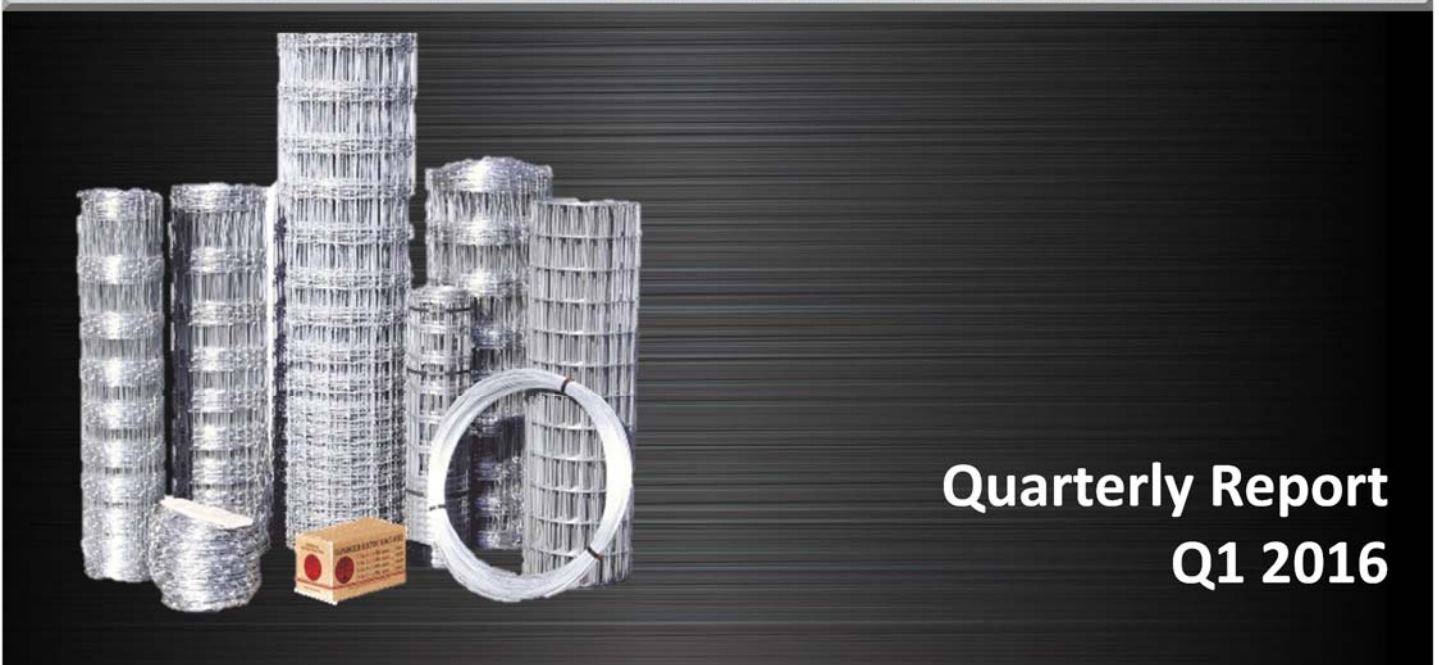




WIRE & WIRE PRODUCTS

ESTABLISHED IN 1964



Quarterly Report
Q1 2016

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

Our products include galvanized wire, bright wire, a broad array of fasteners, including packaged, collated and bulk nails, stucco reinforcing products, concrete reinforcing mesh, fencing, and other fabricated wire products. We market these products under the Tree Island, Halsteel, True Spec, K-Lath, Industrial Alloys, TI Wire, and Tough Strand brand names. We also operate a China-based company that assists with international sourcing of products.

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

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A selection of Tree Island Steel's Agricultural fencing products



Game fence installed on a ranch

MANAGEMENT DISCUSSION AND ANALYSIS

March 31, 2016 and 2015

The following is a discussion of the financial condition and results of operations of Tree Island Steel Ltd. ("Tree Island Steel" or the "Company") and its wholly owned operating subsidiary Tree Island Industries Limited ("TII") (together with Tree Island Steel, referred to as "Tree Island"). This discussion is current to May 5, 2016 and should be read in conjunction with the unaudited interim condensed consolidated financial statements for the three months ended March 31, 2016. Tree Island Steel's unaudited interim condensed consolidated financial statements are prepared in accordance with International Accounting Standard 34, Interim Financial Reporting, 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, 2015, can be found at www.sedar.com or on Tree Island Steel's website at www.treeisland.com.

1 FORWARD LOOKING STATEMENTS AND RISK

This management's discussion and analysis ("MD&A") includes forward-looking information with respect to Tree Island Steel, including our business, operations and strategies, as well as financial performance and conditions. The use of forward-looking words such as, "may," "will," "expect" or similar variations generally identify such statements. Any statements that are not statements of historical fact should be considered to be forward-looking statements. Although we believe that the forward-looking statements are reasonable, they involve risks and uncertainties, including the risks and uncertainties discussed under the heading "Risks Relating to the Company's Business" in the Company's AIF for the year ended December 31, 2015.

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

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

2 NON-IFRS MEASURES

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

3 TREE ISLAND STEEL LTD.

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

There were 31,095,073 Shares as of March 31, 2016 and between April 1 to May 5, 2016, an additional 11,900 Shares were purchased, resulting in the total number of Shares outstanding as of May 5, 2016 being 31,083,173 Shares.

3.1 ORGANIZATIONAL STRUCTURE

Our corporate structure has the following primary entities: TII which is our Canadian operating company as well as the ultimate parent company to our operations in the United States which are managed through our US operating subsidiary, Tree Island Wire (USA) Inc. (“TIW”), and a China based sourcing operation.

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, level of quality and price point 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.

