TREE ISLAND STEEL

WIRE & WIRE PRODUCTS

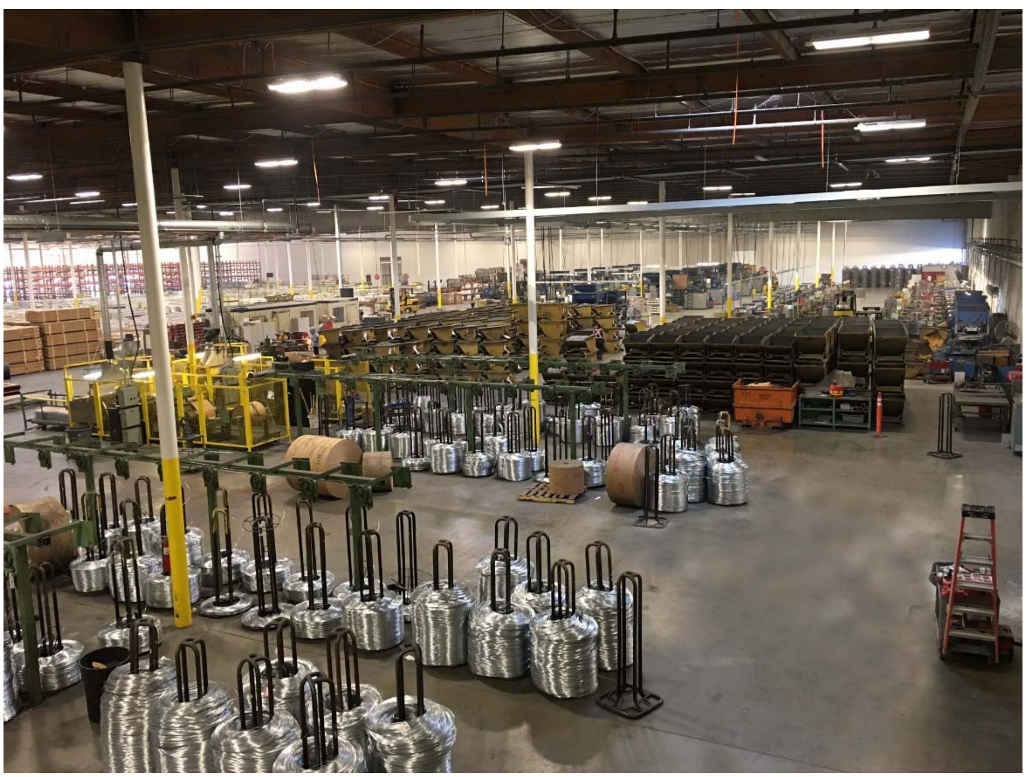
ESTABLISHED IN 1964

2016 Annual Report

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

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

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



New manufacturing facility in San Bernardino, CA

TO OUR SHAREHOLDERS

Letter to Shareholders

The strategic decisions made in 2016 were made with the long-term sustainable growth of the Company in mind. We believe the growth in our profitability in 2016 is just the start of us realizing the benefits of such decisions.

We are continuously evaluating and seeking opportunities to unlock value within our company, as was done when we brought the production facility in Calgary on-stream in late 2015. In the latter half of 2016 we consolidated our US Residential operations, which consists of nail collating and stucco products that were previously housed at two separate facilities, into a single location in San Bernardino, CA. The new facility is of sufficient size to accommodate our current US Residential operations with additional space for future long-term growth. Concurrent with the decision to relocate the US Residential operations, we concluded that the strategic focus of the Company is in carbon steel product lines which represented more than 98% of our business. In the second half of 2016, we divested the Stainless product lines and the related machinery, equipment and business assets to a strategic purchaser whose primary focus is in stainless steel manufacturing.

In 2016 we concluded several collective agreements with our hourly employees at our operating facilities in the United States and at the facility in Calgary. These collective agreements expire in 2021 and, along with the collective agreements concluded last year for hourly employees at the Richmond operating facility, set an important foundation for continued growth, increased stability for customers and further investments into our operations.

During the year we took actions to strengthen the continuity between our sales and production operations, to ensure that the products and service received by our customers meet or exceed their expectations. To do this we formalized the role of Chief Operating Officer and appointed Mr. Remy Stachowiak, previously the Vice President, Sales and Marketing, to the position. We also took steps to strengthen our Board as we continue to chart the Company's future by adding Mr. Joe Downes, a former Senior Vice President of Leggett and Platt, as an eighth Board member, to leverage his strong industry experience.

Despite the fact that 2016 came with its fair number of challenges, including higher raw material prices in the second half of the year while market prices for our products remained soft across the industry, we were able to further improve profits on a year-over-year basis. The competitive pricing environment limited our ability to grow our revenues but we adjusted our near-term actions to ensure we remained profitable. Nonetheless, our focus continues to be on long-term sustainable growth and profitability. During the year we continued to make strategic decisions towards this goal but also to position ourselves in a market that requires participants to quickly adapt to changing market conditions. The end users of the markets we serve are price sensitive, but they also value service, product quality and reliability. We work hard on meeting the expectations of our customers and that is the reason for our extreme focus on customer satisfaction. Our customer-centric approach permeates throughout our Company, from our sales force to our customer service representatives to our operations staff.

The overall success we achieved in 2016 would not be possible without the dedication and hard work of all the employees at Tree Island and the support and guidance of our Board of Directors. As in prior years, we like to thank all those that had a hand in our success and we are very appreciative of the support provided to us by our customers, suppliers and shareholders.

Sincerely,

Amar S. Doman
Chairman of the Board of Directors

Dale R. Maclean
Director, President and Chief Executive Officer

MANAGEMENT DISCUSSION AND ANALYSIS

December 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 (together with Tree Island Steel, referred to as "Tree Island"). This discussion is current to February 23, 2017 and should be read in conjunction with the consolidated financial statements for the year ended December 31, 2016. Tree Island Steel's 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, 2016, 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, 2016.

The forward-looking statements contained herein reflect management's current beliefs and are based upon certain assumptions that management believes to be reasonable based on the information currently available to management. By their very nature, forward-looking statements involve inherent risks and uncertainties, both general and specific, and a number of factors could cause actual events or results to differ materially from the results discussed in the forward-looking statements. In evaluating these statements, prospective investors should specifically consider various factors including the risks outlined herein under the heading "Risk Factors" which may cause actual results to differ materially from any forward-looking statement. Such risks and uncertainties include, but are not limited to: general economic, market and business conditions, the cyclical nature of our business and demand for our products, financial condition of our customers, competition, volume and price pressure from import competition, deterioration in the Company's liquidity, disruption in the supply of raw materials, volatility in the costs of raw materials, dependence on the construction industry, transportation costs, foreign exchange fluctuations, leverage and restrictive covenants, labour relations, trade actions, dependence on key personnel and skilled workers, reliance on key customers, 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 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 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 31,064,573 Shares outstanding as of December 31, 2016 and as of February 23, 2017 the same amount of Shares was outstanding.

3.1 ORGANIZATIONAL STRUCTURE

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

3.2 PRODUCTS

Tree Island is a manufacturer and supplier of premium quality wire products for a broad range of applications. Our goal is to match the appropriate wire product with our customers' needs. We achieve this by manufacturing most of our products at our own manufacturing facilities, while 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:

TREE ISLAND STEEL

HALSTEEL

K-LATH®

TI WIRE

TOUGHSTRAND

TrueSpec®

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

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

3.3 MARKETS

The following summarizes the markets, key product groups, the specific end-use markets, and regions we serve with of our products[1]:

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

3.4 SEASONALITY

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

[1] At the start of 2016, the Company also offered stainless steel wire and bar products under the brand Industrial Alloys®. The Industrial Alloys® brand was included as part of the Stainless business assets which was divested to a strategic purchaser whose primary focus is in stainless steel manufacturing (refer to section 4.2 for further details). As of October 1, 2016, the Company no longer offered products under the Industrial Alloys® brand.

4 FULL YEAR 2016 BUSINESS OVERVIEW AND DEVELOPMENT

4.1 BUSINESS OVERVIEW

The business environment in 2016 was challenging in many ways, lead by the acceleration of raw material prices in the latter part of the year and the continued softening of prices for the end products we sell. The softening of selling prices limited our ability to grow revenues, which totaled $231.2 million in 2016, the same as in 2015. Nonetheless, our focus continues to be on the bigger picture of long-term sustainable growth and profitability. The adjustments we made to our business this year and the past several years enabled us to improve our EBITDA from $18.2 million in 2015 to $21.0 million in 2016, an increase of 14.9%.

In 2016, we consolidated our US Residential operating facilities into a single location and divested the Stainless product lines along with the related machinery, equipment and business assets. We also made strategic personnel decisions to support the future growth of the company, which included concluding five-year collective agreements with the hourly production staff at our production facilities in the US and Calgary, the formalization of the Chief Operating Officer position and the addition of a new director to strengthen an already experienced, multi-faceted Board.

4.2 CONSOLIDATION OF OPERATING FACILITIES

As part of our ongoing activities to improve efficiencies, operating leverage and cost structure, we consolidated certain of our US Residential operations, which includes our nail collating and stucco products, into a single location. Included in the consolidation evaluation was the decision that the strategic focus of the Company is in carbon steel product lines which represented 98% of the business. Subsequently, on September 30, 2016, we divested the Stainless product lines and its related machinery, equipment and business assets (“Stainless”) to a strategic purchaser whose primary focus is in stainless steel manufacturing. The transaction is not material to Tree Island’s operations or financial condition.

In the third quarter, TI USA entered into a lease agreement for a new production facility in San Bernardino, CA to house the consolidated US Residential operations. The consolidation of operations from the previous location involved site preparation and relocation of the manufacturing and administrative activities. The expansion is of sufficient size to accommodate our current US Residential operations with additional space for future long-term growth. The manufacturing activities conducted at the Etiwanda facility will continue at its current location.

