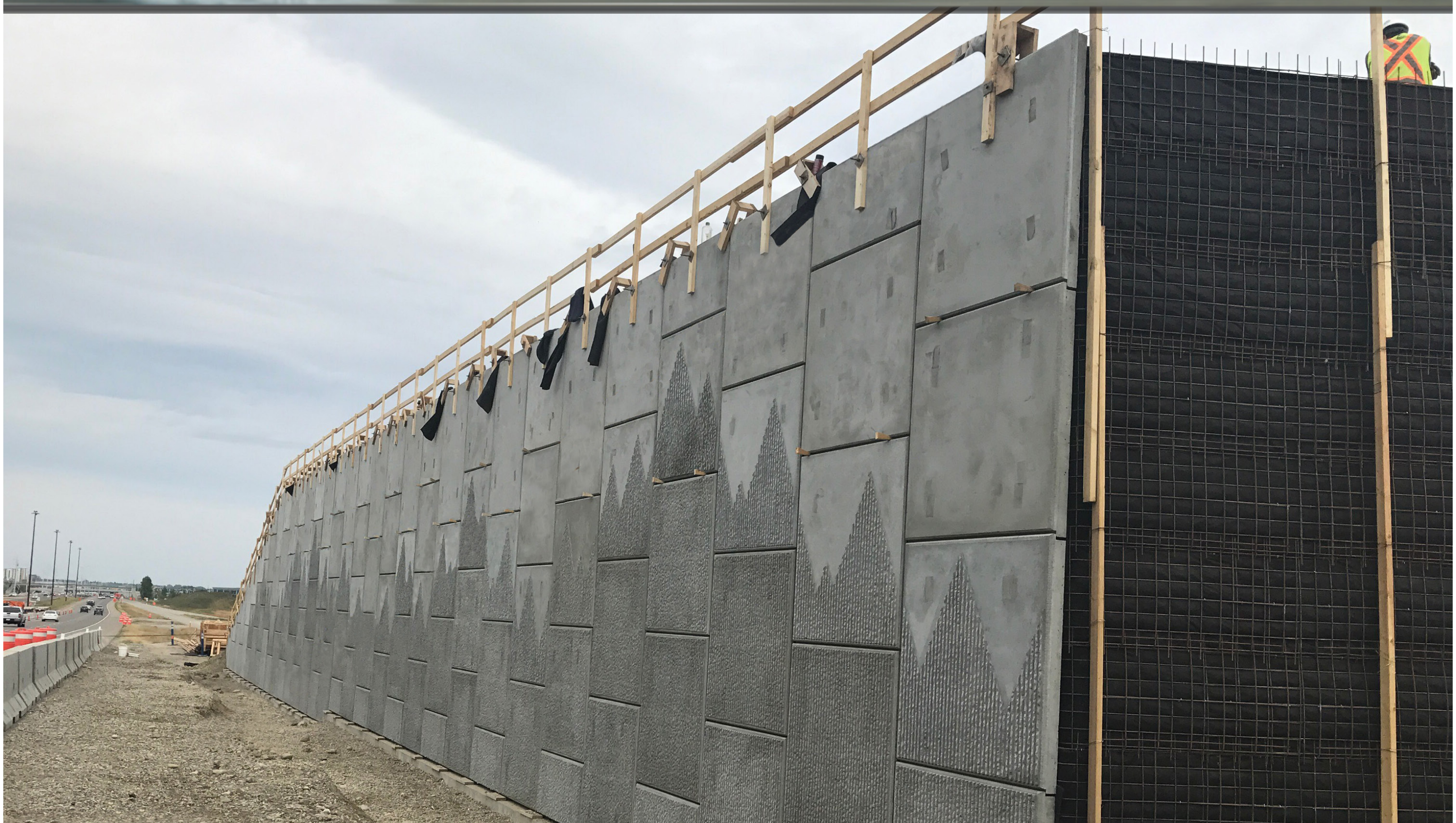
TREE ISLAND STEEL

WIRE & WIRE PRODUCTS ESTABLISHED IN 1964

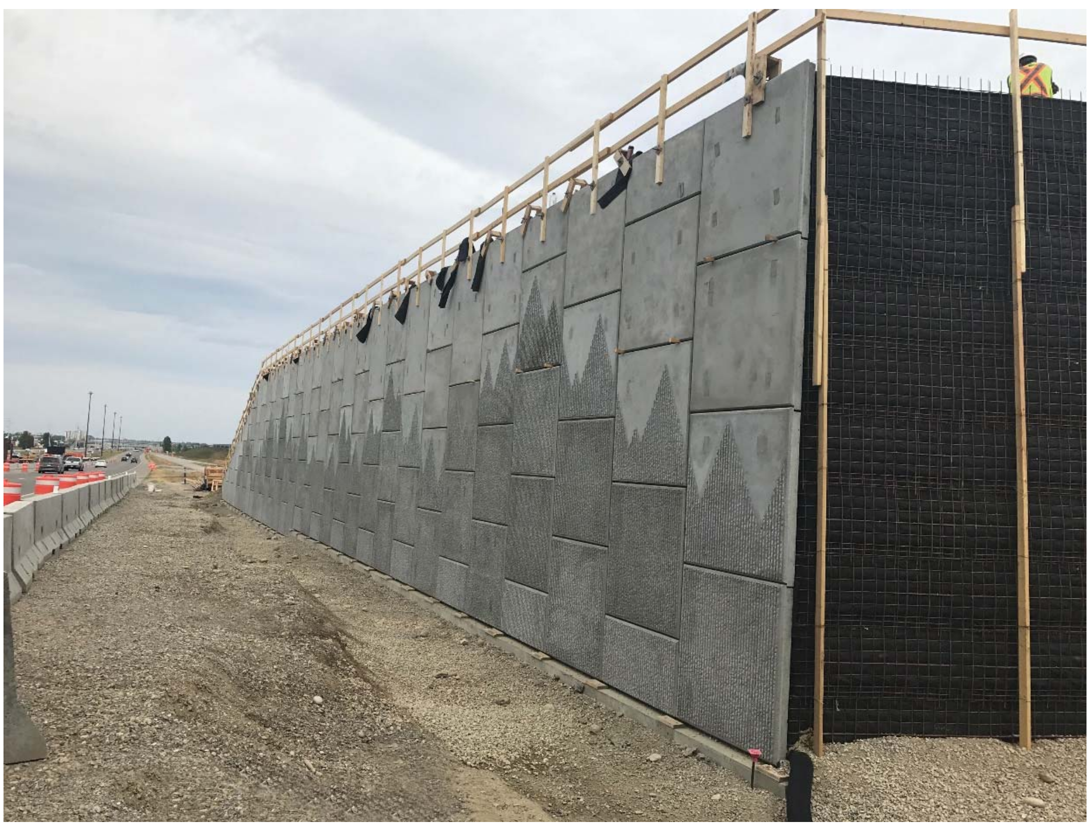


2017 Annual Report

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

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

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



Application of mesh for earth reinforcement of highways and roadways.

TO OUR SHAREHOLDERS

Letter to Shareholders

Over the years, Tree Island Industries has established itself as one of the premier wire and wire products manufacturers in North America. In certain years, market conditions are more favourable, providing a foundation for continued growth, while other periods are more challenging, including 2017. When market conditions are not as favourable, we strive to further strengthen our business relationships, our operations and efficiency levels to optimize our performance and maximize growth and profits in stronger market conditions. In 2017, using the strong relationships that we established with our customers over the years, along with our solid operating platform and reputation for providing high quality products and excellent customer service, we increased revenues (despite having divested the stainless product lines in 2016).

The wire and wire products industry is a competitive marketplace. With raw materials making up approximately 70% of the cost of sales, any material change in the price of raw materials has significant influence on our financial performance. 2017 was a year in which the price of rod increased consecutively quarter over quarter while the price of zinc experienced rapid price increase in the latter part of the year. In the downstream end of the market, the price environment was atypical from the change in raw material prices. A significant focus in 2017 was to proactively manage our prices to align them with the increases in raw materials costs. However, price adjustments in the end markets we serve constantly lagged the increase in raw material prices negatively impacting margins and overall profitability.

In previous years, we took decisive and proactive measures to take advantage of market conditions. We added a new mesh production facility in Calgary, AB. Consolidating our US residential operations into a single location in San Bernardino, CA. Divested the stainless product lines to focus on our core business of carbon products. As we closed out 2017, we have continued to work hard to re-balance our cost structure, with the reduction of some key management positions that will reduce SG&A and direct costs for 2018. We are also vigorously, taking the price leadership fight to the market place, with all objectives aligned to establish steadily improving margins into the 2018 fiscal period.