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. We market our products under the following brands:



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

3.3 MARKETS

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

Markets	Brand	Key Product Groups	Specific End-Use Markets	Regions
Industrial	Tree Island, TI Wire	Bright/galvanized/annealed low and high carbon wire	Wire fabricating, industrial applications, OEM manufacturing	North America and International
Residential Construction	Tree Island, Halsteel, K-Lath, True Spec	Collated, bulk and packaged nails Stucco reinforcing mesh	Construction and renovation for new and existing homes	North America and International
Commercial Construction	Tree Island, TI Wire	Welded wire reinforcement mesh Concrete reinforcing products	Commercial construction, mining, infrastructure projects	North America and International
Agricultural	Tree Island, Tough Strand	Game fence and farm fence Vineyard wire and barbed wire	Agriculture, farming	North America
Specialty Applications	Industrial Alloys	Stainless spring wire Cold heading wire Shaped wire Specialty alloy bar and wire	Consumer products, industrial applications, telecommunications, aerospace, automotive, oil and gas	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 2016 BUSINESS OVERVIEW AND DEVELOPMENT

4.1 BUSINESS OVERVIEW

Our customer-centric strategy contributed to the revenue growing by 5.4% year-over-year to \$62.2 million. Meanwhile, \$11.0 million of gross profit was earned during the quarter, an increase of 33.7% when compared to the same period last year. This translates into a gross profit margin of 17.7% compared to 13.9% for the same period last year. The higher operating margin is attributable to operating leverage and a shift of our product mix based on our focus on higher margin products. This was reflected in improved gross profit from both US\$ sales and C\$ sales. EBITDA for the quarter grew by 21.9% over the same period last year to \$6.7 million (without accounting for the foreign exchange gain (loss), EBITDA grew by 50.7% year-over-year). Competition from both domestic manufacturers and import suppliers intensified as the majority of competitors look to capture market share based on lower prices, particularly in the US. We adjust our prices to reflect market conditions and to remain competitive while focusing on providing quality products and customer service excellence in order to be the preferred supplier of choice of our customers.

5 RESULTS FROM OPERATIONS

(\$'000 unless otherwise stated)

	Three Months Ended March 31,	
	<u>2016</u>	<u>2015</u>
Revenue	62,240	59,043
Cost of sales	(50,404)	(50,065)
Depreciation	(826)	(744)
Gross profit	11,010	8,234
Selling, general and administrative expenses	(4,882)	(4,362)
Operating income	6,128	3,872
Foreign exchange gain (loss)	(240)	892
Gain (loss) on sale of property, plant and equipment	-	(6)
Changes in financial liabilities recognized at fair value	450	(123)
Financing expenses	(716)	(849)
Income before income taxes	5,622	3,786
Income tax (expense) recovery	(393)	(1,669)
Net income	<u>5,229</u>	<u>2,117</u>
Operating Income	6,128	3,872
Add back depreciation	826	744
Foreign exchange gain (loss)	(240)	892
EBITDA ¹	<u>6,714</u>	<u>5,508</u>
Net income per share (\$/share)	0.17	0.07
Sales volume - Tons ²	44,768	41,016
Gross profit per ton (\$/ton)	246	201
EBITDA per ton (\$/ton)	150	134

Financial Position as at:	<u>March 31, 2016</u>	<u>December 31, 2015</u>
Total Assets	135,297	131,589
Total non-current financial liabilities	20,464	22,152

6 COMPARISON OF RESULTS FOR THE THREE MONTHS ENDED March 31, 2016 AND 2015

<i>(\$'000 unless otherwise stated)</i>	<u>Q1 2016</u>	<u>Q1 2015</u>	<u>Variance Fav/(Unfav)</u>	
SALES	62,240	59,043	3,197	5.4%

Total revenue growth for the quarter was a direct result of the strong sales growth coming from the Residential, Commercial and Agricultural sectors. The robust housing and construction markets in the US helped to boost revenues for the Residential and Commercial sectors while the addition of the new facility in Calgary helped to support the growth in Commercial sector revenues, as well as the revenue growth within Canada. The decrease in revenue from the Industrial and the Specialty sectors is reflective of lower product prices resulting from the lower prices of steel, iron ore and other commodities and pricing pressure from competitors.

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

² Sales volumes excludes tons which were processed as part of tolling arrangements

Revenue by Market Segment
(\$'000 unless otherwise stated)

	Three Months Ended March 31,					
	2016		2015		Variance	
	Revenue	% of Total	Revenue	% of Total	Amount	%
Industrial	19,583	31.5%	20,467	34.7%	(884)	(4.3%)
Residential	18,720	30.1%	17,908	30.3%	812	4.5%
Commercial	10,452	16.8%	8,188	13.9%	2,264	27.7%
Agricultural	9,128	14.7%	7,457	12.6%	1,671	22.4%
Specialty	4,357	7.0%	5,023	8.5%	(666)	(13.3%)
Total revenue	62,240	100.0%	59,043	100.0%	3,197	5.4%

Revenue by Location
(\$'000 unless otherwise stated)

	Three Months Ended March 31,					
	2016		2015		Variance	
	Revenue	% of Total	Revenue	% of Total	Amount	%
United States	39,992	64.3%	39,031	66.1%	961	2.5%
Canada	20,130	32.3%	18,524	31.4%	1,606	8.7%
International	2,118	3.4%	1,488	2.5%	630	42.3%
Total	62,240	100.0%	59,043	100.0%	3,197	5.4%
Average C\$/US\$	1.3715		1.2420			

(\$'000 unless otherwise stated)	Q1 2016	Q1 2015	Variance Fav/(Unfav)	
COST OF SALES AND DEPRECIATION	51,230	50,809	(421)	(0.8%)

The cost of goods sold (including depreciation) increased as a result of the increase in volume. However, we achieved better production efficiencies as a result of operating leverage and increased training, which helped to offset the increase.

(\$'000 unless otherwise stated)	Q1 2016	Q1 2015	Variance Fav/(Unfav)	
GROSS PROFIT	11,010	8,234	2,776	33.7%

Gross Profit
(\$'000 unless otherwise stated)

	Three Months Ended March 31,					
	2016		2015		Variance Fav / (Unfav)	
	Gross Profit	% of Total	Gross Profit	% of Total	Amount	%
US\$ gross profit ³	7,035	63.9%	5,955	72.3%	1,080	18.1%
C\$ gross profit	3,975	36.1%	2,279	27.7%	1,696	74.4%
Total gross profit	11,010	100.0%	8,234	100.0%	2,776	33.7%
Average C\$/US\$	1.3715		1.2420			

³ After foreign exchange translation.

Higher revenues benefited the increase in gross profit while the improvement in gross profit margin from 13.9% last year to 17.7% this year is due to the combination of improved operating leverage and a shift in our product mix to higher margin products.

<i>(\$'000 unless otherwise stated)</i>	<u>Q1 2016</u>	<u>Q1 2015</u>	<u>Variance Fav/(Unfav)</u>	
SG&A EXPENSES	4,882	4,362	(520)	(11.9%)

The increase in SG&A expenses is a combination of the impact of the strength of the US currency on our US\$ denominated costs, the additional selling expenses incurred to grow the business, compensation related items and additional general and administrative costs required to support the growth in the business.

