(39)	(183)
Advance on (repayment of) senior revolving facility	(5,539)	6,868	(7,756)	13,731
Dividend payment	(577)	(587)	(1,744)	(1,771)
Share buyback	(31)	(287)	(721)	(1,061)
Net cash provided by (used in) financing activities	<u>(8,772)</u>	<u>8,989</u>	<u>(17,869)</u>	<u>11,115</u>
Exchange rate changes on foreign cash balances	<u>2</u>	<u>(14)</u>	<u>(2)</u>	<u>17</u>
Increase (decrease) in cash balances	<u>560</u>	<u>1,018</u>	<u>199</u>	<u>805</u>

For the three and nine months ended September 30, 2019, there was a net increase in cash. The net cash provided in operating activities for the three and nine months ended September 30, 2019 was mainly the result of the reduction of inventory.

On adoption of IFRS 16 Leases, the comparative information presented for 2018 have not been restated and is presented as previously reported. See Section 12 ACCOUNTING POLICIES AND STATEMENTS.

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, \$3.8 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, 2019, 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 US\$3.4 million is outstanding as at September 30, 2019. Interest, which began accruing in June 2017, is non-compounding. The interest is payable over a four year period beginning June 2024 (see Note 9 in the consolidated financial statements).

9 CAPITAL EXPENDITURES AND CAPACITY

For the three months ended September 30, 2019, we made capital expenditures of \$0.7 million and for the year-to-date, we made capital expenditures of \$1.6 million. These expenditures were for capital maintenance activities and new manufacturing equipment. As noted in Section 10 of this MD&A, there are a further \$1.6 million in capital equipment commitments in 2020. The capital assets we have committed to are expected to be delivered in 2020 with commissioning of the equipment generally taking approximately three months after arrival.

10 CONTRACTUAL OBLIGATIONS AND COMMITMENTS

As of September 30, 2019, we were committed to the contracts, operating leases and debt repayments (including scheduled interest payments on interest bearing debt) set out below, which will be financed through working capital and our senior credit facility.

The production materials include raw materials, such as wire rod and zinc, and finished goods. The raw materials, wire rod and zinc, are used in the day-to-day operations of our manufacturing facilities and are in the normal course of our business activities. Finished goods are purchased for resale without further processing and are also in the normal course of our business activities. All committed production materials are to be delivered in the fourth quarter of 2019 and first quarter of 2020.

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.

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

From time to time, the Company enters into U.S. dollar currency forward contracts for periods consistent with a portion of U.S. dollar currency transaction exposures, generally from one to three months. These are not designated as cash flow, fair value or net investment hedges. As of September 30, 2019, the Company has US \$0.3 million in U.S. dollar currency forward contracts outstanding.

Contractual Obligations and Commitments

(\$'000 unless otherwise stated)

	<u>2019</u>	<u>2020</u>	<u>2021</u>	<u>2022</u>	<u>2023</u>	<u>Thereafter</u>	<u>Total</u>
Production materials	19,645	5,382	-	-	-	-	25,027
Capital asset purchases	-	1,649	-	-	-	-	1,649
Total commitments	19,645	7,031	-	-	-	-	26,676
Senior revolving facility	42,040	-	-	-	-	-	42,040
AP and accrued liabilities	23,622	-	-	-	-	-	23,622
Other current liabilities	263	-	-	-	-	-	263
Dividends	577	-	-	-	-	-	577
Lease liabilities	792	2,914	2,870	2,920	2,562	37,748	49,806
Senior term loans	493	1,970	1,970	1,970	1,970	3,374	11,747
Long-term debt	735	1,922	1,414	476	-	4,969	9,516
Total financial liabilities	68,522	6,806	6,254	5,366	4,532	46,091	137,571
Total obligations and commitments	88,167	13,837	6,254	5,366	4,532	46,091	164,247

11 SUMMARY OF QUARTERLY FINANCIAL RESULTS

The table below provides selected quarterly financial information for the eight most recent fiscal quarters to September 30, 2019. Sales volume in the fourth quarter of the year has traditionally been the lowest in the year due to the seasonality of our business and the markets we sell to. Quarter-over-quarter results may also be impacted by unusual or infrequently occurring items.