In 2018, we will remain committed to long-term growth and profitability, being the supplier of choice to our customers and a company which we can be proud of. These objectives will be achieved through the continued support of our customers, suppliers, shareholders and the hard work and dedication of our employees - Thank you.

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, 2017 and 2016

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 22, 2018 and should be read in conjunction with the consolidated financial statements for the year ended December 31, 2017. 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, 2017, can be found at www.sedar.com or on Tree Island Steel's website at www.treeisland.com.

1 FORWARD LOOKING STATEMENTS AND RISK

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

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

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

2 NON-IFRS MEASURES

References in this MD&A to "EBITDA" are to 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

Tree Island Steel, the successor to Tree Island Wire Income Fund, 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 29,649,799 Shares outstanding as of December 31, 2017 and 29,619,699 shares outstanding as of February 22, 2018.

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:

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.

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[1] *On September 30, 2016 the Company divested the stainless business assets, which included the Industrial Alloys® brand, to a strategic purchaser whose primary focus is in stainless steel manufacturing. As of October 1, 2016, the Company no longer offered products under the Industrial Alloys® brand.*

4 FULL YEAR 2017 BUSINESS OVERVIEW AND DEVELOPMENT

4.1 BUSINESS OVERVIEW

2017 was once again a year of growth for the business however challenging market conditions adversely impacted overall profitability. Despite the absence of the stainless product lines, which were divested at the end of Q3 2016 and accounted for $14.0 million of revenues in FY2016, revenues for 2017 totalled $234.7 million, a 1.5% increase over the previous year. We continued to leverage our competitive advantages, which include the quality of our service and products, to further strengthen our business. The market prices of the two primary raw material inputs we use in production, which are carbon steel rod and zinc, increased significantly in each consecutive quarter in 2017. However, the pace of the price increases of the finished goods in the end markets we participate in increased at a much slower pace than the increase in raw material prices. This resulted in a compression in our margins, similar to others in the industry. Subsequently, EBITDA for 2017 amounted to $7.0 million and gross margin was 7.8% ($21.0 million and 16.2% in 2016, respectively).