<i>(\$'000 unless otherwise stated)</i>	<u>Q1 2016</u>	<u>Q1 2015</u>	<u>Variance Fav/(Unfav)</u>	
EBITDA	6,714	5,508	1,206	21.9%

EBITDA earned for the quarter is inclusive of a \$240k foreign exchange loss. The increase in EBITDA is attributable to the increase in revenues and the higher margin earned on revenues partially offset by the foreign exchange loss incurred this year versus the foreign exchange gain from last year.

<i>(\$'000 unless otherwise stated)</i>	<u>Q1 2016</u>	<u>Q1 2015</u>	<u>Variance Fav/(Unfav)</u>	
FINANCING EXPENSES	716	849	133	15.7%

Financing Expense

(\$'000 unless otherwise stated)

	Three Months Ended March 31,			
			Variance Fav / (Unfav)	
	<u>2016</u>	<u>2015</u>	<u>Amount</u>	<u>%</u>
Non-cash financing expenses	301	296	(5)	(1.7%)
Interest on senior credit facility	200	249	49	19.7%
Other interest and financing costs	203	298	95	31.9%
Deferred financing costs	12	6	(6)	(100.0%)
Total financing expenses	<u>716</u>	<u>849</u>	<u>133</u>	<u>15.7%</u>

Our financing costs decreased as a result of the Company relying less on credit to finance operations, a benefit of the improvement in profitability.

<i>(\$'000 unless otherwise stated)</i>	<u>Q1 2016</u>	<u>Q1 2015</u>	<u>Variance Fav/(Unfav)</u>	
FOREIGN EXCHANGE GAIN (LOSS)	(240)	892	(1,132)	(126.9%)

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 at March 31, 2016, the total notional value of US dollar currency forward contracts outstanding was US\$1.6 million.

<i>(\$'000 unless otherwise stated)</i>	<u>Q1 2016</u>	<u>Q1 2015</u>	<u>Variance Fav/(Unfav)</u>	
INCOME TAX RECOVERY (EXPENSE)	(393)	(1,669)	1,276	76.5%

The income tax expense for Q1 2016 relates to utilization of deferred tax assets, primarily from the Canadian operations. The income tax expense is based on the Canadian statutory tax rate of 26.0% (the same as 2015) applied to the income of the Canadian subsidiary before taxes, with adjustments for permanent differences between accounting and taxable income offset by deductions from our US operations, if any.

<i>(\$'000 unless otherwise stated)</i>	<u>Q1 2016</u>	<u>Q1 2015</u>	<u>Variance Fav/(Unfav)</u>	
NET INCOME	5,229	2,117	3,112	147.0%

The increase in net income over the prior year is attributable to the better operating income.

7 FINANCIAL CONDITION AND LIQUIDITY

7.1 WORKING CAPITAL

A summary of the composition of our working capital as at March 31, 2016 compared to 2015 is provided below:

Working Capital

(\$'000 unless otherwise stated)

	As at March 31,	
	<u>2016</u>	<u>2015</u>
Cash	2,468	1,779
Accounts receivable	34,477	34,621
Inventories	55,745	57,535
Other current assets	4,885	4,168
Total current assets	<u>97,575</u>	<u>98,103</u>
Senior credit facility	(26,658)	(44,815)
Accounts payable and accrued liabilities	(18,960)	(17,815)
Dividends payable	(311)	-
Other current liabilities	(2,788)	(2,024)
Current portion of long term debt	(4,455)	(2,580)
Total current liabilities	<u>(53,172)</u>	<u>(67,234)</u>
Net working capital	<u>44,403</u>	<u>30,869</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 rely on credit from our key suppliers to finance the purchase of the raw materials needed for our operations.

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

Accounts receivable as at March 31, 2016 was slightly less than last year despite an increase in revenues as a result of faster collection rates. Inventories levels were also lower at March 31, 2016 when compared to the same period in last year, largely as a result of the lower prices for raw materials. The decrease in the Senior Credit Facility reflects the decrease in our reliance on the facility to finance our operations and the higher amount of accounts payable is due to the increase in business and production volume.

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

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

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

7.2 CASH FLOW

The following is a summary of our cash flow for the three months ended March 31, 2016 and 2015:

Cash Flow

(\$'000 unless otherwise stated)

	Three Months Ended March 31,	
	<u>2016</u>	2015
Cash provided by (used in) operating activities	6,702	3,724
Working capital adjustments	(1,942)	(15,504)
Net cash provided by (used in) operating activities	<u>4,760</u>	<u>(11,780)</u>
Net cash provided by (used in) investing activities	(428)	(844)
Advance on (repayment of) senior term loans	(293)	(103)
Repayment of long-term debt	(590)	(581)
Other payables on assets purchased	(736)	-
Interest paid	(447)	(512)
Advance on (repayment of) senior revolving facility	103	12,215
Dividend paid	(311)	-
Exchange revaluation of foreign denominated debt	(857)	1,038
Repurchase of shares	(32)	-
Net cash provided by (used in) financing activities	<u>(3,163)</u>	<u>12,057</u>
Exchange rate changes on foreign cash balances	(27)	37
Increase (decrease) in cash balances	<u>1,142</u>	<u>(530)</u>

For the three months ended March 31, 2016, net cash provided by operating activities was a result of the strength of operating results, which was partially offset by the higher working capital requirements in the quarter relative to the previous quarter.

Cash flow used for investing activities in the quarter was primarily for maintenance capital.

7.3 SENIOR CREDIT FACILITY

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

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

As at March 31, 2016 the availability was in excess of the Availability Test and the Company was in compliance with its covenants on the Senior Credit Facility.

7.4 LONG TERM DEBT AGREEMENTS

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

8 CAPITAL EXPENDITURES AND CAPACITY

For the three months ended March 31, 2016 we made capital expenditures of \$428k. These expenditures were for maintenance capital.

9 CONTRACTUAL OBLIGATIONS AND COMMITMENTS

As of March 31, 2016, 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 raw materials commitments are for production materials to be used in the day-to-day operations of our manufacturing facilities, are in the normal course of our business activities and are expected to be delivered by the end of this year. The finished goods purchases are also in the normal course of our business activity and are expected to be delivered within the next three months.