4.3 Labour Relations

The Company concluded several collective agreements with all of its hourly production employees in the United States and in Calgary. These collective agreements expire in 2021 and, along with the collective agreements concluded last year for hourly employees at the Richmond operating facility (which expire in 2020), set an important foundation for continued growth, increased stability for customers and further investments into our operations.

4.4 Chief Operating Officer

During the year we took actions to strengthen the continuity between our sales and production operations, to ensure that the products and service received by our customers meet or exceed their expectations. To do this we formalized the role of Chief Operating Officer and appointed Mr. Remy Stachowiak, previously the Vice President, Sales and Marketing, to the position.

5 RESULTS FROM OPERATIONS

($'000 unless otherwise stated)

	Three Months Ended December 31,		Twelve Months Ended December 31,		
	2016	2015	2016	2015	2014
Revenue	45,903	54,274	231,253	231,266	183,944
Cost of sales	(39,780)	(47,480)	(190,521)	(196,028)	(161,798)
Depreciation	(827)	(862)	(3,319)	(3,115)	(2,822)
Gross profit	5,296	5,932	37,413	32,123	19,324
Selling, general and administrative expenses	(4,810)	(5,107)	(19,388)	(18,030)	(14,415)
Operating income	486	825	18,025	14,093	4,909
Foreign exchange gain (loss)	(282)	127	(375)	1,041	269
Gain (loss) on sale of property, plant and equipment	-	(4)	12	(10)	(14)
Other expenses	(57)	(316)	(57)	(316)	-
Changes in financial liabilities recognized at fair value	(458)	323	149	136	71
Financing expenses	(723)	(793)	(2,753)	(3,183)	(3,826)
Income (loss) before income taxes	(1,034)	162	15,001	11,761	1,409
Income tax (expense) recovery	329	5,360	(1,433)	4,386	(431)
Net income (loss)	(705)	5,522	13,568	16,147	978
Operating Income	486	825	18,025	14,093	4,909
Add back depreciation	827	862	3,319	3,115	2,822
Subtotal before foreign exchange	1,313	1,687	21,344	17,208	7,731
Foreign exchange gain (loss)	(282)	127	(375)	1,041	269
EBITDA[2]	1,031	1,814	20,969	18,249	8,000
Net income per share	(0.02)	0.18	0.44	0.52	0.03
Dividends per share	0.02	0.01	0.07	0.02	0.00
Sales volume (tons)[3]	*35,808*	*38,981*	*175,232*	*162,243*	*139,935*
Gross profit per ton ($/ton)	*148*	*152*	*214*	*198*	*138*
EBITDA per ton ($/ton)	*29*	*47*	*120*	*112*	*57*

Financial Position as at:	December 31, 2016	2015	2014
Total Assets	137,455	131,589	112,106
Total non-current financial liabilities	19,090	22,152	13,073

[2] *See definition of EBITDA in Section* 2 *NON-IFRS MEASURES*

[3] *Sales volumes excludes tons which were processed as part of tolling arrangements*

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

($'000 unless otherwise stated)	**Q4 2016**	**Q4 2015**	**Variance Fav/(Unfav)**	
SALES	45,903	54,274	(8,371)	(15.4%)

Revenue by Market Segment

($'000 unless otherwise stated)

	Three Months Ended December 31,					
	2016		2015		Variance	
	Revenue	% of Total	Revenue	% of Total	Amount	%
Industrial	17,848	38.9%	20,015	36.9%	(2,167)	(10.8%)
Residential	13,375	29.1%	15,063	27.8%	(1,688)	(11.2%)
Commercial	9,410	20.5%	9,804	18.1%	(394)	(4.0%)
Agricultural	3,632	7.9%	6,295	11.6%	(2,663)	(42.3%)
Specialty[4]	1,638	3.6%	3,097	5.7%	(1,459)	(47.1%)
Total revenue	45,903	100.0%	54,274	100.0%	(8,371)	(15.4%)

Tempered demand from the end markets we serve along with softer market prices relative to last year adversely impacted revenue generation. The large decrease in revenues for Agricultural products is a direct result of the extremely strong sales experienced in 2015. During the quarter, we continued to sell remaining Specialty inventory that was not included as part of the Stainless divestiture.

Revenue by Location

($'000 unless otherwise stated)

	Three Months Ended December 31,					
	2016		2015		Variance	
	Revenue	% of Total	Revenue	% of Total	Amount	%
United States	29,980	65.3%	37,334	68.8%	(7,354)	-19.7%
Canada	14,262	31.1%	15,092	27.8%	(830)	-5.5%
International	1,661	3.6%	1,848	3.4%	(187)	-10.1%
Total	45,903	100.0%	54,274	100.0%	(8,371)	-15.4%
Average C$/US$	1.3333		1.3345			

The proportion of revenues originating from the US decreased from the year before resulting from the quicker decline in market prices in the US relative to Canada and a more cautious purchasing environment in the US. Sales to international customers declined year-over-year contributed by the timing of increased purchases made in Q3 2016.

($'000 unless otherwise stated)	**Q4 2016**	**Q4 2015**	**Variance Fav/(Unfav)**	
COST OF SALES	40,607	48,342	7,735	16.0%

Cost of sales (inclusive of depreciation) was less than last year largely as a result of the combination of better production efficiencies and tempered demand relative to last year. Better production efficiencies, achieved through training and process improvements, resulted in cost of sales declining at a faster rate year-over-year than revenues.

[4] Some Specialty inventory were not included as part of the divestiture of Stainless, remained on hand subsequent to the completion of the sale and continued to be sold after September 30, 2016.

($'000 unless otherwise stated)	**Q4 2016**	**Q4 2015**	**Variance Fav/(Unfav)**	
GROSS PROFIT	5,296	5,932	(636)	(10.7%)

Gross Profit

($'000 unless otherwise stated)

	Three Months Ended December 31,					
	2016		2015		Variance Fav / (Unfav)	
	Gross Profit	% of Total	Gross Profit	% of Total	Amount	%
US$ GP after FX translation	3,398	64.2%	4,222	71.2%	(825)	(19.5%)
C$ gross profit	1,898	35.8%	1,710	28.8%	189	11.0%
Total gross profit	5,296	100.0%	5,932	100.0%	(636)	(10.7%)
Average C$/US$	1.3333		1.3345			

Gross profit as a percentage of revenues increased from 10.9% last year to 11.5% this year. Gross profit declined primarily from US sales as a result of lower revenues generated in the US and the narrowing of the spread between selling prices and raw material cost.

($'000 unless otherwise stated)	**Q4 2016**	**Q4 2015**	**Variance Fav/(Unfav)**	
SG&A EXPENSES	4,810	5,107	297	5.8%

SG&A expenses were slightly less than last year largely as a result of reduced selling expenses.

($'000 unless otherwise stated)	**Q4 2016**	**Q4 2015**	**Variance Fav/(Unfav)**	
EBITDA	1,031	1,814	(783)	(43.2%)

EBITDA earned for the quarter is inclusive of a $282k foreign exchange loss (compared to a $127k gain earned last year). Without the impact of foreign exchange, EBITDA was lower by $375k largely as a result of the narrowing of the spread between selling prices and raw material costs.

($'000 unless otherwise stated)	**Q4 2016**	**Q4 2015**	**Variance Fav/(Unfav)**	
FINANCING EXPENSES	723	793	70	8.8%

Financing Expense

($'000 unless otherwise stated)

	Three Months Ended December 31,			
			Variance Fav / (Unfav)	
	2016	2015	Amount	%
Non-cash financing expenses	281	305	24	7.9%
Interest on senior credit facility	185	142	(43)	(30.3%)
Other interest and financing costs	245	334	89	26.6%
Deferred financing costs	12	12	-	0.0%
Total financing expenses	723	793	70	8.8%

The decrease in financing expenses is attributable to the Company's management of inventory levels during the quarter and the ability to utilize alternative methods of financing raw material purchases outside of the senior credit facility.

($'000 unless otherwise stated)	Q4 2016	Q4 2015	Variance Fav/(Unfav)	
FOREIGN EXCHANGE GAIN (LOSS)	(282)	127	(409)	(322.0%)

Our Canadian operation, whose functional currency is the Canadian dollar, has a portion of its assets, liabilities, sales and expenses denominated in currencies other than the Canadian dollar, in particular the U.S. dollar. With raw material costs being denominated in U.S. dollars, having a significant portion of our sales also being denominated in U.S. dollars creates a natural partial hedge. Foreign currency forward contracts are used to manage a portion of the remaining currency risk. Foreign exchange gains and losses are unpredictable in nature and therefore can vary significantly over time. As at December 31, 2016, the Company did not have any U.S. dollar currency forward contracts outstanding.

($'000 unless otherwise stated)	Q4 2016	Q4 2015	Variance Fav/(Unfav)	
INCOME TAX RECOVERY (EXPENSE)	329	5,360	(5,031)	(93.9%)

The income tax recovery relates to recognized deferred tax benefits associated with the US operations for non-capital tax losses and other tax benefits (and is based on the Canadian statutory tax rate of 26.0%, the same as in 2015), partially offset by the income tax expense associated with the Canadian operations.

The income tax recovery in Q4 2015 relates to the utilization of previously recognized deferred tax benefits, primarily for the Canadian operations. The difference between the net tax recovery in Q4 2016 and the net tax recovery in Q4 2015 results in a reduction in EPS for the quarter of $0.16 per share.

($'000 unless otherwise stated)	Q4 2016	Q4 2015	Variance Fav/(Unfav)	
NET INCOME (LOSS)	(705)	5,522	(6,227)	(112.8%)

The difference in net income when compared to the prior year is attributable to the combination of the difference in the income tax recovery between this year and the previous year ($5.1 million) and the reversal of fair value on financial liabilities recognized at fair value (a net loss of $0.8million).