4.2 Trade Action Review

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

The US Department of Commerce initiated a trade case against wire rod from ten countries on behalf of US domestic producer plaintiffs Gerdau, Nucor, Keystone and Charter Steel. The countries investigated were Belarus, Italy, Russia, South Africa, South Korea, Spain, Turkey, Ukraine, United Arab Emirates and the United Kingdom.

The US Department of Commerce has calculated final and preliminary antidumping duties per below:

Country	Anti-Dumping Margin Range
Belarus	280%
Italy	22.06%
Korea	10.09%
Russia	436.8% to 756.93%
South Africa	135.46% to 142.26%
South Korea	40.8%
Spain	20.25% to 32.64%
Turkey	2.8% to 8.01%
Ukraine	34.98% to 44.03%
United Arab Emirates	84.1%
United Kingdom	41.96% to 147.63%

The final Department of Commerce determinations and the final International Trade Commission determinations for Belarus, Russia and United Arab Emirates have been completed. The final Department of Commerce determinations have been completed for South Africa and Ukraine and the final International Trade Commission determinations for those countries are due February 21, 2018. For Italy, South Korea, Spain, Turkey and United Kingdom, the preliminary Department of Commerce determinations have been completed, the final Department of Commerce determinations are due March 15, 2018 and the final International Trade Commission determinations are due April 30, 2018.

The US Department of Commerce has calculated countervailing duties (used where there are subsidies found) against Italy (ranging from 1.7% to 44.18%) and Turkey (ranging from 0% to 2.27%).

Several countries were determined to have critical circumstances. Critical circumstances refers to the application of duties retroactively that may occur if there is a surge of products ahead of the duty date. In this case, the critical circumstances were applied to rod from various countries, with the measures being imposed retroactively, effective

90 days prior to the publication of the preliminary determinations of the respective countries. The countries determined to have critical circumstances include: Russia; certain imports from Spain; South Africa; certain imports from Turkey; and the United Kingdom.

Tree Island did not purchase any rod from those countries under investigation. However, Tree Island may still be impacted by the trade action on these ten countries. The duties offer U.S. rod producers the opportunity to increase their prices, resulting in upward price pressure on Tree Island's rod purchases in the U.S.

4.2.2 U.S. Section 232 Trade Expansion Act

On April 20, 2017, the US administration issued an executive order directing the Commerce Department to investigate whether imports of foreign steel are harming US national security. The directive falls under Section 232 of the Trade Expansion Act of 1962, which allows the US president to restrict trade of a good if such trade is determined to be harmful to US national security.

The US imports 30 million metric tons of steel from over 90 countries with top suppliers including Canada, Mexico, Russia, Brazil, Turkey and Germany. There have been no official indication about the countries or products targeted or the means of limiting imports either by tariffs or quotas or a combination of both.

4.2.3 North American Free Trade Agreement Renegotiations ("NAFTA")

The U.S. administration initiated a renegotiation of NAFTA to support American industries. It is uncertain as to what a revised NAFTA may look like, when it may be completed or whether or not a revised NAFTA will be executed. Assuming NAFTA is terminated and a reversion to the Canada – U.S. free trade agreement occurs, our preliminary assessment indicates the impact to Tree Island to be non-material.

5 RESULTS FROM OPERATIONS

($'000 unless otherwise stated)

	Three Months Ended December 31, 2017	2016	Year Ended December 31, 2017	2016	2015
Revenue	54,561	45,903	234,705	231,253	231,266
Cost of sales	(51,266)	(39,780)	(213,223)	(190,521)	(196,028)
Depreciation	(843)	(827)	(3,291)	(3,319)	(3,115)
Gross profit	2,452	5,296	18,191	37,413	32,123
Selling, general and administrative expenses	(1,482)	(4,810)	(13,899)	(19,388)	(18,030)
Operating income	970	486	4,292	18,025	14,093
Foreign exchange gain (loss)	119	(282)	(582)	(375)	1,041
Gain (loss) on sale of property, plant and equipment	68	-	(47)	12	(10)
Other expenses	(635)	(57)	(635)	(57)	(316)
Changes in financial liabilities recognized at fair value	(420)	(458)	84	149	136
Financing expenses	(773)	(723)	(2,967)	(2,753)	(3,183)
Income (loss) before income taxes	(671)	(1,034)	145	15,001	11,761
Current Income tax (expense) recovery	-	(303)	(2)	(504)	52
Deferred income tax (expense) recovery	(1,303)	632	(1,781)	(929)	4,334
Net income (loss)	(1,974)	(705)	(1,638)	13,568	16,147
Operating Income	970	486	4,292	18,025	14,093
Add back depreciation	843	827	3,291	3,319	3,115
Foreign exchange gain (loss)	119	(282)	(582)	(375)	1,041
EBITDA[2]	1,932	1,031	7,001	20,969	18,249
Net income per share	(0.07)	(0.02)	(0.05)	0.44	0.52
Dividends per share	0.02	0.02	0.08	0.07	0.02
Sales volume (tons)[3]	*40,642*	*35,808*	*180,485*	*175,232*	*162,243*
Gross profit per ton ($/ton)	*60*	*148*	*101*	*214*	*198*
EBITDA per ton ($/ton)	*48*	*29*	*39*	*120*	*112*

Financial Position as at:	December 31, 2017	2016	2015
Total assets	133,681	137,455	131,589
Total non-current financial liabilities	18,356	19,090	22,152

[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, 2017 AND 2016

($'000 unless otherwise stated)	**Q4 2017**	**Q4 2016**	**Variance Fav/(Unfav)**	
SALES	54,561	45,903	8,658	18.9%