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

Contractual Obligations and Commitments

(\$'000 unless otherwise stated)

	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>2020</u>	<u>Thereafter</u>	<u>Total</u>
Production materials	32,974	-	-	-	-	-	32,974
Operating leases	1,588	395	269	63	32	2	2,349
Total commitments	<u>34,562</u>	<u>395</u>	<u>269</u>	<u>63</u>	<u>32</u>	<u>2</u>	<u>35,323</u>
Senior revolving facility	26,658	-	-	-	-	-	26,658
AP and accrued liabilities	18,960	-	-	-	-	-	18,960
Other current liabilities	2,788	-	-	-	-	-	2,788
Dividends	311	-	-	-	-	-	311
Finance lease	6	9	9	7	-	-	31
Senior term loans	1,775	1,724	1,724	8,408	-	-	13,631
Long-term debt	2,668	1,868	1,868	2,711	2,811	6,544	18,470
Total financial liabilities	<u>53,166</u>	<u>3,601</u>	<u>3,601</u>	<u>11,126</u>	<u>2,811</u>	<u>6,544</u>	<u>80,849</u>
Total obligations and commitments	<u>87,728</u>	<u>3,996</u>	<u>3,870</u>	<u>11,189</u>	<u>2,843</u>	<u>6,546</u>	<u>116,172</u>

The Company enters into US dollar currency forward contracts for periods consistent with a portion of US dollar currency transaction exposures, generally from one to three months. These are not designated as cash flow, fair value or net investment hedges. As of March 31, 2016, the total notional value of US dollar currency forward contracts outstanding was US\$1.6 million and the fair value mark to market loss on the contracts was \$100k.

From time to time, the Company enters into forward contracts to purchase a portion of the zinc used in its production process. These are not designated as cash flow, fair value or net investment hedges. As at March 31, 2016, the total value of zinc forward contracts was a notional amount of \$3.0 million and the fair value mark to market gain on those contracts was \$0.5 million.

10 SUMMARY OF QUARTERLY FINANCIAL RESULTS

Summary of Quarterly Financial Results

(\$'000 unless otherwise stated)

	<u>Mar 31,</u> <u>2016</u>	<u>Dec 31,</u> <u>2015</u>	<u>Sep 30,</u> <u>2015</u>	<u>Jun 30,</u> <u>2015</u>	<u>Mar 31,</u> <u>2015</u>	<u>Dec 31,</u> <u>2014</u>	<u>Sep 30,</u> <u>2014</u>	<u>Jun 30,</u> <u>2014</u>
Revenue	62,240	54,274	61,408	56,541	59,043	42,265	47,975	47,782
Gross profit	11,010	5,932	9,813	8,144	8,234	4,172	5,215	4,624
Foreign exchange gain (loss)	(240)	127	152	(130)	892	(84)	37	(208)
EBITDA	6,714	1,814	6,195	4,732	5,508	1,201	2,403	1,737
Net income (loss)	5,229	5,522	6,444	2,064	2,117	56	390	171
Net income (loss) per unit	0.17	0.18	0.21	0.07	0.07	0.00	0.01	0.01
<i>Sales volume - tons</i>	<i>44,768</i>	<i>38,981</i>	<i>43,366</i>	<i>38,880</i>	<i>41,016</i>	<i>31,910</i>	<i>36,491</i>	<i>36,398</i>
<i>Gross profit per ton</i>	<i>246</i>	<i>152</i>	<i>226</i>	<i>209</i>	<i>201</i>	<i>131</i>	<i>143</i>	<i>127</i>
<i>EBITDA per ton</i>	<i>150</i>	<i>47</i>	<i>143</i>	<i>122</i>	<i>134</i>	<i>38</i>	<i>66</i>	<i>48</i>

The table above provides selected quarterly financial information for the eight most recent fiscal quarters to March 31, 2016. Sales volume in the last quarter of the year has traditionally been the lowest 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.

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

11 ACCOUNTING POLICIES, STATEMENTS AND CRITICAL ACCOUNTING ESTIMATES

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, 2015 audited consolidated financial statements, the Annual Information Form for the year ended December 31, 2015 and Note 3 to the March 31, 2016 interim unaudited condensed consolidated financial statements.

The areas that we consider to have critical accounting estimates are: going concern, 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, 2015 (Note 3).

12 RELATED PARTY TRANSACTIONS

12.1 TRANSACTIONS WITH ASSOCIATED COMPANIES

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

Based on Tree Island Steel’s outstanding Shares as at May 5, 2016, Futura owns 27.4% of the fully diluted Shares of the Company.

In addition, Mr. Doman is Chairman and CEO of CanWel Building Materials Group Ltd. (“CanWel”). For the three months ended March 31, 2016, Tree Island sold, net of rebates, approximately \$1.0 million (\$1.1 million in 2015) of goods to CanWel and trade accounts receivable owing from CanWel as at March 31, 2016 was approximately \$0.9 million (approximately \$0.8 million in 2015). Outstanding trade accounts receivable from CanWel at period end are unsecured, interest free and settlement occurs in cash.

12.2 TRANSACTIONS WITH KEY MANAGEMENT PERSONNEL

Included in the definition of key management for purposes of disclosure of related party transactions are members of Board of Directors and officers of Tree Island Steel. Amounts for key management personnel for the three months ended March 31, 2016 was approximately \$1.4 million (approximately \$0.6 million in 2015) which include wages, salaries, other compensation paid in the period (if any) and social security contributions, paid annual and sick leave, vehicle costs and bonuses. It also includes directors’ fees paid to members of the Board.

13 RISKS AND UNCERTAINTIES

Investment in Tree Island Steel is subject to a number of risks. Our income is dependent upon the wire products business, which is susceptible to a number of risks. A detailed discussion of our significant business risks is provided in the 2015 Annual Information Form under the heading “Risk Factors” which can be found at www.sedar.com.

14 DISCLOSURE CONTROLS AND PROCEDURES AND INTERNAL CONTROL OVER FINANCIAL REPORTING

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

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

Our Chief Executive Officer and Chief Financial Officer certified the appropriateness of the financial disclosures in the interim financial report together with the other financial information included in the interim filings for the period ended March 31, 2016. These executives also certified that they are responsible for the design of disclosure controls and procedures and internal control over financial reporting. There have been no changes in internal control over financial reporting during the quarter ended March 31, 2016 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

The Company’s Board of Directors and Audit Committee reviewed and approved the March 31, 2016 unaudited interim condensed consolidated financial statements and this MD&A prior to its release.

INTERIM UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2016 and 2015

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, Ernst & Young LLP, has not performed a review of these financial statements in accordance with standards established by the Canadian Institute of Chartered Professional Accountants for a review of interim financial statements by an entity’s auditor.