The change in the fair value of financial liabilities recognized at fair value for Q4 2016, which was a loss of $458k, results from the mark-to-market impact on our commodity purchase contract embedded derivative, which in Q3 2016 was recognized as an asset of $441k but reversed to a liability of $17k. In Q4 2015, the change in fair value of financial liabilities recognized at fair value was a gain of $323k.

7 COMPARISON OF RESULTS FOR THE YEAR ENDED DECEMBER 31, 2016 AND 2015

($'000 unless otherwise stated)	YTD 2016	YTD 2015	Variance Fav/(Unfav)	
SALES	231,253	231,266	(13)	(0.0%)

Revenues for 2016 were flat relative to the year prior. Sales were strong in the first half of the year, particularly for Commercial, Residential and Agricultural products, as a result of solid demand. However, the second half of 2016 experienced moderate demand from our end markets and the continued softening of market prices. Revenues generated from the Commercial segment was robust for the year as a whole, supported by strong demand from the advancement of infrastructure projects along with the additional capacity attributable to the Calgary facility.

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

	Twelve Months Ended December 31,					
	2016		2015		Variance	
	Revenue	% of Total	Revenue	% of Total	Amount	%
Industrial	75,926	32.8%	84,153	36.4%	(8,227)	(9.8%)
Residential	72,320	31.3%	71,432	30.9%	888	1.2%
Commercial	44,034	19.0%	34,341	14.8%	9,693	28.2%
Agricultural	24,964	10.8%	24,574	10.6%	390	1.6%
Specialty[5]	14,009	6.1%	16,766	7.2%	(2,757)	(16.4%)
Total revenue	231,253	100.0%	231,266	100.0%	(13)	(0.0%)

Revenue generation in the US was curbed due to tempered demand from end markets in the latter part of 2016 and the softening of prices throughout the year. The low pricing environment is attributable to low steel prices in the early half of 2016 and pricing strategies implemented by import suppliers and domestic manufacturers throughout the year. Revenue growth in Canada was strong for the year as a whole as a result of strong demand from the Commercial and Agricultural segments.

Revenue by Location
($'000 unless otherwise stated)

	Twelve Months Ended December 31 ,					
	2016		2015		Variance	
	Revenue	% of Total	Revenue	% of Total	Amount	%
United States	149,652	64.7%	158,984	68.7%	(9,332)	-5.9%
Canada	73,832	31.9%	66,828	28.9%	7,004	10.5%
International	7,769	3.4%	5,454	2.4%	2,315	42.4%
Total	231,253	100.0%	231,266	100.0%	(13)	0.0%
Average C$/US$	1.3230		1.2771			

($'000 unless otherwise stated)	**YTD 2016**	**YTD 2015**	**Variance Fav/(Unfav)**	
COST OF SALES	193,840	199,143	5,303	2.7%

Cost of sales (inclusive of depreciation) as a percentage of total revenues was 83.8% this year compared to 86.1% last year. The improvement is a result of a lower average raw material costs for the year and production efficiencies.

($'000 unless otherwise stated)	**YTD 2016**	**YTD 2015**	**Variance Fav/(Unfav)**	
GROSS PROFIT	37,413	32,123	5,290	16.5%

Gross profit margin for the twelve months was 16.2% compared to 13.9% the year prior. Despite the softer market prices, we were able to increase our gross profit margin through our ability to manage our spread between our selling price and raw material costs, shifting our product mix to higher margin products and improvements in production efficiencies particularly in the first half of the year. The absolute increase in gross profit is a direct result of the improvement in gross profit margin.

[5] *Some Specialty inventory were not included as part of the sale of Stainless, remained on hand subsequent to the completion of the sale and continued to be sold after September 30, 2016.*

Gross Profit

($'000 unless otherwise stated)

	Twelve Months Ended December 31 ,					
	2016		2015		Variance Fav / (Unfav)	
	Gross Profit	% of Total	Gross Profit	% of Total	Amount	%
US$ GP after FX translation	22,908	61.2%	22,850	71.1%	58	0.3%
C$ gross profit	14,505	38.8%	9,273	28.9%	5,232	56.4%
Total gross profit	37,413	100.0%	32,123	100.0%	5,290	16.5%
Average C$/US$	1.3230		1.2771			

($'000 unless otherwise stated)	**YTD 2016**	**YTD 2015**	**Variance Fav/(Unfav)**	
SG&A EXPENSES	19,388	18,030	(1,358)	(7.5%)

SG&A increased over last year, a result of the combination of additional expenses incurred for the Calgary office for the full year (as compared to only in the fourth quarter of 2015), the impact of the strength of the US currency on our US dollar denominated costs during the first half of the year and additional costs incurred to drive and support the increase in revenues in the first half of 2016.

($'000 unless otherwise stated)	**YTD 2016**	**YTD 2015**	**Variance Fav/(Unfav)**	
EBITDA	20,969	18,249	2,720	14.9%

EBITDA for the full year is inclusive of a foreign exchange loss of $375k (gain of $1.0 million in 2015). Excluding the impact of foreign exchange, the EBITDA earned in 2016 was an improvement of by $4.1 million over last year, attributable to our ability to increase our gross profit margin primarily in the first half of the year.

($'000 unless otherwise stated)	**YTD 2016**	**YTD 2015**	**Variance Fav/(Unfav)**	
FINANCING EXPENSES	2,753	3,183	430	13.5%

Financing Expense

($'000 unless otherwise stated)

	Twelve Months Ended December 31,			
			Variance Fav / (Unfav)	
	2016	2015	Amount	%
Non-cash financing expenses	1,147	1,188	41	3.5%
Interest on senior credit facility	687	903	216	23.9%
Other interest and financing costs	871	1,051	180	17.1%
Deferred financing costs	48	41	(7)	(17.1%)
Total financing expenses	2,753	3,183	430	13.5%

The savings in financing expenses stems from the combination of our decrease reliance on debt to finance operations, a benefit of the improvement in profitability, management of inventory levels and the ability to utilize alternative methods of financing raw material purchases outside of the senior credit facility.

($'000 unless otherwise stated)	**YTD 2016**	**YTD 2015**	**Variance Fav/(Unfav)**	
FOREIGN EXCHANGE GAIN (LOSS)	(375)	1,041	(1,416)	(136.0%)

Our Canadian operation, whose functional currency is the Canadian dollar, has a portion of its assets, liabilities, sales and expenses denominated in currencies other than the Canadian dollar, in particular the U.S. dollar. With raw material costs being denominated in U.S. dollars, having a significant portion of our sales also being denominated in U.S. dollars creates a natural partial hedge. Foreign currency forward contracts are used to manage a portion of the remaining currency risk. Foreign exchange gains and losses are unpredictable in nature and therefore can vary significantly over time. As at December 31, 2016, the Company did not have any U.S. dollar currency forward contracts outstanding.

($'000 unless otherwise stated)	**YTD 2016**	**YTD 2015**	**Variance Fav/(Unfav)**	
INCOME TAX RECOVERY (EXPENSE)	(1,433)	4,386	(5,819)	(132.7%)

The income tax expense for 2016 is associated with the income tax expenses for the Canadian operations, partially offset by the recognition of deferred tax benefits associated with the US operations (and is based on the Canadian statutory tax rate of 26.0%, the same as in 2015).

The income tax recovery in Q4 2015 relates to recognized deferred tax benefits, primarily for the Canadian operations for non-capital losses carried forward. The change between an income tax recovery recorded in 2015 to an income tax expense in 2016 results in a reduction in EPS of $0.19 per share.

($'000 unless otherwise stated)	**YTD 2016**	**YTD 2015**	**Variance Fav/(Unfav)**	
NET INCOME (LOSS)	13,568	16,147	(2,579)	(16.0%)

The difference in net income when compared to the prior year is due to difference in year-over-year income taxes, which changed from an income tax recovery last year to an income tax expense this year.

8 FINANCIAL CONDITION AND LIQUIDITY

8.1 WORKING CAPITAL

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

Working Capital
($'000 unless otherwise stated)

	As at December 31,	
	2016	2015
Cash	1,351	1,326
Accounts receivable	24,463	27,494
Inventories	67,268	59,686
Other current assets	4,231	3,865
Total current assets	97,313	92,371
Senior credit facility	(28,941)	(26,555)
Accounts payable and accrued liabilities	(15,363)	(17,046)
Dividends payable	(621)	(311)
Other current liabilities	(506)	(3,469)
Current portion of long term debt	(4,361)	(4,240)
Total current liabilities	(49,792)	(51,621)
Net working capital	47,521	40,750

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

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

Accounts receivable as at December 31, 2016 was lower than at the same period last year, reflecting the lower revenues generated in Q4 2016 compared to the same period the year earlier. Inventories levels were also higher as at December 31, 2016 when compared to the same period in 2015 as a result of the combination of higher raw materials costs and an increase in finished goods on hand to ensure upcoming demand can be filled.

The decrease in accounts payable and accrued liabilities is reflective of the difference in the timing of payments made and expenses incurred. The decrease in other current liabilities is a result of the payments made for amounts owing for assets purchased in 2015.

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.

8.2 CASH FLOW

For the three months ended December 31, 2016, the net cash used in operating activities is reflective of the additional funding used for the relocation of equipment to the San Bernardino location and to support the increase in inventory levels which, in turn, increased to ensure upcoming demand can be filled. The net cash used in investing activities was primarily for the building and leasehold improvement at San Bernardino.

For the year, the increase in net cash provided by operating activities is a direct result of the strength of the full year operating results. Net cash used for investing activities were for the purchase of manufacturing equipment, in both our Canada and US facilities, and for improvements to the new facility at San Bernardino.