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

	Three Months Ended December 31,					
	2017		2016		Variance	
	Revenue	% of Total	Revenue	% of Total	Amount	%
Industrial	21,400	39.2%	17,848	38.9%	3,552	19.9%
Residential	18,282	33.5%	13,375	29.1%	4,907	36.7%
Commercial	10,417	19.1%	9,410	20.5%	1,007	10.7%
Agricultural	4,462	8.2%	3,632	7.9%	830	22.9%
Subtotal	54,561	100.0%	44,265	96.4%	10,296	23.3%
Specialty[4]	-	0.0%	1,638	3.6%	(1,638)	(100.0%)
Total revenue	54,561	100.0%	45,903	100.0%	8,658	18.9%

Excluding the stainless product lines from the comparison, revenues generated increased by 23.3% as a result of the combination of more shipments and price increases to offset increase in raw material input costs. Including the stainless product lines in the comparison, revenues increased by 18.9%. Revenues grew in all the sectors with residential sector showing the highest increase.

Revenue by Location
($'000 unless otherwise stated)

	Three Months Ended December 31,					
	2017		2016		Variance	
	Revenue	% of Total	Revenue	% of Total	Amount	%
United States	35,540	65.1%	28,342	61.7%	7,198	25.4%
Canada	17,739	32.6%	14,262	31.1%	3,477	24.4%
International	1,282	2.3%	1,661	3.6%	(379)	(22.8%)
Subtotal	54,561	100.0%	44,265	96.4%	10,296	23.3%
Specialty[4]	-	0.0%	1,638	3.6%	(1,638)	(100.0%)
Total	54,561	100.0%	45,903	100.0%	8,658	18.9%
Average C$/US$	1.2711		1.3333			

Revenues from both US and Canadian markets increased over the same period last year as a result of increased volumes and higher prices which were able to recover the higher cost of material input costs.

($'000 unless otherwise stated)	**Q4 2017**	**Q4 2016**	**Variance Fav/(Unfav)**	
COST OF SALES	52,109	40,607	(11,502)	(28.3%)

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[4] *On September 30, 2016 the Company divested the stainless business assets, which included the Industrial Alloys® brand, to a strategic purchaser whose primary focus is in stainless steel manufacturing. As of October 1, 2016, the Company no longer offered products under the Industrial Alloys® brand.*

The cost of goods sold (including depreciation) increased due to an increase in raw material costs, which is reflective of the price increases implemented by rod suppliers across the industry, coupled with the rapid increase in zinc prices during the quarter when compared to the same period last year.

($'000 unless otherwise stated)	**Q4 2017**	**Q4 2016**	**Variance Fav/(Unfav)**	
GROSS PROFIT	2,452	5,296	(2,844)	(53.7%)

Gross Profit
($'000 unless otherwise stated)

	Three Months Ended December 31,					
	2017		2016		Variance Fav / (Unfav)	
	Gross Profit	% of Total	Gross Profit	% of Total	Amount	%
US$ GP after FX translation	633	25.8%	3,398	64.2%	(2,765)	(81.4%)
C$ gross profit	1,819	74.2%	1,898	35.8%	(79)	(4.2%)
Total gross profit	2,452	100.0%	5,296	100.0%	(2,844)	(53.7%)
Average C$/US$	1.2711		1.3333			

Gross profit for the three months amounted to $2.5 million versus $5.3 million during the same period last year. Gross profit declined primarily from US sales as a result of the narrowing of the spread between selling prices and raw material cost.

($'000 unless otherwise stated)	**Q4 2017**	**Q4 2016**	**Variance Fav/(Unfav)**	
SG&A EXPENSES	1,482	4,810	3,328	69.2%

The decrease in SG&A expenses are the result of reversal of accrual for compensation related items and continued management of our costs.

($'000 unless otherwise stated)	**Q4 2017**	**Q4 2016**	**Variance Fav/(Unfav)**	
EBITDA	1,932	1,031	901	87.4%

EBITDA earned for the quarter is inclusive of a $119k foreign exchange gain (compared to a $282k loss in 2016). Without the impact of foreign exchange, EBITDA was higher by $501k.

($'000 unless otherwise stated)	**Q4 2017**	**Q4 2016**	**Variance Fav/(Unfav)**	
FINANCING EXPENSES	773	723	(50)	(6.9%)

Financing Expense
($'000 unless otherwise stated)

	Three Months Ended December 31,			
			Variance Fav / (Unfav)	
	2017	2016	Amount	%
Non-cash financing expenses	247	280	33	11.8%
Interest on senior credit facility	291	185	(106)	(57.3%)
Other interest and financing costs	223	246	23	9.3%
Deferred financing costs	12	12	-	0.0%
Total financing expenses	773	723	(50)	(6.9%)

Financing expenses increased mainly due to higher interest paid on the senior credit facility. Increased borrowings on the senior credit facility was mainly due to funding of raw material and zinc purchases which increased in prices during the year.

($'000 unless otherwise stated)	**Q4 2017**	**Q4 2016**	**Variance Fav/(Unfav)**	
FOREIGN EXCHANGE GAIN (LOSS)	119	(282)	401	142.2%

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, 2017, the Company did not have any U.S. dollar currency forward contracts outstanding.