May 5, 2016

INTERIM UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
March 31, 2016 and 2015

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

	As at March 31, 2016	December 31, 2015
Cash	2,468	1,326
Accounts receivable <i>(Note 5)</i>	34,477	27,494
Inventories <i>(Note 6)</i>	55,745	59,686
Prepaid expenses	4,848	3,865
Income taxes recoverable	37	11
Current assets	<u>97,575</u>	<u>92,382</u>
Property, plant and equipment <i>(Note 7)</i>	36,613	37,713
Deferred income tax asset	965	1,346
Other non-current assets	144	159
Total assets	<u><u>135,297</u></u>	<u><u>131,600</u></u>
Senior revolving facility <i>(Note 8.1)</i>	26,658	26,555
Accounts payable and accrued liabilities	18,960	17,046
Other current liabilities	2,788	3,480
Dividends payable	311	311
Current portion of long-term borrowing <i>(Notes 8.2, 9)</i>	4,455	4,240
Current liabilities	<u>53,172</u>	<u>51,632</u>
Senior term loans <i>(Note 8.2)</i>	11,856	12,407
Long-term debt <i>(Note 9)</i>	8,432	9,531
Other non-current liabilities	176	214
Total liabilities	<u>73,636</u>	<u>73,784</u>
Shareholders' equity	<u>61,661</u>	<u>57,816</u>
Total liabilities and shareholders' equity	<u><u>135,297</u></u>	<u><u>131,600</u></u>

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

March 31, 2016 and 2015

INTERIM UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF OPERATIONS

(\$'000 unless otherwise stated)

	Three Months Ended March 31,	
	<u>2016</u>	<u>2015</u>
Sales	62,240	59,043
Cost of sales (Note 6)	(50,404)	(50,065)
Depreciation	(826)	(744)
Gross profit	11,010	8,234
Selling, general and administrative expenses	(4,882)	(4,362)
Operating income	6,128	3,872
Foreign exchange gain (loss)	(240)	892
Gain (loss) on sale of property, plant and equipment	-	(6)
Changes in financial liabilities at fair value	450	(123)
Financing expenses (Note 10)	(716)	(849)
Income before income taxes	5,622	3,786
Income tax recovery (expense) (Note 13)	(393)	(1,669)
Net income	5,229	2,117
Net income per share (Note 17)	0.17	0.07
Weighted average number of shares (Note 17)	31,105,673	31,142,573

INTERIM UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

(\$'000 unless otherwise stated)

	Three Months Ended March 31,	
	<u>2016</u>	<u>2015</u>
Net income for the year	5,229	2,117
Unrealized income (loss) on FX translation	(1,044)	(869)
Comprehensive income	4,185	1,248

See accompanying Notes to the Interim Unaudited Condensed Consolidated Financial Statements

INTERIM UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
March 31, 2016 and 2015

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, 2015	230,568	(170,920)	(1,832)	57,816
Repurchase of Shares	(32)	-	-	(32)
Net income	-	5,229	-	5,229
Dividends	-	(311)	-	(311)
Other comprehensive income	-	-	(1,041)	(1,041)
Balance as at March 31, 2016	<u>230,536</u>	<u>(166,002)</u>	<u>(2,873)</u>	<u>61,661</u>
Balance as at December 31, 2014	230,674	(186,445)	(131)	44,098
Repurchase of Shares	(106)	-	-	(106)
Net income	-	16,147	-	16,147
Dividends	-	(622)	-	(622)
Other comprehensive income	-	-	(1,701)	(1,701)
Balance as at December 31, 2015	<u>230,568</u>	<u>(170,920)</u>	<u>(1,832)</u>	<u>57,816</u>

See accompanying Notes to the Interim Unaudited Condensed Consolidated Financial Statements

INTERIM UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
March 31, 2016 and 2015

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

	Three Months Ended	
	March 31,	
	<u>2016</u>	<u>2015</u>
Net income	5,229	2,117
Depreciation	826	744
Changes in financial liabilities recognized at fair value	(450)	123
Loss (gain) on sale of property, plant and equipment	-	6
Amortization and write-off of deferred financing	12	6
Net financing costs	704	843
Deferred income tax expense (recovery)	381	(115)
Working capital adjustments		
Accounts receivable	(6,983)	(14,528)
Inventories	3,942	(1,586)
Accounts payable and accrued liabilities	1,864	(1,510)
Prepaid expenses	(983)	(254)
Income and other taxes	12	1,784
Other	206	590
Net cash provided by (used in) operating activities	<u>4,760</u>	<u>(11,780)</u>
Purchase of property, plant and equipment	(428)	(844)
Net cash used in investing activities	<u>(428)</u>	<u>(844)</u>
Term loans - advance (repayment)	(293)	(103)
Repayment of long-term debt	(590)	(581)
Other financing liabilities	(736)	-
Interest paid	(447)	(512)
Advance on senior revolving facility	103	12,215
Dividend paid	(311)	-
Exchange revaluation of foreign denominated debt	(857)	1,038
Repurchase of common shares	(32)	-
Net cash provided by (used in) financing activities	<u>(3,163)</u>	<u>12,057</u>
Effect of exchange rate change on cash	<u>(27)</u>	<u>37</u>
Increase (decrease) in cash	1,142	(530)
Cash - beginning of period	1,326	2,309
Cash - end of period	<u>2,468</u>	<u>1,779</u>

See accompanying Notes to the Interim Unaudited Condensed Consolidated Financial Statements

1 NATURE OF BUSINESS

These consolidated financial statements of Tree Island Steel Ltd. ("Tree Island Steel" or the "Company") for the quarter ended March 31, 2016 were authorized for issue in accordance with a resolution of the Board of Directors on May 5, 2016.

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. ("TII") (collectively "Tree Island"). TII 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 unaudited condensed consolidated financial statements as at and three months ended March 31, 2016 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, 2015 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, 2015.

4 FUTURE IFRS STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE

Unless otherwise indicated below, Tree Island is in the process of assessing whether there will be any significant changes to its consolidated financial statements upon adoption of these new standards, interpretations, or amendments. At this time, Tree Island does not plan to early adopt any of these new standards, interpretations, or amendments.

IFRS 9 Financial Instruments

The IASB issued IFRS 9 as a first step in the process to replace IAS 39 *Financial Instruments: Recognition and Measurement*. IFRS 9 introduces new requirements for classifying and measuring financial assets, and could affect Tree Island's accounting for its financial assets. The standard is required to be adopted for annual periods beginning on or after January 1, 2018. The Company is currently assessing the impact of IFRS 9 and plans to adopt the new standard on the required effective date.

IFRS 15 Revenue from Contracts with Customers

IFRS 15 was issued in May 2014 and establishes a new five-step model that will apply to revenue arising from contracts with customers. Under IFRS 15 revenue is recognised at an amount that reflects the consideration to

NOTES TO THE INTERIM UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
March 31, 2016 and 2015

which an entity expects to be entitled in exchange for transferring goods or services to a customer. The principles in IFRS 15 provide a more structured approach to measuring and recognising revenue.