Cash Flow
($'000 unless otherwise stated)

	Three Months Ended December 31,		Twelve Months Ended December 31,	
	2016	2015	2016	2015
Cash provided by operating activities	1,151	2,911	20,343	20,056
Working capital adjustments	(2,347)	(778)	(6,818)	(13,277)
Net cash provided by (used in) operating activities	(1,196)	2,133	13,525	6,779
Net cash used in investing activities	(3,317)	(3,313)	(5,591)	(6,306)
Advance on (repayment of) senior term loans	(440)	7,309	(1,608)	9,968
Repayment of long-term debt	(483)	(566)	(2,615)	(2,263)
Other payables	(1,806)	-	(2,570)	-
Interest paid	(411)	(441)	(1,478)	(1,969)
Advance on (repayment of) senior revolving facility	3,569	(4,769)	2,385	(6,851)
Dividend payment	(621)	(311)	(1,865)	(311)
Share buyback	(78)	(77)	(145)	(107)
Net cash provided by (used in) financing activities	(270)	1,145	(7,896)	(1,533)
Exchange rate changes on foreign cash balances	10	15	(13)	77
Increase (decrease) in cash balances	(4,773)	(20)	25	(983)

8.3 SENIOR CREDIT FACILITY

On April 21, 2014, the Company renewed its senior banking facility with Wells Fargo. The five year senior secured committed banking facility increased from $40.0 million to $60.0 million and matures in April of 2019. Under the terms of the Senior Credit Facility, up to $60.0 million may be borrowed for Tree Island's financing requirements in Canadian and/or U.S. dollars. 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 December 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.

8.4 LONG TERM DEBT AGREEMENT

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

Under the terms of this long term debt agreement, Tree Island is required to make an additional $0.5 million principal repayment within 120 days of any fiscal year end in which EBITDA exceeds a specified amount. This amount has been included as part of the current portion of long term debt.

9 CAPITAL EXPENDITURES AND CAPACITY

For the three and twelve months ended December 31, 2016 we made capital expenditures of $3.0 million and $5.6 million, respectively. These expenditures are for manufacturing equipment, in both our Canadian and U.S. facilities, and for improvements to the new facility at San Bernardino.

10 CONTRACTUAL OBLIGATIONS AND COMMITMENTS

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

From time to time we make investments to update, replace or make additions to our existing capital assets, which includes, but is not limited to, the buildings we occupy and capital equipment. These investments are in our normal course of business activity. For capital assets we have committed to purchase but have not yet received the amounts remaining to be paid are recognized as purchase commitments The capital assets we have committed to are to be delivered prior to the end of 2017.

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)

	2017	2018	2019	2020	2021	Thereafter	Total
Production materials	31,266	-	-	-	-	-	31,266
Machinery and equipment	5,066	-	-	-	-	-	5,066
Operating leases	2,143	2,120	2,067	1,764	1,704	19,401	29,199
Total commitments	38,475	2,120	2,067	1,764	1,704	19,401	65,531
Senior revolving facility	28,941	-	-	-	-	-	28,941
AP and accrued liabilities	15,363	-	-	-	-	-	15,363
Other current liabilities	237	-	-	-	-	-	237
Dividends	621	-	-	-	-	-	621
Senior term loans	1,756	1,766	1,766	7,080	-	-	12,368
Long-term debt	2,604	1,933	2,544	1,949	1,434	5,520	15,984
Total financial liabilities	49,522	3,699	4,310	9,029	1,434	5,520	73,514
Total obligations and commitments	87,997	5,819	6,377	10,793	3,138	24,921	139,045

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 December 31, 2016, the Company did not have any U.S. dollar currency forward contracts outstanding.

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 December 31, 2016 the fair value of zinc forward contracts was a notional amount of $1.0 million and the mark to market loss on those contracts was $17k.

11 SUMMARY OF QUARTERLY FINANCIAL RESULTS

Summary of Quarterly Financial Results
($'000 unless otherwise stated)

	Dec 31, 2016	Sep 30, 2016	Jun 30, 2016	Mar 31, 2016	Dec 31, 2015	Sep 30, 2015	Jun 30, 2015	Mar 31, 2015
Revenue	45,903	57,726	65,384	62,240	54,274	61,408	56,541	59,043
Gross profit	5,296	9,584	11,524	11,009	5,932	9,813	8,144	8,234
Foreign exchange gain (loss)	(282)	(172)	319	(240)	127	152	(130)	892
EBITDA	1,031	5,370	7,857	6,711	1,814	6,195	4,732	5,508
Net income (loss)	(705)	2,688	6,359	5,226	5,522	6,444	2,064	2,117
Net income (loss) per unit - basic	(0.02)	0.09	0.20	0.17	0.18	0.21	0.07	0.07
Sales volume (tons)	*35,808*	*43,633*	*50,997*	*44,794*	*38,981*	*43,366*	*38,880*	*41,016*
Gross profit per ton	*148*	*220*	*226*	*246*	*152*	*226*	*209*	*201*
EBITDA per ton	*29*	*123*	*154*	*150*	*47*	*143*	*122*	*134*

The table above provides selected quarterly financial information for the eight most recent fiscal quarters to December 31, 2016. Sales volumes in the last quarter of the year have historically been the lowest in the year due to the seasonality of our business and the markets we sell to. Quarter-over-quarter results may also be impacted by unusual or infrequently occurring items.

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

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, 2016 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, 2016 (Note 3).

13 RELATED PARTY TRANSACTIONS

13.1 TRANSACTIONS WITH ASSOCIATED COMPANIES

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

Based on Tree Island Steel's outstanding Shares as at February 23, 2017, Futura owns 27.4% and Arbutus owns 18.1% 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 twelve months ended December 31, 2016, Tree Island sold, net of rebates, approximately $2.7 million ($2.9 million in 2015) of goods to CanWel and trade accounts receivable owing from CanWel as at December 31, 2016 is approximately $75k (approximately $76k in 2015). Outstanding trade accounts receivable from CanWel at period end are unsecured, interest free and settlement occurs in cash.

13.2 TRANSACTIONS WITH KEY MANAGEMENT PERSONNEL

Included in the definition of key management for purposes of disclosure of related party transactions are members of Board of Directors and officers of Tree Island Steel. Amounts for key management personnel for the three and twelve months ended December 31, 2016 was approximately $0.5 million and $2.8 million respectively (approximately $0.5 million and $1.9 million respectively 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.

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. A detailed discussion of our significant business risks is provided in the 2016 Annual Information Form under the heading "Risk Factors" which can be found at www.sedar.com.

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 management, with the participation of the Chief Executive Officer and the Chief Financial Officer, has conducted an evaluation of the effectiveness of our internal control over financial reporting as of December 31, 2016 based on the 2013 COSO Framework. Based on that evaluation, management concluded that our internal control over financial reporting, as defined by National Instrument 52-109, Certification of Disclosure in Issuers' Annual and Interim Filings, is effective to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements in accordance with IFRS.

Our Chief Executive Officer and Chief Financial Officer certified the appropriateness of the financial disclosures in the annual financial report together with the other financial information included in the annual filings for the period ended December 31, 2016. These executives also certified that they are responsible for the design of disclosure controls and procedures and internal control over financial reporting.

Under the supervision and with the participation of management, including the Chief Executive Officer and Chief Financial Officer, we have evaluated changes in internal control over financial reporting that occurred during the fiscal year ended and found no change that has materially affected, or is reasonably likely to materially affect, internal control over financial reporting.

The Company's Board of Directors and Audit Committee reviewed and approved the December 31, 2016 consolidated financial statements and this MD&A prior to its release.

CONSOLIDATED FINANCIAL STATEMENTS

MANAGEMENT'S STATEMENT OF RESPONSIBILITY

The accompanying consolidated financial statements are the responsibility of management and have been reviewed and approved by the Board of Directors. The consolidated financial statements have been prepared by management, in accordance with the International Financial Reporting Standards and, where appropriate, reflect management's best estimates and judgements. Management has also prepared financial and all other information in the annual report and has ensured that this information is consistent with the consolidated financial statements.

The Company maintains appropriate systems of internal control, policies and procedures, which provide management with reasonable assurance that assets are safeguarded and the financial records are reliable and form a proper basis for preparation of the consolidated financial statements.

The Board of Directors ensures that management fulfills its responsibilities for financial reporting and internal control through an Audit Committee. This committee reviews the consolidated financial statements and reports to the Directors. The auditors have full and direct access to the Audit Committee.

The consolidated financial statements have been independently audited by Ernst & Young LLP, in accordance with Canadian generally accepted auditing standards. Their report below expresses their opinion on the consolidated financial statements of the Company.

Dale R. Maclean
Director, President and Chief Executive Officer

INDEPENDENT AUDITORS' REPORT

To the Shareholders of
Tree Island Steel Ltd.