($'000 unless otherwise stated)	**Q4 2017**	**Q4 2016**	**Variance Fav/(Unfav)**	
INCOME TAX RECOVERY (EXPENSE)	(1,303)	329	(1,632)	(496.0%)

The income tax expense in 2017 is the result of increase in the deferred taxes for the year mainly due to accelerated depreciation taken on fixed asset for tax versus for book, reduction in deferred tax asset due to utilization of the loss carry forward and as a result of the reduction in the corporate tax rate for our US operations as a result of the tax reform which reduces the benefit of the deferred tax asset booked in future years.

The income tax recovery in 2016 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.

($'000 unless otherwise stated)	**Q4 2017**	**Q4 2016**	**Variance Fav/(Unfav)**	
NET INCOME (LOSS)	(1,974)	(705)	(1,269)	(180.0%)

The net loss before income taxes in 2017 was a smaller loss compared to 2016 but the reversal of deferred tax assets for both the Canadian and US operation increased the loss at the net income level.

7 COMPARISON OF RESULTS FOR THE YEAR ENDED DECEMBER 31, 2017 AND 2016

($'000 unless otherwise stated)	**YTD 2017**	**YTD 2016**	**Variance Fav/(Unfav)**	
SALES	234,705	231,253	3,452	1.5%

Excluding the stainless product lines from the comparison against last year, which was divested at the end of Q3 2016, revenues on a year-to-year basis improved by 8.0%. Including the stainless product lines in the comparison, year-to-date revenues also increased by 1.5% compared to prior year. This was the result of stronger sales in Q4 in all sectors of the business.

Revenue by Market Segment

($'000 unless otherwise stated)

	Year Ended December 31,					
	2017		2016		Variance	
	Revenue	% of Total	Revenue	% of Total	Amount	%
Industrial	84,379	36.0%	75,926	32.8%	8,453	11.1%
Residential	76,687	32.7%	72,320	31.3%	4,367	6.0%
Commercial	44,753	19.1%	44,034	19.0%	719	1.6%
Agricultural	28,886	12.3%	24,964	10.8%	3,922	15.7%
Subtotal	234,705	100.0%	217,244	93.9%	17,461	8.0%
Specialty[5]	-	0.0%	14,009	6.1%	(14,009)	(100.0%)
Total revenue	234,705	100.0%	231,253	100.0%	3,452	1.5%

Excluding stainless product lines from the comparison, revenues generated in the US were higher than the prior year. Revenues in Canada were also higher than the prior year, as price increases implemented to offset the increase in raw materials input prices took effect.

Revenue by Location

($'000 unless otherwise stated)

	Year Ended December 31 ,					
	2017		2016		Variance	
	Revenue	% of Total	Revenue	% of Total	Amount	%
United States	148,336	63.2%	135,643	58.7%	12,693	9.4%
Canada	78,269	33.3%	73,832	37.9%	4,437	6.0%
International	8,100	3.5%	7,769	3.4%	331	4.3%
Subtotal	234,705	100.0%	217,244	93.9%	17,461	8.0%
Specialty[5]	-	0.0%	14,009	6.1%	(14,009)	(100.0%)
Total	234,705	100.0%	231,253	100.0%	3,452	1.5%
Average C$/US$	1.2984		1.3230			

($'000 unless otherwise stated)	**YTD 2017**	**YTD 2016**	**Variance Fav/(Unfav)**	
COST OF SALES	216,514	193,840	(22,674)	(11.7%)

Cost of sales (inclusive of depreciation) as a percentage of total revenues was 92.2% this year compared to 83.8% last year, as a result of the increase in raw material cost, particularly for rod and zinc which is used in the galvanizing process. The cost of conversion as a percentage of revenue is in line with that of prior year.

($'000 unless otherwise stated)	**YTD 2017**	**YTD 2016**	**Variance Fav/(Unfav)**	
GROSS PROFIT	18,191	37,413	(19,222)	(51.4%)

Gross profit for the twelve months was $18.2 million compared to $37.4 million during the same period in 2016 as the price adjustments for finished goods in the end markets we served lagged the rapid increase in raw material input costs. Gross profit margin for the twelve months was 7.8% compared to 16.2% the year prior.

[5] *On September 30, 2016 the Company divested the stainless business assets, which included the Industrial Alloys® brand, to a strategic purchaser whose primary focus is in stainless steel manufacturing. As of October 1, 2016, the Company no longer offered products under the Industrial Alloys® brand.*

Gross Profit
($'000 unless otherwise stated)

	Year Ended December 31 ,					
	2017		2016		Variance Fav / (Unfav)	
	Gross Profit	% of Total	Gross Profit	% of Total	Amount	%
US$ GP after FX translation	8,837	48.6%	22,908	61.2%	(14,071)	(61.4%)
C$ gross profit	9,354	51.4%	14,505	38.8%	(5,151)	(35.5%)
Total gross profit	18,191	100.0%	37,413	100.0%	(19,222)	(51.4%)
Average C$/US$	1.2984		1.3230			

($'000 unless otherwise stated)	**YTD 2017**	**YTD 2016**	**Variance Fav/(Unfav)**	
SG&A EXPENSES	13,899	19,388	5,489	28.3%

The decrease in SG&A expenses is a result of our focus to manage costs and due to lower compensation related items when compared to prior year.

($'000 unless otherwise stated)	**YTD 2017**	**YTD 2016**	**Variance Fav/(Unfav)**	
EBITDA	7,001	20,969	(13,968)	(66.6%)

EBITDA for the full year is inclusive of a foreign exchange loss of $582k (loss of $375k in 2016). The decrease in EBITDA is primarily impacted by the lower gross profit realized.