The new revenue standard is applicable to all entities and will supersede all current revenue recognition requirements under IFRS. Either a full or modified retrospective application is required for annual periods beginning on or after January 1, 2018 with early adoption permitted. The Company is currently assessing the impact of IFRS 15 and plans to adopt the new standard on the required effective date.

5 ACCOUNTS RECEIVABLE

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

(\$'000 unless otherwise stated)

	As at March 31, 2016	As at December 31, 2015
Current	31,887	24,948
30 - 60 days past due	809	1,167
61 - 90 days past due	795	458
Over 91 days past due	1,194	1,110
Total accounts receivable	34,685	27,683
Allowance for doubtful accounts	(208)	(189)
Net accounts receivable	34,477	27,494

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 \$34.5 million as at March 31, 2016 (\$27.5 million as at December 31, 2015).

At the end of each reporting period a review of the provision for bad 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.

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

(\$'000 unless otherwise stated)

	As at March 31, 2016	As at December 31, 2015
Opening balance - January 1	189	154
Additions during the period	36	151
Reversals during the period	(17)	(26)
Payments	-	(19)
Write-offs during the period	-	(79)
Foreign exchange revaluation	-	8
Closing balance - March 31	208	189

NOTES TO THE INTERIM UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
March 31, 2016 and 2015

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

Tree Island had the following categories of inventory:

(\$'000 unless otherwise stated)

	As at March 31, 2016	As at December 31, 2015
Raw materials	19,379	20,338
Finished and semi-finished products	24,497	25,098
Consumable supplies and spare parts	11,869	14,250
Total inventory	<u>55,745</u>	<u>59,686</u>

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 three month period ended March 31, 2016. The reserves for slow moving inventory as at March 31, 2016 were \$2.4 million (\$2.4 million at December 31, 2015).

For the three month periods ended March 31, 2016 and 2015, Tree Island recognized, in income, inventory costs for the following:

(\$'000 unless otherwise stated)

	Three Months Ended March 31,	
	<u>2016</u>	<u>2015</u>
Opening inventory	59,686	55,950
Raw material purchases	27,333	35,579
Finished goods purchased for resale	664	2,388
Conversion costs	18,466	13,683
Closing inventory	(55,745)	(57,535)
Cost of sales	<u>50,404</u>	<u>50,065</u>

7 PROPERTY, PLANT AND EQUIPMENT

The carrying value of long-lived assets is reviewed each reporting period. 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.

NOTES TO THE INTERIM UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
March 31, 2016 and 2015

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, 2014	9,336	40,135	18,837	891	69,199
Additions	-	505	8,410	900	9,815
Disposals	-	-	(19)	-	(19)
Foreign exchange translation	314	1,223	1,244	24	2,805
As at December 31, 2015	9,650	41,863	28,472	1,815	81,800
Additions	-	-	1,259	(1,015)	244
Disposals	-	-	-	-	-
Foreign exchange translation	(122)	(483)	(585)	38	(1,152)
As at March 31, 2016	9,528	41,380	29,146	838	80,892
Depreciation and impairment					
As at December 31, 2014	-	29,930	9,546	-	39,476
Depreciation for the period	-	1,363	1,752	-	3,115
Disposals	-	-	(4)	-	(4)
Foreign exchange translation	-	908	592	-	1,500
As at December 31, 2015	-	32,201	11,886	-	44,087
Depreciation for the period	-	286	540	-	826
Disposals	-	-	-	-	-
Foreign exchange translation	-	(369)	(265)	-	(634)
As at March 31, 2016	-	32,118	12,161	-	44,279
Net book value as at					
December 31, 2015	9,650	9,662	16,586	1,815	37,713
March 31, 2016	9,528	9,262	16,985	838	36,613

The carrying value of machinery and equipment held under finance lease as at March 31, 2016 was approximately \$27k (\$43k in 2015) (Note 18.3). The leased asset is pledged as security for the related finance lease.

8 SENIOR CREDIT FACILITY

The Company has a senior secured committed banking facility, maturing in April of 2019, which enables the Company to borrow up to \$60.0 million in Canadian and/or US funds. 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.

8.1 Senior Credit Facility

The Senior Credit Facility includes a \$10.0 million Letter of Credit sub-facility which enables TII and TIW to open documentary and standby letters of credit for raw material purchases. There was a \$39k Letter of Credit outstanding as at March 31, 2016.

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, and less principal due under the Senior Term Loan (Note

NOTES TO THE INTERIM UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
March 31, 2016 and 2015

8.2). 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) depending on the classification, up to 70% of eligible inventory.

Interest payable on funds borrowed in Canadian currency is at variable rates based on the Canadian interbank bid rates for Canadian dollar banker's acceptance and interest payable on funds borrowed in US currency is at variable rates based on the London Inter-Market Offered Rate ("Libor") for US dollar deposits.

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

(\$'000 unless otherwise stated)

	As at March 31, 2016	As at December 31, 2015
Revolving portion of the senior credit facility	26,658	26,555
Deferred financing costs	(144)	(159)
Total	<u>26,514</u>	<u>26,396</u>

The revolving portion of the Senior Credit Facility denominated in US dollars as at March 31, 2016 was \$10.6million (\$19.3 million in 2015).

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. Quarterly, the Company is required to meet a rolling 4 quarters defined fixed charge coverage ratio of 1:1 if the availability on the Senior Credit Facility falls below a required minimum availability. 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 March 31, 2016, the Company was in compliance with all of its financial covenants on the Senior Credit Facility.

8.2 Senior Term Loans

The following amounts are outstanding under the Senior Term Loans:

(\$'000 unless otherwise stated)

	As at March 31, 2016	As at December 31, 2015
Senior term loans - beginning of period	14,031	3,850
Advances	-	10,587
Foreign exchange revaluation	(107)	213
Payments	(293)	(619)
Senior term loans - end of period	<u>13,631</u>	<u>14,031</u>
Less: current portion	(1,775)	(1,624)
Total	<u>11,856</u>	<u>12,407</u>

Under the terms of the Senior Credit Facility, the Company has the option to designate portions of the total \$60.0 million facility as one or more term loans (individually referred to as a "Senior Term Loan" and collectively as "Senior Term Loans"), denominated in either Canadian or US dollars. The Company currently has three Senior Term Loans

NOTES TO THE INTERIM UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
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applied against the Senior Credit Facility, two of which are denominated in Canadian dollars and the other is denominated in US dollars.