We have audited the accompanying consolidated financial statements of **Tree Island Steel Ltd.,** which comprise the consolidated statements of financial position as at December 31, 2016 and 2015 and the consolidated statements of operations, comprehensive income, shareholders' equity and cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's responsibility for the consolidated financial statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of **Tree Island Steel Ltd.** as at December 31, 2016 and 2015 and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

Ernst & Young LLP

Chartered Professional Accountants

Vancouver, Canada
February 23, 2017

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
($'000 unless otherwise stated)

	As at December 31, 2016	December 31, 2015
Cash	1,351	1,326
Accounts receivable *(Notes 5, 12.1)*	24,463	27,494
Inventories (*Note* 6*)*	67,268	59,686
Prepaid expenses	4,231	3,865
Income taxes recoverable	-	11
Current assets	97,313	92,382
Property, plant and equipment *(Notes 7*, *18.2)*	39,611	37,713
Deferred income tax asset *(Note 14.2)*	417	1,346
Other non-current assets *(Note 8.1)*	114	159
Total assets	137,455	131,600
Senior revolving facility *(Note 8.1)*	28,941	26,555
Accounts payable and accrued liabilities	15,363	17,046
Income taxes payable	269	-
Other current liabilities	237	3,480
Dividends payable	621	311
Current portion of long-term borrowing *(Notes 8.2, 9)*	4,361	4,240
Current liabilities	49,792	51,632
Senior term loans *(Note 8.2)*	10,612	12,407
Long-term debt *(Note 9)*	7,652	9,531
Other non-current liabilities	826	214
Total liabilities	68,882	73,784
Shareholders' equity	68,573	57,816
Total liabilities and shareholders' equity	137,455	131,600

See accompanying Notes to the 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

CONSOLIDATED STATEMENT OF OPERATIONS
($'000 unless otherwise stated)

	Twelve Months Ended December 31, 2016	Twelve Months Ended December 31, 2015
Sales *(Note 12.1)*	231,253	231,266
Cost of sales *(Note 6)*	(190,521)	(196,028)
Depreciation	(3,319)	(3,115)
Gross profit	37,413	32,123
Selling, general and administrative expenses	(19,388)	(18,030)
Operating income	18,025	14,093
Foreign exchange gain (loss)	(375)	1,041
Gain (loss) on sale of property, plant and equipment	12	(10)
Other expenses	(57)	(316)
Changes in financial liabilities at fair value	149	136
Financing expenses *(Note 10)*	(2,753)	(3,183)
Income before income taxes	15,001	11,761
Income tax recovery (expense) *(Note 14)*	(1,433)	4,386
Net income	13,568	16,147
Net income per share *(Note 17)*	0.44	0.52
Dividends per share	0.07	0.02
Weighted average number of shares *(Note 17)*	31,088,505	31,134,659

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
($'000 unless otherwise stated)

	Twelve Months Ended December 31, 2016	Twelve Months Ended December 31, 2015
Net income for the year	13,568	16,147
Unrealized (loss) on foreign exchange translation	(489)	(1,701)
Comprehensive income	13,079	14,446

See accompanying Notes to the Consolidated Financial Statements

CONSOLIDATED STATEMENT OF SHAREHOLDERS' EQUITY

($'000 unless otherwise stated)

	Shareholders' Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Total
Balance as at December 31, 2015	230,568	(170,920)	(1,832)	57,816
Repurchase of shares	(145)	-	-	(145)
Net income	-	13,568	-	13,568
Dividends	-	(2,176)	-	(2,176)
Other comprehensive loss	-	-	(490)	(490)
Balance as at December 31, 2016	230,423	(159,528)	(2,322)	68,573
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 loss	-	-	(1,701)	(1,701)
Balance as at December 31, 2015	230,568	(170,920)	(1,832)	57,816

See accompanying Notes to the Consolidated Financial Statements

CONSOLIDATED STATEMENT OF CASH FLOWS
($'000 unless otherwise stated)

	Twelve Months Ended December 31,	
	2016	2015
Net income	13,568	16,147
Depreciation	3,319	3,115
Changes in financial liabilities recognized at fair value	(149)	(136)
Loss (gain) on sale of property, plant and equipment	393	10
Amortization of deferred financing	48	41
Non-cash accretion of long-term debt	1,147	1,188
Net financing costs	1,558	1,954
Deferred income tax expense (recovery)	929	(4,334)
Exchange revaluation of foreign denominated debt	(470)	2,071
Working capital adjustments		
Accounts receivable	3,031	(7,400)
Inventories	(7,583)	(3,737)
Accounts payable and accrued liabilities	(2,283)	(2,032)
Prepaid expenses	(366)	49
Income and other taxes	280	(52)
Other	103	(105)
Net cash provided by (used in) operating activities	13,525	6,779
Proceeds on sale of property, plant and equipment	386	-
Government incentives	372	-
Purchase of property, plant and equipment	(6,349)	(6,306)
Net cash used in investing activities	(5,591)	(6,306)
Term loans - advance (repayment)	(1,608)	9,968
Repayment of long-term debt	(2,615)	(2,263)
Other financing liabilities	(2,570)	-
Interest paid	(1,478)	(1,969)
Increase (decrease) of senior revolving facility	2,385	(6,851)
Dividend paid	(1,865)	(311)
Repurchase of common shares	(145)	(107)
Net cash provided by (used in) financing activities	(7,896)	(1,533)
Effect of exchange rate change on cash	(13)	77
Increase (decrease) in cash	25	(983)
Cash - beginning of period	1,326	2,309
Cash - end of period	1,351	1,326

See accompanying Notes to the Consolidated Financial Statements

1 NATURE OF BUSINESS

These consolidated financial statements of Tree Island Steel Ltd. ("Tree Island Steel " or the "Company") for the year ended December 31, 2016 were authorized for issue in accordance with a resolution of the Board of Directors on February 23, 2017.

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

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

2 BASIS OF PREPARATION

2.1 BASIS OF PREPARATION

The consolidated financial statements as at and for the year ended December 31, 2016 have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB").

These consolidated financial statements have been prepared on a historical cost basis except for certain financial instruments categorized as fair value through profit or loss. In addition, these consolidated financial statements have been prepared using the accrual basis of accounting.

2.2 BASIS OF CONSOLIDATION

The consolidated financial statements include the accounts of Tree Island and TI Canada, and TI Canada's wholly-owned subsidiaries, Tree Island Wire Holdings (USA) Inc. ("TIWH") and Tree Island Wire (USA) Inc. ("TI USA"). Intercompany accounts and transactions have been eliminated on consolidation.

2.3 FUNCTIONAL CURRENCY

The functional and presentation currency of Tree Island Steel is the Canadian dollar. Meanwhile, the functional currency of TI Canada is the Canadian dollar and the functional currency of TI USA and TIWH is the US dollar.

3 SIGNIFICANT ACCOUNTING POLICIES, CRITICAL ACCOUNTING JUDGEMENTS AND ESTIMATES

The accounting policies applied in the preparation of these consolidated financial statements are set out below:

3.1 REVENUE RECOGNITION

Tree Island recognizes revenue on the sale of goods when the significant risks and rewards of ownership pass to the buyer which is considered to be when legal title passes to customers, the revenue can be reliably measured and collectability is reasonably assured. Revenue related to contract manufacturing (also known as tolling) is recognized at the point at which the items are ready to ship to the customer, the revenue can be reliably measured and collectability is reasonably assured. For both the sale of goods and contract manufacturing, revenue is stated net of early payment discounts, rebates granted and costs to ship product to customer locations if incurred by Tree Island.

3.2 CASH

Cash is comprised of bank balances, including outstanding items in deposit and net of outstanding disbursement accounts, cash balances in excess of revolving credit outstanding on the Senior Credit Facility (as defined in Note 8) and cash on hand.

3.3 INVENTORIES

Raw materials and consumable supplies and spare parts inventories are stated at the lower of weighted average cost and net realizable value. Finished and semi-finished products are stated at the lower of first-in first-out cost and net realizable value. Cost for finished and semi-finished products includes direct costs incurred in production including direct labour, materials, freight, depreciation and directly attributable overhead costs and indirect overhead costs based on normal operating capacity. Net realizable value is the estimated selling price in the ordinary course of business less estimated costs to sell. Consumable supplies and spare parts are inventories that are expected to be consumed in operations.

3.4 PROPERTY, PLANT AND EQUIPMENT AND DEPRECIATION

No depreciation is charged on capital projects during the period of construction. Costs are recognized net of government incentives. Regular repair and maintenance costs are recognized in the consolidated statement of operations as incurred. Depreciation is determined using the straight-line method over the estimated useful lives of the depreciable assets. When parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items of property, plant and equipment. Depreciation methods, asset residual values and useful lives are reviewed annually and adjusted prospectively as required.

Depreciation is calculated over the following rates:

Land	not depreciated
Buildings and improvements	19 to 30 years
Leasehold improvements	based on the term of the respective lease
Machinery and equipment	3 to 20 years

An item of property, plant and equipment and any significant part initially recognized is derecognized upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the consolidated statement of operations when the asset is derecognized.

3.5 IMPAIRMENT OF NON-FINANCIAL ASSETS

3.5.1 IMPAIRMENT CHARGES

Tree Island performs annual impairment tests on long-lived assets when events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss, if any, is determined as the excess of the carrying value of the asset over its recoverable amount, and is recognized in the consolidated statement of operations.

Tree Island assesses at each reporting date whether there is an indication that an asset may be impaired. If any indication exists Tree Island estimates the asset’s recoverable amount. An asset’s recoverable amount is the higher of an asset’s or cash-generating unit’s (“CGU”) fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. Where the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

In determining fair value less costs to sell, fair value is based on quoted market prices, prices for similar assets or other valuation techniques. The impairment analysis contains estimates due to the inherently speculative nature of forecasting long-term estimated cash flows and determining the ultimate useful lives of assets. If any of these estimates change, future net cash flows from the assets could be lower, which would result in additional impairment. As well, as much as practicable, third-party valuators are used to provide fair values which also contain assumptions concerning current market information for similar or same assets and if applicable functional and economic obsolescence.

Impairment losses of continuing operations, including impairment on inventories, are recognized in the consolidated statement of operations in those expense categories consistent with the function of the impaired asset.

3.5.2 REVERSAL OF PREVIOUS IMPAIRMENT

An assessment is made at each reporting date as to whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased. If such indication exists, Tree Island estimates the asset's or CGU's recoverable amount. A previously recognized impairment loss is reversed only if there has been a change in the assumptions used to determine the assets or CGU's recoverable amount since the last impairment loss was recognized. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognized for the asset in prior years. Such reversal is recognized in the consolidated statement of operations.

3.6 FAIR VALUE MEASUREMENT

The Company measures financial instruments such as derivatives at fair value at each statement of financial position date. Also, fair values of financial instruments measured at amortized cost are disclosed in Note 15.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability, or
- In the absence of a principal market, in the most advantageous market for the asset or liability

The principal or the most advantageous market must be accessible to by the Company. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Company uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs.