($'000 unless otherwise stated)	**YTD 2017**	**YTD 2016**	**Variance Fav/(Unfav)**	
FINANCING EXPENSES	2,967	2,753	(214)	(7.8%)

Financing Expense
($'000 unless otherwise stated)

	Year Ended December 31,			
			Variance Fav / (Unfav)	
	2017	2016	Amount	%
Non-cash financing expenses	1,074	1,146	72	6.3%
Interest on senior credit facility	1,056	687	(369)	(53.7%)
Other interest and financing costs	789	872	83	9.5%
Deferred financing costs	48	48	-	0.0%
Total financing expenses	2,967	2,753	(214)	(7.8%)

Financing expenses increased mainly due to higher interest paid on the senior credit facility. Increased borrowings on the senior credit facility was mainly due to funding of raw material and zinc purchases which increased in prices during the year

($'000 unless otherwise stated)	**YTD 2017**	**YTD 2016**	**Variance Fav/(Unfav)**	
FOREIGN EXCHANGE LOSS	(582)	(375)	(207)	(55.2%)

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, 2017, the Company did not have any U.S. dollar currency forward contracts outstanding.

($'000 unless otherwise stated)	**YTD 2017**	**YTD 2016**	**Variance Fav/(Unfav)**	
INCOME TAX RECOVERY (EXPENSE)	(1,783)	(1,433)	(350)	(24.4%)

The income tax expense for 2017 is associated with income tax expenses for the Canadian operations and a drop in the US Corporate tax rate as a result of the US Tax Reform reducing its deferred tax asset.

($'000 unless otherwise stated)	**YTD 2017**	**YTD 2016**	**Variance Fav/(Unfav)**	
NET INCOME (LOSS)	(1,638)	13,568	(15,206)	(112.1%)

The difference in net income when compared to the prior year is due to higher material costs which could not be translated to higher prices for finished goods resulting in loss in gross profit and subsequently lower income compared to prior year.

8 FINANCIAL CONDITION AND LIQUIDITY

8.1 WORKING CAPITAL

A summary of the composition of our working capital as at December 31, 2017 compared to 2016 is provided below:

Working Capital
($'000 unless otherwise stated)

	As at December 31,	
	2017	2016
Cash	1,651	1,351
Accounts receivable	26,147	24,463
Inventories	59,992	67,268
Other current assets	3,569	4,231
Total current assets	91,359	97,313
Senior credit facility	(33,468)	(28,941)
Accounts payable and accrued liabilities	(18,272)	(15,363)
Dividends payable	(593)	(621)
Other current liabilities	(178)	(506)
Current portion of long term debt	(3,545)	(4,361)
Total current liabilities	(56,056)	(49,792)
Net working capital	35,303	47,521

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, 2017 was higher than at the same period last year, reflecting the increase in revenues generated in Q4 2017 compared to the same period in the prior year. Inventories levels were lower as at December 31, 2017 when compared to the same period in 2016 as a result of reductions in raw materials and finished goods quantities on hand.

The increase in accounts payable and accrued liabilities is reflective of the difference in the timing of payments made and expenses incurred.

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

Cash Flow
($'000 unless otherwise stated)

	Three Months Ended December 31,		Year Ended December 31,	
	2017	2016	2017	2016
Cash provided by operating activities	1,417	982	5,688	20,343
Working capital adjustments	11,015	(5,364)	9,377	(6,818)
Net cash provided by (used in) operating activities	12,432	(4,382)	15,065	13,525
Net cash used in investing activities	(862)	(1,145)	(6,362)	(5,591)
Repayment of senior term loans	(436)	(438)	(1,749)	(1,608)
Repayment of long-term debt	(460)	(471)	(2,542)	(2,615)
Other payables	148	(28)	144	(2,570)
Interest paid	(517)	(297)	(1,805)	(1,478)
Advance on senior revolving facility	(6,971)	2,607	4,522	2,385
Dividend payment	(611)	(622)	(2,462)	(1,865)
Share buyback	(2,500)	-	(4,446)	(145)
Net cash provided by (used in) financing activities	(11,347)	751	(8,338)	(7,896)
Exchange rate changes on foreign cash balances	(8)	3	(65)	(13)
Increase (decrease) in cash balances	215	(4,773)	300	25

For both the three months and the year ended December 31, 2017, the net cash used in operating activities increased which was offset by decreases due to investing activities in the fourth quarter and financing activities. The net cash used in investing activities was for capital maintenance activities and deposits for manufacturing equipment. The net cash used in financing activities was mainly due to buy back of shares as part of our normal course issuer bid.

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, 2017 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 and was paid in respect of the 2016 EBITDA.

9 CAPITAL EXPENDITURES AND CAPACITY

For the three months and year ended December 31, 2017 we made capital expenditures of $0.7 million and $5.9 million, respectively. These expenditures were for capital maintenance activities and deposits for manufacturing equipment. As noted in section 10 of this MD&A there are a further $3.5 million in capital equipment commitments in 2018. The capital equipment we have committed to are expected to be delivered in the second half of 2018 with commissioning of the equipment generally taking three months after arrival.

10 CONTRACTUAL OBLIGATIONS AND COMMITMENTS

As of December 31, 2017, 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 Q1, 2018.

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 Q2, 2018.