The principal amounts of the Senior Term Loans are amortized over either a five or ten year period. Principal repayment is paid monthly. As part of the amendment to the Senior Credit Facility executed in Q4 2015, principal repayments of the Senior Term Loans were deferred starting November 1st, 2015 until February 1st, 2016. Interest continued to be accrued and payable during the period the principal payments were deferred.

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 with principal payments over a 10 year amortization period. The interest is non-compounding interest at 4% and commences accruing 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\$0.10 million in years 1 and 2, US\$0.11 million in years 3 and 4, US\$0.12 million in years 5, 6 and 7, and US\$0.19 million in years 8, 9 and 10. Present value of the debt was determined using discounted cash flows and a credit adjusted discount rate of 9%. The discount rate, together with the stated interest, comprises the debt discount. 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 US dollars.

A provision exists for early payment of a portion of the principal outstanding if certain conditions are met. As at March 31, 2016 a provision of \$140k (Note 14.1) has been accrued and is included in other noncurrent liabilities.

The elements of the long-term debt are listed below:

(\$'000 unless otherwise stated)

	As at March 31, 2016	As at December 31, 2015
Beginning of period	12,139	11,143
Payments	(590)	(2,263)
Foreign exchange revaluation	(750)	2,071
Accretion of debt discount	301	1,188
End of period	11,100	12,139
Less: current portion	(2,668)	(2,608)
Net long-term debt	<u>8,432</u>	<u>9,531</u>

NOTES TO THE INTERIM UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
March 31, 2016 and 2015

10 FINANCING EXPENSES

(\$'000 unless otherwise stated)

	Three Months Ended March 31,	
	<u>2016</u>	<u>2015</u>
Non-cash accretion of debt discount and interest on long term debt	301	296
Interest on senior credit facility	200	249
Other interest and financing costs	203	298
Amortization of deferred financing costs	12	6
Total	<u>716</u>	<u>849</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 10,600 Shares were cancelled in the three months ended March 31, 2016. Shares issued and outstanding are as follows:

(\$'000 except for Shares)

	Shares	Gross	Issuance Cost ⁴	Net
Shareholders' capital - December 31, 2014	31,142,573	242,074	11,400	230,674
Repurchase of common shares	(36,900)	(106)	-	(106)
Conversion of convertible debentures	-	-	-	-
Effect of share consolidation	-	-	-	-
Conversion of warrants	-	-	-	-
Shareholders' capital - December 31, 2015	31,105,673	241,968	11,400	230,568
Repurchase of common shares	(10,600)	(32)	-	(32)
Shareholders' capital - March 31, 2016	<u>31,095,073</u>	<u>241,936</u>	<u>11,400</u>	<u>230,536</u>

11.1 NORMAL COURSE ISSUER BID

On September 21, 2015, the Company renewed its normal course issuer bid (the "Bid") to purchase up to 800,000 Shares. The expiration date of the normal course issuer bid is September 20, 2016 or at an earlier date should Tree Island complete its purchases. Tree Island has no obligation to purchase any Shares under the Bid.

For the period January 1, 2016 to March 31, 2016 the Company purchased 10,600 Shares under the Bid at a total cost of \$32k (at an average price of \$3.00 per Share). All 10,600 Shares were cancelled prior to March 31, 2016.

12 RELATED PARTY TRANSACTIONS

12.1 TRANSACTIONS WITH ASSOCIATED COMPANIES

⁴ Issuance costs were incurred as a result of the November 2002 Initial Public Offering and October 2004 Secondary Offering.

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

Based on Tree Island Steel’s outstanding Shares as at May 5, 2016, Futura owns 27.4% of the fully diluted Shares of the Company.

In addition, Mr. Doman is Chairman and CEO of CanWel Building Materials Group Ltd. (“CanWel”). For the three months ended March 31, 2016, Tree Island sold, net of rebates, approximately \$1.0 million (\$1.1 million in 2015) of goods to CanWel and trade accounts receivable owing from CanWel as at March 31, 2016 was approximately \$0.9 million (approximately \$0.8 million in 2015). Outstanding trade accounts receivable from CanWel at period end are unsecured, interest free and settlement occurs in cash.

12.2 TRANSACTIONS WITH KEY MANAGEMENT PERSONNEL

Included in the definition of key management for purposes of disclosure of related party transactions are members of Board of Directors and officers of Tree Island Steel. Amounts for key management personnel for the three months ended March 31, 2016 was approximately \$1.4 million (approximately \$0.6 in 2015) which includes wages, salaries, share-based compensation (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.

13.1 INCOME TAX RECOVERY (EXPENSE)

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

(\$’000 unless otherwise stated)

	Three Months Ended	
	March 31,	
	<u>2016</u>	<u>2015</u>
Current tax recovery (expense)	(12)	(1,784)
Deferred tax recovery (expense)	(381)	115
Total recorded in the Statement of Operations	<u>(393)</u>	<u>(1,669)</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.

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:

NOTES TO THE INTERIM UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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- 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 finance lease, Senior Term Loan, and long-term debt are based on estimated market interest rate on similar borrowings. The fair value of the finance lease and Senior Term Loan approximate fair value as the interest rates approximate market. A 1% change in the market interest rate would change the fair value of long term debt by \$0.5 million;
- Fair value of the early payment option was estimated using a discounted cash flow analysis and a discount rate of 9%;
- Fair value of the commodity purchase contract embedded derivatives are estimated using observable spot rates for zinc; and
- Fair value of the forward exchange forward 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.

(\$'000 unless otherwise stated)

	As at March 31, 2016		As at December 31, 2015	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Cash and cash investments	2,468	2,468	1,326	1,326
Accounts receivable	34,477	34,477	27,494	27,494
Commodity purchase contract embedded derivative	524	524	-	-
Total financial assets	<u>37,469</u>	<u>37,469</u>	<u>28,820</u>	<u>28,820</u>
Senior revolving facility	26,658	26,658	26,555	26,555
Accounts payable and accrued liabilities	18,960	18,960	17,046	17,046
Finance lease	27	27	43	43
Senior term loans	13,631	13,631	14,031	14,031
Long-term debt	11,100	10,557	12,139	12,763
Foreign exchange forward contracts	100	100	-	-
Early payment option	140	140	141	141
Commodity purchase contract embedded derivative	-	-	34	34
Total financial liabilities	<u>70,616</u>	<u>70,073</u>	<u>69,989</u>	<u>70,613</u>

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

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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 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	Level 3
Senior revolving facility	-	26,658	-
Finance lease	-	27	-
Senior term loans	-	13,631	-
Long-term debt	-	-	10,557
Early payment option	-	-	140
Commodity purchase contract embedded derivative	-	(524)	-
Foreign exchange forward contracts	-	100	-

The balance of the early payment option was revised to \$140k (\$265k in 2015) to adjust to the value of the option as at March 31, 2016.