All financial assets and liabilities for which fair value is measured or disclosed in the consolidated financial statements are categorized within the fair value hierarchy (Note 15.2)

For assets and liabilities that are measured at fair value on a recurring basis, the Company determines whether transfers have occurred between levels in the hierarchy by re-assessing categorization (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

3.7 FINANCIAL INSTRUMENTS AND RISKS

3.7.1 Financial Assets

Tree Island classifies, at recognition, its financial assets as loans and receivables. The financial assets are classified depending on the purpose for which the financial assets were acquired.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are classified as current assets or non-current assets based on their maturity date. Loans and receivables are carried at amortized cost less any impairment. Loans and receivables are comprised of accounts receivable.

Tree Island assesses at each reporting date whether there is objective evidence that financial assets under loans and receivables are impaired. Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in payments, the probability that they will enter bankruptcy or other financial reorganization. Impaired loans and receivables are charged to the consolidated statement of operations as bad debts and allowance for doubtful accounts is recognized.

3.7.2 FINANCIAL LIABILITIES

Tree Island classifies its financial liabilities as borrowings and other financial liabilities.

Borrowings and other financial liabilities are classified as current or non-current based on their maturity date and recognized initially at fair value, net of transaction costs incurred and are subsequently stated at amortized cost. Any difference between the amounts originally received, net of transaction costs, and the redemption value is recognized in the consolidated statement of operations over the period to maturity using the effective interest method.

Financial liabilities include the Senior Credit Facility, accounts payable and other accrued liabilities, Senior Term Loan, and long-term debt.

A financial liability is derecognized when the obligation under the liability is discharged or cancelled or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognized in the consolidated statement of operations as a gain or loss on renegotiated debt.

3.7.3 FINANCIAL INSTRUMENTS AT FAIR VALUE THROUGH PROFIT AND LOSS

Financial instruments at fair value through profit and loss are initially recognized at their fair value on the date the contract or transaction is entered into and are subsequently re-measured at their fair value at each reporting period with changes in the fair value recognized through the consolidated statement of operations. Financial instruments at fair value through profit and loss include the change in the early payment option (Note 15), purchase agreement for zinc (Note 15) and foreign exchange forward contracts (Note 15).

3.8 LEASES

The determination of whether an arrangement is, or contains, a lease is based on the substance of the arrangement at inception date and leases are classified as either finance or operating. Leases that transfer substantially all the benefits and risks of ownership of the leased item to Tree Island are accounted for as finance leases. Assets under finance lease are accounted for as assets and amortized over the lesser of the estimated useful life or the lease term. A finance lease obligation is be recognized to reflect the present value of future lease payments and the finance element of the lease payments is charged to income over the term of the lease.

Operating lease payments are recognized as an operating expense in the consolidated statement of operations on a straight-line basis over the term of the lease.

3.9 PROVISIONS

3.9.1 GENERAL

Provisions are recognized when Tree Island has an obligation (legal or constructive) as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made on the amount of the obligation. Where Tree Island expects some or all of a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognized as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in the consolidated statement of operations, net of any reimbursement.

3.9.2 ASSET DECOMISSIONING AND RETIREMENT OBLIGATIONS

Tree Island recognizes obligations associated with the retirement of property, plant and equipment that result from the acquisition, construction, development or normal operations of the assets. These obligations, if material, are recorded at fair value and capitalized and depreciated as part of the cost of the related asset. Management has determined that Tree Island does not have any material asset decommissioning or retirement obligations.

3.10 POST-RETIREMENT BENEFITS

Tree Island contributes to a group registered retirement savings plan for Canadian employees and a 401K plan for US employees. The cost of defined contribution pensions are expensed as earned by employees.

3.11 TAXES

3.11.1 CURRENT INCOME TAX

Current income tax assets and liabilities for the current period are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted, at the reporting date in the countries where Tree Island operates and generates taxable income.

Management periodically evaluates positions taken in the tax returns with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions where appropriate.

3.11.2 DEFERRED TAX

Deferred tax is provided using the liability method on temporary differences between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes at the reporting date.

Deferred tax assets and liabilities are recognized for all taxable temporary differences, except in respect of taxable temporary differences associated with investments in subsidiaries when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognized for all deductible temporary difference to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry-forward of unused tax losses can be utilized, except in respect of deductible temporary differences associated with investments in subsidiaries, deferred tax assets are recognized only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilized.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilized. Unrecognized deferred tax assets are reassessed at each reporting date and are recognized to the extent that it has become probable that future taxable profits will allow the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date.

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current income tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

3.11.3 SALES TAX

Revenues, expenses and assets are recognized net of the amount of sales tax, except when the sales tax incurred on a purchase of assets or services is not recoverable from the taxation authority, in which case, the sales tax is recognized as part of the cost of acquisition of the asset or as part of the expense item, as applicable.

Receivables and payables are stated with the amount of sales tax included.

The net amount of sales tax recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the consolidated statement of financial position.

3.12 NET INCOME (LOSS) PER SHARE

Basic net income per Share is calculated by dividing net income by the weighted-average number of Shares outstanding during the period. Diluted net income per Share is calculated by factoring in the impact of dilutive instruments, if applicable.

3.13 FOREIGN EXCHANGE

Transactions in currencies other than the functional currency are recorded at the rate of exchange prevailing on the date of the transaction. Monetary assets and liabilities that are denominated in foreign currencies are translated at the rate prevailing at each reporting date. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at the exchange rate at the date the fair value was determined. Non-monetary items that are measured at historical cost in a foreign currency are translated at the exchange rate on the date of the transaction.

On consolidation the assets and liabilities of foreign operations are translated into Canadian dollars at the rate of exchange prevailing at the reporting date and their consolidated statement of operations are translated at exchange rates prevailing at the dates of the transactions. The exchange differences arising on translation for consolidation are recognized in other comprehensive income.

3.14 CRITICAL ACCOUNTING JUDGEMENTS AND ESTIMATES

The preparation of consolidated financial statements in accordance with IFRS requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingencies as at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Significant areas that involve estimates are listed below:

3.14.1 FINANCIAL INSTRUMENTS VALUED AT FAIR VALUE THROUGH PROFIT AND LOSS

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, mark to market valuation and option pricing models, using, to the extent possible, observable market-based inputs. Refer to Note 15 for significant assumptions used in the valuation of these financial instruments and carrying amount as at December 31, 2016 and 2015.

3.14.2 INVENTORY VALUATION

Inventories are be recognized at the lower of cost or their Net Realizable Value ("NRV"), which is the estimated selling price in the ordinary course of business less the estimated costs of completion and estimated costs necessary to make the sale. IFRS requires that the estimated NRV be based on the most reliable evidence available at the time the estimates are made of the amounts that inventories are expected to realize.

The measurement of an inventory write-down to NRV is based on our best estimate of the NRV and of our expected future sale or consumption of our inventories. Due to market driven fluctuations in certain product group sales prices and the commodity nature of our significant raw materials, there is uncertainty as to whether the NRV of the inventories will remain consistent with those used in our assessment of NRV at period end. As a result there is the risk that a write-down of on-hand and unconsumed inventories could occur in future periods. Also, a certain portion of inventory may become damaged or obsolete. A slow moving reserve is recorded, as required, based on an analysis of the length of time product has been in inventory and historical rates of damage and obsolescence. Refer to Note 6 for the inventory provision as at December 31, 2016 and 2015.

3.14.3 ALLOWANCE FOR DOUBTFUL ACCOUNTS

It is possible that a certain portion of required customer payments will not be made, and as such an allowance for these doubtful accounts is maintained. The allowance is based on estimation of the potential of recovering the accounts receivable and incorporates current and expected collection trends. The estimates will change, as necessary, to reflect market or specific industry risks, as well as known or expected changes in the customers' financial position. Refer to Note 5 for the carrying amount of allowance for doubtful accounts as at December 31, 2016 and 2015.

3.14.4 PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment comprises a large component of the total assets of Tree Island and as such the capitalization of costs, the determination of estimated recoverable amounts and the estimates of useful lives of these assets have a significant effect on Tree Island's financial results.

Management uses the best available information to identify the point at which a development project is capitalized.

During the repair and maintenance of an asset, the useful life of the respective asset may be reviewed and revised as appropriate.

The carrying value of long-lived assets is reviewed at the end of each reporting period. The impairment analysis contains estimates that can change due to the inherently speculative nature of forecasting long-term estimated cash flows and determining the ultimate useful lives of assets. If any of these estimates change significantly, future net cash flows from the property, plant and equipment could be lower or higher, which would result in additional impairment or reversal of impairments recognized in prior periods. As well, as much as practicable, third-party valuators are used to provide fair values that also contain assumptions concerning current market information for similar or same assets and if applicable functional and economic obsolescence.

3.14.5 INCOME TAXES

As at each consolidated statement of financial position date, a deferred income tax asset would be recognized for all deductible temporary differences, unused tax losses and income tax reductions, but only to the extent that their realization is probable. The determination of this requires significant judgment. This evaluation includes review of: (1) the ability to carry back operating losses to offset taxes paid in prior years; (2) the carry-forward periods of the losses; (3) an assessment of the excess of fair value over the tax basis of Tree Island's net assets, and, (4) appropriate and feasible corporate actions with respect to repatriation of foreign earnings. If, based on this review, it is not probable such assets will be realized, then no deferred income tax asset is recognized. Refer to Note 14.2 for deferred income tax assets and liabilities as at December 31, 2016 and 2015.

4 FUTURE IFRS STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE

Tree Island prepares its financial statements in accordance with IFRS standards. IASB has issued several new standards that will come into effect over the next two years that may have an impact on the Company's reporting requirements. 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. The new standards that may have an impact on the Company's reporting requirements include:

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 with early adoption permitted.

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 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.