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)

	2018	2019	2020	2021	2022	Thereafter	Total
Production materials	46,042	-	-	-	-	-	46,042
Machinery and equipment	3,484	-	-	-	-	-	3,484
Operating leases	2,923	2,550	2,471	2,456	2,329	16,535	29,264
Total commitments	52,449	2,550	2,471	2,456	2,329	16,535	78,790
Senior revolving facility	33,468	-	-	-	-	-	33,468
AP and accrued liabilities	18,272	-	-	-	-	-	18,272
Other current liabilities	178	-	-	-	-	-	178
Dividends	593	-	-	-	-	-	593
Senior term loans	1,738	1,738	7,070	-	-	-	10,546
Long-term debt	1,806	2,377	1,821	1,340	451	4,707	12,502
Total financial liabilities	56,055	4,115	8,891	1,340	451	4,707	75,559
Total obligations and commitments	108,504	6,665	11,362	3,796	2,780	21,242	154,349

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, 2017, 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, 2017 the fair value of zinc forward purchases for delivery in the first quarter of 2018 was a notional amount of $1.4 million and the mark to market gain on those contracts was $67k.

11 SUMMARY OF QUARTERLY FINANCIAL RESULTS

The table below provides selected quarterly financial information for the eight most recent fiscal quarters to December 31, 2017. 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.

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

	Dec 31, 2017	Sep 30, 2017	Jun 30, 2017	Mar 31, 2017	Dec 31, 2016	Sep 30, 2016	Jun 30, 2016	Mar 31, 2016
Revenue	54,561	55,643	61,455	63,046	45,903	57,726	65,384	62,240
Gross profit	2,452	2,299	5,941	7,499	5,295	9,583	11,521	11,009
Foreign exchange gain (loss)	119	(737)	(61)	97	(282)	(172)	319	(240)
EBITDA	1,932	(1,496)	2,375	4,190	1,032	5,369	7,857	6,712
Net income (loss)	(1,974)	(2,152)	735	1,753	(711)	2,687	6,360	5,226
Net income (loss) per unit - basic	(0.07)	(0.07)	0.04	0.06	(0.02)	0.09	0.20	0.17
Sales volume (tons)	*40,642*	*42,871*	*45,636*	*51,336*	*35,808*	*43,633*	*50,996*	*44,794*
Gross profit per ton	*60*	*54*	*130*	*146*	*148*	*220*	*226*	*246*
EBITDA per ton	*48*	*(35)*	*52*	*82*	*29*	*123*	*154*	*150*

The stainless product lines were divested at the end of Q3, 2016.

The rapid rise in raw material costs had a negative impact on the gross profit and EBITDA for most of 2017.

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

12 ACCOUNTING POLICIES AND STATEMENTS

Certain of our accounting policies involve critical accounting estimates that require us to make subjective or complex judgments about matters that are inherently uncertain and because of the likelihood that materially different amounts could be reported under differing conditions or using different assumptions. We evaluate these estimates and assumptions regularly.

Our significant accounting policies are described in Note 3 of the December 31, 2017 consolidated financial statements.

12.1 CRITICAL ACCOUNTING ESTIMATES

The areas that we consider to have critical accounting estimates are: financial instruments valued at fair value through profit and loss, inventory valuation, allowance for doubtful accounts, property, plant and equipment, and income taxes. These critical estimates and the judgments involved are discussed further in the audited consolidated financial statements for December 31, 2017 (Note 3).

13 RELATED PARTY TRANSACTIONS

13.1 TRANSACTIONS WITH ASSOCIATED COMPANIES

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

Based on Tree Island Steel's outstanding Shares as at February 22, 2018, Futura owns 28.9% of the fully diluted Shares of the Company.

In addition, Mr. Doman is Chairman and CEO of CanWel Building Materials Group Ltd. ("CanWel"). For the twelve months ended December 31, 2017, Tree Island sold, net of rebates, approximately $2.9 million ($2.7 million in 2016) of goods to CanWel and trade accounts receivable owing from CanWel as at December 31, 2017 is approximately $0.1 million (approximately $0.1 million in 2016). 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, 2017 was approximately $0.5 million and $2.7 million respectively (approximately $0.5 million and $2.8 million respectively in 2016) which includes wages, salaries and social security contributions, paid annual and sick leave, vehicle costs and bonuses and severance amount payable to an officer. 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 2017 Annual Information Form under the heading "Risk Factors" which can be found at www.sedar.com.

15 DISCLOSURE CONTROLS AND PROCEDURES AND INTERNAL CONTROL OVER FINANCIAL REPORTING

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

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

Our 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, 2017 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, 2017. 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, 2017 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, 2017 and 2016 and the consolidated statements of operations, comprehensive income (loss), changes in 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 audit 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, 2017 and 2016 and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

Ernst & Young LLP

Vancouver, Canada
February 22, 2018

Chartered Professional Accountants

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

	As at December 31, 2017	December 31, 2016
Cash	1,651	1,351
Accounts receivable *(Notes 5, 12.1)*	26,147	24,463
Inventories (*Note* 6*)*	59,992	67,268
Prepaid expenses	3,421	4,231
Income taxes recoverable	148	-
Current assets	91,359	97,313
Property, plant and equipment *(Notes 7, 18.2)*	41,690	39,611
Deferred income tax asset *(Note 14.2)*	563	417
Other non-current assets *(Note 8.1)*	69	114
Total assets	133,681	137,455
Senior revolving facility *(Note 8.1)*	33,468	28,941
Accounts payable and accrued liabilities	18,272	15,363
Income taxes payable	-	269
Other current liabilities	178	237
Dividends payable	593	621
Current portion of long-term debt *(Notes 8.2, 9)*	3,545	4,361
Current liabilities	56,056	49,792
Senior term loans *(Note 8.2)*	8,808	10,612
Long-term debt *(Note 9)*	6,381	7,652
Deferred income tax liability	1,981	-
Other non-current liabilities	1,186	826
Total liabilities	74,412	68,882
Shareholders' equity	59,269	68,573
Total liabilities and shareholders' equity	133,681	137,455