Summary of Quarterly Financial Results

(\$'000 unless otherwise stated)

	Sep 30, <u>2019</u>	Jun 30, <u>2019</u>	Mar 31, <u>2019</u>	Dec 31, <u>2018</u>	Sep 30, <u>2018</u>	Jun 30, <u>2018</u>	Mar 31, <u>2018</u>	Dec 31, <u>2017</u>
Revenue	49,701	52,618	52,942	44,882	55,846	68,087	66,491	54,561
Gross profit	4,623	4,912	4,754	3,686	6,929	8,509	6,706	2,452
Foreign exchange gain (loss)	70	(85)	(171)	408	(77)	256	119	119
EBITDA	2,496	2,598	1,830	1,065	3,376	5,451	3,490	1,932
Net income (loss)	(359)	(536)	(1,096)	(2,334)	1,023	2,792	1,105	(1,974)
Net income (loss) per unit - basic	(0.01)	(0.02)	(0.04)	(0.08)	0.03	0.09	0.04	(0.07)

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.
- Aggressive pricing impacted revenue and margins in Q2 and Q3 2019.
- Volumes in the Industrial markets were impacted by Section 232 tariffs in the second half of 2018 and the first half of 2019.
- On adoption of IFRS 16 Leases, the comparative information presented for 2018 have not been restated and is presented as previously reported.

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

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, 2018 audited consolidated financial statements, the Annual Information Form for the year ended December 31, 2018 and Note 3 to the September 30, 2019 unaudited interim 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, 2018 (Note 3).

12.2 CHANGES IN ACCOUNTING POLICIES

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

Tree Island adopted IFRS 16 using the modified retrospective approach on January 1, 2019. Under this method, the cumulative effect of initially applying the standard is recognized in retained earnings at January 1, 2019. Accordingly, the comparative information presented for 2018 has not been restated and is presented as previously reported under IAS 17 and related interpretations.

On transition, Tree Island elected to apply the transition practical expedient allowing the standard to be applied only to contracts that were previously identified as leases under IAS 17. Tree Island also elected to use the recognition exemptions for lease contracts that, at the commencement date, have a lease term of 12 months or less and do not contain a purchase option (short-term leases), and lease contracts for which the underlying asset is of low value (low-value assets). The transition and impact are further discussed in Note 3 to the September 30, 2019 unaudited interim condensed consolidated financial statements.

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 October 24, 2019, Futura owns 30.6% 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, 2019, Tree Island sold, net of rebates, approximately \$0.5 million and \$2.3 million respectively (\$0.7 million and \$3.1 million in 2018) of goods to CanWel and trade accounts receivable owing from CanWel as at September 30, 2019 is approximately \$0.1 million (approximately \$0.2 million in 2018). 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 nine months ended September 30, 2019 was approximately \$0.5 million and \$1.7 million respectively (approximately \$0.5 million and \$1.5 million in 2018) which includes wages, salaries 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 “2019 Business Overview and Development”. A detailed discussion of our significant business risks is provided in the 2018 Annual Information Form under the heading “Risk Factors” which can be found at www.sedar.com.

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, 2019. These executives also certified that they are responsible for the design of disclosure

controls and procedures and internal control over financial reporting. There have been no changes in internal control over financial reporting during the quarter ended September 30, 2019 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

The Company's Board of Directors and Audit Committee reviewed and approved the September 30, 2019 unaudited interim condensed consolidated financial statements and this MD&A prior to its release.

SHAREHOLDER INFORMATION

TREE ISLAND STEEL
LTD.

Board of Directors:

Amar S. Doman –
Chairman of the Board

Dale R. MacLean

Peter Bull

Harry Rosenfeld

Michael Fitch

Sam Fleiser

Theodore A. Leja

Joe Downes

Leadership Team:

Dale R. MacLean
*President and Chief
Executive Officer*

Remy Stachowiak
Chief Operating Officer

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

Shares:

Market Information

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

Registrar and Transfer Agent

Computershare Investor
Services Inc.

Corporate Head Office:

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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.