IFRS 16 Leases
IFRS 16 was issued in January 2016 and provides guidance on how leases are to be recognized, measured, presented and disclosed. The standard provides a single lessee accounting model, requiring lessees to recognized leases as both an assets and a liabilities for all leases unless the lease term is 12 months or less or the underlying asset has a low value. This standard is a significant change for how a lessee will recognize a lease from the standard it replaces, IAS 17. The accounting of leases by lessors under the new standard remains substantially unchanged from IAS 17. The standard is effective for annual periods beginning on or after January 1, 2019, with early application permitted for entities that apply IFRS 15.

The Company has yet to conclude a comprehensive review of the impact of the new standards, IFRS 9, IFRS 15 and IFRS 16, and cannot at this time conclude whether or not the implementation of the standards will result in a material impact on how we recognize financial instruments, revenues and leases. We will continue to review the new standards, the associated disclosure requirements, our method of adoption for each of the standards and any additional changes, modifications, clarifications or interpretations undertaken by the IASB subsequent to December 31, 2016 to complete our comprehensive evaluation of the impact of the standards on our consolidated financial statements. At this time the Company does not plan to adopt any of the new standards early and will adopt each of the standards on the respective required effective dates.

5 ACCOUNTS RECEIVABLE

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

($'000 unless otherwise stated)

	As at December 31, 2016	As at December 31, 2015
Current	22,789	24,948
30 - 60 days past due	772	1,167
61 - 90 days past due	354	458
Over 91 days past due	807	1,110
Total accounts receivable	24,722	27,683
Allowance for doubtful accounts	(259)	(189)
Net accounts receivable	24,463	27,494

Accounts receivable are non-interest bearing and are generally due on 30-day to 90-day terms. The maximum credit risk that Tree Island was exposed to by way of its accounts receivable is equal to the net amount of $24.5 million as at December 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. Accounts receivable with related parties are discussed in Note 12.1.

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

($'000 unless otherwise stated)

	As at December 31, 2016	As at December 31, 2015
Opening balance – January 1	189	154
Additions during the period	148	151
Reversals during the period	(15)	(26)
Collections	(7)	(19)
Write-offs during the period	(57)	(79)
Foreign exchange revaluation	1	8
Closing balance – December 31	259	189

See Note 15.3 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 December 31, 2016	As at December 31, 2015
Raw materials	21,805	20,338
Finished and semi-finished products	32,809	25,098
Consumable supplies and spare parts	12,654	14,250
Total inventory	67,268	59,686

At each year 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 2016 and no write-downs were required in 2015. The reserves for slow moving inventory as at December 31, 2016 were $1.7 million ($2.1 million at December 31, 2015).

For the full year ended December 31, 2016 and 2015, Tree Island recognized, in income, inventory costs for the following:

($'000 unless otherwise stated)

	Twelve Months Ended December 31,	
	2016	2015
Opening inventory	59,686	55,950
Raw material purchases	121,238	130,728
Finished goods purchased for resale	7,544	6,840
Conversion costs	69,321	62,196
Closing inventory	(67,268)	(59,686)
Cost of sales	190,521	196,028

7 PROPERTY, PLANT AND EQUIPMENT

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	243	3,723	3,103	(734)	6,335
Disposals	-	(1,924)	(1,732)	-	(3,656)
Foreign exchange translation	(58)	(230)	(293)	(5)	(586)
As at December 31, 2016	9,835	43,432	29,550	1,076	83,893
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	8	1,133	2,178	-	3,319
Disposals	-	(1,911)	(936)	-	(2,847)
Foreign exchange translation	-	(170)	(107)	-	(277)
As at December 31, 2016	8	31,253	13,021	-	44,282
Net book value as at					
December 31, 2015	9,650	9,662	16,586	1,815	37,713
December 31, 2016	9,827	12,179	16,529	1,076	39,611

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 the year.

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 our normal course of business activity. For capital assets we have committed to purchase but have not yet received the amounts remaining to be paid are recognized as purchase commitments (refer to section 18.2).

During the year, the Company received government incentives totalling \$0.4 million for the installation and successful commissioning of equipment that met incentive and funding rules. The incentives and funding, when received, were recorded against the gross costs of the respective project.

8 SENIOR CREDIT FACILITY

On April 21, 2014, the Company renewed its senior banking facility with Wells Fargo. The five year senior secured committed banking facility increased from $40.0 million to $60.0 million and matures in April of 2019. Under the terms of the Senior Credit Facility, up to $60.0 million may be borrowed for Tree Island's financing requirements in Canadian and/or U.S. dollars. 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 TI Canada and TI USA to open documentary and standby letters of credit for raw material purchases. There was a $40k Letter of Credit outstanding as at December 31, 2016 and 2015.

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 loans (Note 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) 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 December 31, 2016	As at December 31, 2015
Revolving portion of the senior credit facility	28,941	26,555
Deferred financing costs	(114)	(159)
Total	28,827	26,396

The revolving portion of the Senior Credit Facility denominated in US dollars as at December 31, 2016 is $18.1 million ($19.3 million in 2015).

Deferred financing costs are included in other non-current assets on the consolidated statement of 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 four quarters defined fixed charge coverage ratio of 1:1 ("Availability Test") 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 December 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.

8.2 Senior Term Loans

Under the terms of the Senior Credit Facility, the Company has the option to designate portions of the total $60 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 applied against the Senior Credit Facility, two of which are denominated in Canadian dollars and the other is denominated in US dollars.

The following amounts are outstanding under the Senior Term Loans:

($'000 unless otherwise stated)

	As at December 31, 2016	As at December 31, 2015
Senior term loans - beginning of period	14,031	3,850
Advances	-	10,587
Foreign exchange revaluation	(55)	213
Payments	(1,608)	(619)
Senior term loans - end of period	12,368	14,031
Less: current portion	(1,756)	(1,624)
Total	10,612	12,407

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$100k in years 1 and 2, US$110k in years 3 and 4, US$120k million in years 5, 6 and 7, and US$190k 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 U.S. dollars.

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

($'000 unless otherwise stated)

	As at December 31, 2016	As at December 31, 2015
Beginning of period	12,139	11,143
Payments	(2,615)	(2,263)
Foreign exchange revaluation	(415)	2,071
Accretion of debt discount	1,147	1,188
End of period	10,256	12,139
Less: current portion	(2,604)	(2,608)
Net long-term debt	7,652	9,531

A provision exists for early payment of a portion of the principal outstanding if certain conditions are met (Note 15.1) and is included in other noncurrent liabilities.

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

10 FINANCING EXPENSES

($'000 unless otherwise stated)

	Twelve Months Ended December 31, 2016	Twelve Months Ended December 31, 2015
Non-cash accretion of debt discount and interest on long term debt	1,147	1,188
Interest on senior credit facility (Note 8.1)	687	903
Other interest and financing costs	871	1,051
Amortization of deferred financing costs	48	41
Total	2,753	3,183

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 41,100 Shares were repurchased (totaling $145k at an average price of $3.54 per Share) and cancelled in the twelve months ended December 31, 2016. Shares issued and outstanding are as follows:

($'000 except for Shares)

	Shares	Gross	Issuance Cost[6]	Net
Shareholders' capital - December 31, 2014	31,142,573	242,074	11,400	230,674
Repurchase of common shares	(36,900)	(106)	-	(106)
Shareholders' capital - December 31, 2015	31,105,673	241,968	11,400	230,568
Repurchase of common shares	(41,100)	(145)	-	(145)
Shareholders' capital - December 31, 2016	31,064,573	241,823	11,400	230,423

11.1 NORMAL COURSE ISSUER BID

The Company renewed its normal course issuer bid (the "Bid"), effective as of September 21, 2016, to purchase up to 1,610,000 Shares. The expiration date of the normal course issuer bid is September 20, 2017 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 September 20, 2016 the Company purchased and cancelled 22,500 Shares under the previous normal course issuer bid that expired on September 20, 2015. Under the Bid, from the period September 21, 2016 to December 31, 2016, 18,600 Shares were acquired and retired prior to January 1, 2017.

No Shares were purchased under the Bid for the period January 1, 2017 to February 23, 2017.

[6] *Issuance costs were incurred as a result of the November 2002 Initial Public Offering and October 2004 Secondary Offering.*

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. Arbutus Distributors Ltd. ("Arbutus") is considered to be a related party to the Company because of its share ownership and the fact that Mr. Bull, President of Arbutus, sits on the Board of Directors.

Based on Tree Island Steel's outstanding Shares as at February 23, 2017, Futura owns 27.4% and Arbutus owns 18.1% 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 year ended December 31, 2016, Tree Island sold, net of rebates, approximately $2.7 million ($2.9 million in 2015) of goods to CanWel and trade accounts receivable owing from CanWel as at December 31, 2016 is approximately $75k (approximately $76k in 2015). Outstanding trade accounts receivable from CanWel at period end are unsecured, interest free and settlement occurs in cash (Note 5).

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 twelve months ended December 31, 2016 was approximately $2.8 million (approximately and $1.9 million 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 POST RETIREMENT BENEFITS

Tree Island contributes to a group registered retirements savings plan for all eligible Canadian employees and a 401K for all eligible US employees. Contributions made by Tree Island's subsidiaries in 2016 amounted to $1.5 million ($1.3 million in 2015). Funding obligations are satisfied upon making contributions.