A description of significant observable inputs to valuation of financial instruments measured at fair value and classified as level 2 or 3 in the fair value hierarchy is noted below:

Item	Valuation Technique	Significant Observable Inputs	Sensitivity of the input to fair value
Early payment option	DCF	Increase / decrease in dollar value of purchases that qualify for early payment	A 5% increase (decrease) in the dollar value of purchases that qualify for the early payment option will result in an increase (decrease) in fair value of approximately \$7k
	DCF	Change in discount rate	A 1% increase in the discount rate will result in an increase in fair value of approximately \$28k and a 1% decrease in the discount rate will result in a decrease in fair value of approximately \$30k
Long-term debt	DCF	Change in discount rate	A 1% increase (decrease) in the discount rate will result in a decrease (increase) in fair value of approximately \$422k

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.

NOTES TO THE INTERIM UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
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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 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.

The table below summarizes the future undiscounted contractual cash flow requirements for financial liabilities (including scheduled interest payments on interest bearing liabilities) as at March 31, 2016 and December 31, 2015:

(\$'000 unless otherwise stated)

	Carrying Amount	Contractual Cash Flow	Less Than 1 Year	1 – 2 Years	Greater Than 2 Years
Senior revolving facility	26,658	26,658	26,658	-	-
Accounts payable and accrued liabilities	18,960	18,960	18,960	-	-
Finance lease	27	31	9	18	4
Senior term loans	13,631	13,631	1,775	3,448	8,408
Long-term debt	11,100	18,470	2,668	3,736	12,066
As at March 31, 2016	70,376	77,750	50,070	7,202	20,478
Senior revolving facility	26,555	26,555	26,555	-	-
Accounts payable and accrued liabilities	17,046	17,046	17,046	-	-
Finance lease	30	34	9	18	7
Senior term loans	14,031	14,031	1,624	3,550	8,857
Long-term debt	12,139	19,636	2,608	3,986	13,042
As at December 31, 2015	69,801	77,302	47,842	7,554	21,906

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.

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 March 31, 2016, a \$0.01 increase (decrease) in the Canadian dollar to US dollar exchange rate will increase (decrease) net comprehensive income by \$183k.

NOTES TO THE INTERIM UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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Tree Island's US 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 US/Canadian dollar exchange rate. Tree Island's RMB denominated cash, accounts receivable, accounts payable and accrued liabilities, the total amount for which are not considered material, are exposed to foreign currency exchange rate risk because the value of these financial instruments will fluctuate with changes in the RMB/Canadian dollar exchange rate. The Company enters into US dollar currency forward contracts for periods consistent with a portion of US dollar currency transaction exposures, generally from one to three months. These are not designated as cash flow, fair value or net investment hedges. As of March 31, 2016, the total notional value of US dollar currency forward contracts outstanding was US\$1.6 million and the fair value mark to market loss on the contracts was \$100k.

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 \$0.4 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 forward contracts to purchase a portion of the zinc used. These are not designated as cash flow, fair value or net investment hedges. As at March 31, 2016, the fair value of zinc forward contracts was a notional amount of \$3.0 million and the mark to market gain on those contracts was \$0.5 million.

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 March 31, 2016</u>	<u>As at December 31, 2015</u>
Total shareholders' equity	61,661	57,816
Senior revolving facility	26,658	26,555
Senior term loans	13,631	14,031
Long-term debt	11,100	12,139
Total capital	<u>113,050</u>	<u>110,541</u>

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

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 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 March 31, 2016 the Company did not have any instruments issued that could be dilutive.

The following reflects the income and Share data used in earnings per Share computations. There were no dilutive instruments during the periods reported.

(\$'000 unless otherwise stated)

	Three Months Ended March 31,	
	<u>2016</u>	<u>2015</u>
Net income for the year	5,229	2,117
Weighted average number of shares outstanding:	31,105,673	31,142,573
Net income per share (\$/share)	0.17	0.07

10,600 Shares were cancelled for the three months ended March 31, 2016 (Note 11).

18 PROVISIONS AND COMMITMENTS

18.1 LITIGATION AND CLAIMS

Tree Island is party to certain legal actions and claims, none of which 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 March 31, 2016, Tree Island's wholly owned subsidiaries have committed to production material (including finished goods) purchases totalling \$33.0 million (\$19.8 million – March 31, 2015).

18.3 FINANCE LEASE COMMITMENTS

(\$'000 unless otherwise stated)

	<u>2016</u>		<u>2015</u>	
	<u>Minimum Payments</u>	<u>Present Value of Payments</u>	<u>Minimum Payments</u>	<u>Present Value of Payments</u>
Less than 1 year	9	7	17	15
1 to 5 years	22	20	32	28
Total minimum lease payments	<u>31</u>	<u>27</u>	<u>49</u>	<u>43</u>
Less amounts representing finance charges	(4)	-	(6)	-
Present value of minimum lease payments	<u>27</u>	<u>27</u>	<u>43</u>	<u>43</u>

NOTES TO THE INTERIM UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
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19 SEGMENTED INFORMATION

19.1 MARKET SEGMENTS

Revenues for each group for the three and three months ended March 31, 2016 and 2015 were as follows:

(\$'000 unless otherwise stated)

	Three Months Ended March 31,	
	<u>2016</u>	<u>2015</u>
Industrial	19,583	20,467
Residential	18,720	17,908
Commercial	10,452	8,188
Agricultural	9,128	7,457
Specialty	4,357	5,023
Total revenue	<u>62,240</u>	<u>59,043</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, agricultural and specialty. 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)

	Three Months Ended March 31,	
	<u>2016</u>	<u>2015</u>
United States	39,992	39,031
Canada	20,130	18,524
International	2,118	1,488
Total revenue	<u>62,240</u>	<u>59,043</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>March 31, 2016</u>	<u>December 31, 2015</u>
United States	8,654	9,258
Canada	28,100	28,611
China	3	3
Total non-current assets	<u>36,757</u>	<u>37,872</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

Leadership Team:

Dale R. MacLean
*President and Chief
Executive Officer*

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

Stephen Ogden
Vice President, Operations

Remy Stachowiak
*Vice President, Sales and
Marketing*

James Miller
*Vice President, Corporate
Development and
Procurement*

Shares:

Market Information

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

Registrar and Transfer Agent

Computershare Investor
Services Inc.

Corporate Head Office:

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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:

Ernst & Young LLP
Vancouver, B.C.