14 INCOME TAXES

14.1 INCOME TAX RECOVERY (EXPENSE)

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

($'000 unless otherwise stated)

	Twelve Months Ended December 31,	
	2016	2015
Current tax recovery (expense)	(504)	52
Deferred tax recovery (expense)	(929)	4,334
Total in the Consolidated Statement of Operations	(1,433)	4,386

The expense or recovery of income taxes varies from the amount that would be expected if computed by applying the Canadian federal and provincial and US federal and state statutory income tax rates to the income before income taxes as shown in the following table:

($'000 unless otherwise stated)

	As at December 31,	
	2016	2015
Income (loss) before provision for income taxes	15,001	11,761
Tax Rate	26.0%	26.0%
Expected income tax recovery (expense)	(3,900)	(3,058)
Revisions to prior year estimates	(63)	3,789
Items not deductible for tax	(148)	3,413
Foreign exchange on intercompany loans	310	(4,465)
Differential tax rates on U.S. subsidiary	(26)	(7,660)
Change in unrecognized deferred tax benefits	890	13,492
Change in tax reserves	-	(653)
Withholding taxes	(222)	-
Capital items	(338)	-
Loss previously not recognized	2,070	-
Other	(6)	(472)
Total in the Consolidated Statement of Operations	(1,433)	4,386

14.2 DEFERRED INCOME TAX ASSETS AND LIABILITIES

The components of deferred income tax assets and liabilities as at December 31 are as follows:

($'000 unless otherwise stated)

	As at December 31,	
	2016	2015
Non-capital tax loss-carry forwards	3,607	4,596
Property, plant and equipment	(5,978)	(3,620)
Capital losses	853	853
Long-Term Debt	(185)	(515)
Unrealized foreign exchange (gain) loss	4	46
Reserves and other liabilities	890	-
Goodwill and intangibles	330	-
Interest and other	896	(15)
Deferred tax asset (liability)	417	1,346
Deferred tax (liability) beginning of period	1,346	(2,988)
Deferred tax recovery (expense) during the period	(929)	4,334
Deferred tax asset (liability) end of period	417	1,346

No deferred tax assets have been recognized on the consolidated statements of financial position where Tree Island has concluded that it is not probable that the benefits of recognized deferred income tax assets will be realized prior to their expiry. As such, Tree Island has not recognized a deferred tax asset on the following items:

($'000 unless otherwise stated)

	As at December 31, 2016	2015
Non-capital tax loss carry-forwards	23	428
Goodwill and intangibles	-	399
Unrealized foreign exchange losses	471	309
Reserves and other liabilities	31	747
Capital losses	1,812	2,892
Interest and other	8,065	10,715
Deferred tax asset	10,402	15,490

14.3 INCOME TAX LOSS CARRY-FORWARDS

As at December 31, 2016, Tree Island had income tax loss carry forwards available to offset future taxable income with expiries as shown in the table below:

($'000 unless otherwise stated)

Year of Expiration	Canada	US - Federal	US - State
2018	-	-	-
2019	-	-	-
2021	-	-	-
2028	-	-	-
2029	36	-	-
2030	-	-	-
2031	52	-	7,330
3032	265	-	495
3033	-	-	1,324
2034	-	-	3,659
2035	8,410	-	2,930
Total	8,763	-	15,738

As at December 31, 2016, the Company had capital losses of $20.5 million in addition to the non-capital loss carry forwards listed above. The capital losses can be carried forward indefinitely to offset against future capital gains.

15 FINANCIAL INSTRUMENTS

15.1 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:

- Cash, accounts receivable, the revolving portion of the Senior Credit Facility and accounts payable and accrued liabilities approximate their carrying amounts largely due to the short-term nature of these instruments;

- Fair value on the Company's Senior Term Loan and long-term debt are based on estimated market interest rate on similar borrowings. The carrying value of the 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 $0.3 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 is 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 December 31, 2016		As at December 31, 2015	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Cash and cash investments	1,351	1,351	1,326	1,326
Accounts receivable	24,463	24,463	27,494	27,494
Total financial assets	25,814	25,814	28,820	28,820
Senior revolving facility	28,941	28,941	26,555	26,555
Accounts payable and accrued liabilities	15,363	15,363	17,046	17,046
Senior term loans	12,368	12,368	14,031	14,031
Long-term debt	10,256	9,750	12,139	12,763
Early payment option	-	-	141	141
Commodity purchase contract embedded derivative	17	17	34	34
Total financial liabilities	66,945	66,439	69,946	70,570

15.2 FAIR VALUE HIERARCHY

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

The three levels of fair value estimation are:

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

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

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

The following table summarizes the classification of the Company's financial assets 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	-	28,941	-
Senior term loans	-	12,368	-
Long-term debt	-	-	9,750
Commodity purchase contract embedded derivative	-	17	-

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
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 $327k

15.3 RISK EXPOSURE AND MANAGEMENT

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

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

15.3.2 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 December 31, 2016:

($'000 unless otherwise stated)

	Carrying Amount	Contractual Cash Flow	Less Than 1 Year	1 – 2 Years	Greater Than 2 Years
Senior revolving facility	28,941	28,941	28,941	-	-
Accounts payable and accrued liabilities	15,363	15,363	15,363	-	-
Senior term loans	12,368	12,368	1,756	3,532	7,080
Long-term debt	10,256	15,984	2,604	4,477	8,903
As at December 31, 2016	66,928	72,656	48,664	8,009	15,983

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.

15.3.3 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 December 31, 2016, a $0.01 increase (decrease) in the Canadian dollar to U.S. dollar exchange rate will increase (decrease) net comprehensive income by $0.4 million.

Tree Island's U.S. dollar-denominated cash, accounts receivable, accounts payable and accrued liabilities, Senior Credit Facility and long-term debt are exposed to foreign currency exchange rate risk because the value of these financial instruments will fluctuate with changes in the U.S./Canadian dollar exchange rate. The Company enters into U.S. dollar currency forward contracts for periods consistent with a portion of U.S. dollar currency transaction exposures, generally from one to three months. These are not designated as cash flow, fair value or net investment hedges. As of December 31, 2016, the Company had no outstanding U.S. dollar currency forward contracts.

15.3.4 INTEREST RATE RISK

Tree Island is exposed to interest rate risk on its Senior Credit Facility. Interest payable on the funds advanced under the Senior Credit Facility are based on the Canadian interbank bid rates for Canadian dollar banker's acceptance for Canadian dollar denominated borrowings or the London Inter-Market Offered Rate ("LIBOR") for U.S. dollar deposits for U.S. dollar denominated borrowings.

A one percent increase in the interest rates charged on the Senior Credit Facility would increase financing expenses by $0.3 million annually. Tree Island does not use derivative instruments to manage the interest rate risk.

15.3.5 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 or fair value hedges. As at December 31, 2016, the zinc forward contracts had a notional value of $1.0 million and the fair value loss on those contracts was $17k.

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, senior term loan agreements 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, with considerations given to changes in economic conditions and the risk characteristics of the underlying assets in particular, by closely monitoring cash flows and compliance with external debt covenants. The table below is what management considers capital:

($'000 unless otherwise stated)

	As at December 31, 2016	As at December 31, 2015
Total shareholders' equity	68,573	57,816
Senior revolving facility	28,941	26,555
Senior term loans	12,368	14,031
Long-term debt	10,256	12,139
Total capital	120,138	110,541

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 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 December 31, 2016 the Company does not have any instruments issued that could be dilutive.

41,100 Shares were repurchased and cancelled for the twelve months ended December 31, 2016 and no Shares were repurchased and cancelled from January 1, 2017 up to February 23, 2017 (Note 11).

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

($'000 unless otherwise stated)

	Twelve Months Ended December 31,	
	2016	2015
Net income for the year	13,568	16,147
Weighted average number of shares outstanding:	31,088,505	31,134,659
Net income per share ($/share)	0.44	0.52

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, consolidated statement of operations or cash flows.

18.2 PURCHASE COMMITMENTS

As at December 31, 2016, Tree Island's wholly owned subsidiaries have committed to raw material purchases (including finished goods) totalling $31.3 million ($28.2 million in 2015). As at December 31, 2016, the Company also committed to purchase manufacturing equipment, with the total amount outstanding totalling $5.1 million.

18.3 OPERATING LEASE COMMITMENTS

Tree Island and its subsidiaries have various operating lease agreements with remaining terms of up to five years with varying renewal options. Annual lease rental payments due under non-cancelable operating leases are as follows:

($'000 unless otherwise stated)

	As at December 31, 2016
Less than 1 year	2,134
1 to 5 years	7,640
More than 5 years	19,400
Total capital	29,174

19 SEGMENTED INFORMATION

19.1 MARKET SEGMENTS

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

($'000 unless otherwise stated)

	Twelve Months Ended December 31,	
	2016	2015
Industrial	75,926	84,153
Residential	72,320	71,432
Commercial	44,034	34,341
Agricultural	24,964	24,574
Specialty[7]	14,009	16,766
Total revenue	231,253	231,266

[7] *On September 30, 2016, the Company's Stainless product lines and its related machinery, equipment and business assets were divested to a third party. Some Specialty inventory that was not included as part of the sale of Stainless, remained on hand subsequent to the completion of the sale and continued to be sold after September 30, 2016.*

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[7]. 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)

	Twelve Months Ended December 31,	
	2016	2015
United States	149,652	158,984
Canada	73,832	66,828
International	7,769	5,454
Total revenue	231,253	231,266

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)

	As at December 31,	
	2016	2015
United States	11,154	9,258
Canada	28,571	28,611
China	-	3
Total non-current assets	39,725	37,872

SHAREHOLDER INFORMATION

TREE ISLAND STEEL LTD.

Board of Directors:

Amar S. Doman – Chairman of the Board

Dale R. MacLean

Peter Bull

Harry Rosenfeld

Michael Fitch

Sam Fleiser

Theodore A. Leja

Joe Downes

Leadership Team:

Dale R. MacLean
President and Chief Executive Officer

Remy Stachowiak
Chief Operating Officer

Nancy Davies
Chief Financial Officer and Vice President, Finance

James Miller
Vice President, Corporate Development and Procurement

Shares:

Market Information

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

Registrar and Transfer Agent

Computershare Investor Services Inc.

Corporate Head Office:

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

Website:

www.treeisland.com

Investor Relations*:*

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

Auditors:

Ernst & Young LLP
Vancouver, B.C.