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 STATEMENTS OF OPERATIONS

($'000 unless otherwise stated)

	Year Ended December 31, 2017	Year Ended December 31, 2016
Sales *(Note 12.1)*	234,705	231,253
Cost of sales *(Note 6)*	(213,223)	(190,521)
Depreciation	(3,291)	(3,319)
Gross profit	18,191	37,413
Selling, general and administrative expenses	(13,899)	(19,388)
Operating income	4,292	18,025
Foreign exchange loss	(582)	(375)
Gain (loss) on sale of property, plant and equipment	(47)	12
Other expenses	(635)	(57)
Changes in financial liabilities at fair value	84	149
Financing expenses *(Note 10)*	(2,967)	(2,753)
Income before income taxes	145	15,001
Current income tax expense *(Note 14)*	(2)	(504)
Deferred income tax expense *(Note 14)*	(1,781)	(929)
Net income (loss)	(1,638)	13,568
Net income (loss) per share *(Note 17)*	(0.05)	0.44
Dividends per share	0.08	0.07
Weighted average number of shares *(Note 17)*	30,623,785	31,088,505

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

($'000 unless otherwise stated)

	Year Ended December 31, 2017	Year Ended December 31, 2016
Net income (loss) for the year	(1,638)	13,568
Unrealized (loss) on foreign exchange translation	(786)	(490)
Comprehensive income (loss)	(2,424)	13,078

See accompanying Notes to the Consolidated Financial Statements

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
($'000 unless otherwise stated)

	Shareholders' Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Total
Balance as at December 31, 2016	230,423	(159,528)	(2,322)	68,573
Repurchase of shares	(4,446)	-	-	(4,446)
Net income (loss)	-	(1,638)	-	(1,638)
Dividends	-	(2,434)	-	(2,434)
Other comprehensive income (loss)	-	-	(786)	(786)
Balance as at December 31, 2017	225,977	(163,600)	(3,108)	59,269
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 income (loss)	-	-	(490)	(490)
Balance as at December 31, 2016	230,423	(159,528)	(2,322)	68,573

See accompanying Notes to the Consolidated Financial Statements

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

	Year Ended December 31, 2017	2016
Net income (loss)	(1,638)	13,568
Depreciation	3,291	3,319
Changes in financial liabilities recognized at fair value	(84)	(149)
Loss on sale of property, plant and equipment	47	393
Amortization of deferred financing	48	48
Non-cash accretion of long-term debt (Note 9)	1,074	1,147
Net financing costs	1,845	1,558
Deferred income tax expense	1,781	929
Exchange revaluation of foreign denominated debt	(676)	(470)
Working capital adjustments		
Accounts receivable	(1,685)	3,031
Inventories	7,295	(7,583)
Accounts payable and accrued liabilities	3,630	(2,283)
Prepaid expenses	450	(366)
Income and other taxes	(418)	280
Other	105	103
Net cash provided by (used in) operating activities	15,065	13,525
Proceeds on sale of property, plant and equipment	25	386
Government incentives	193	372
Purchase of property, plant and equipment	(6,580)	(6,349)
Net cash used in investing activities	(6,362)	(5,591)
Term loans - repayment (Note 8.2)	(1,749)	(1,608)
Repayment of long-term debt	(2,542)	(2,615)
Other financing liabilities	144	(2,570)
Interest paid	(1,805)	(1,478)
Increase (decrease) of senior revolving facility	4,522	2,385
Dividend paid	(2,462)	(1,865)
Repurchase of common shares	(4,446)	(145)
Net cash provided by (used in) financing activities	(8,338)	(7,896)
Effect of exchange rate change on cash	(65)	(13)
Increase in cash	300	25
Cash - beginning of period	1,351	1,326
Cash - end of period	1,651	1,351

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, 2017 were authorized for issue in accordance with a resolution of the Board of Directors on February 22, 2018.

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, 2017 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. 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 weighted average 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 or CGU.

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.

3.6 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 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, dividends payable, and other accrued liabilities, Senior Term Loans, 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 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 these plans 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 (loss) per Share is calculated by dividing net income (loss) by the weighted-average number of Shares outstanding during the period. Diluted net income (loss) 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, 2017 and 2016.

3.14.2 INVENTORY VALUATION

Inventories are 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, 2017 and 2016.

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, 2017 and 2016.

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, 2017 and 2016.

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 conducted a final review of IFRS 9 and IFRS 15. Based on the Company's current policy for recognizing revenues and its financial instruments, the Company is of the view that the two standards will not result in a significant impact on how the company recognizes and records its revenues and financial instruments. The Company plans to adopt IFRS 9 and IFRS 15 on the required effective date.

The Company has yet to conclude a preliminary review of the impact of IFRS 16 on its accounting policies and financial statements and cannot at this time conclude whether or not the implementation of IFRS 16 will result in a material impact on how leases are recognized and reported. We will continue to review the standard, any associated disclosure requirements, our method of adoption and any additional changes, modifications, clarifications or interpretations undertaken by the IASB subsequent to December 31, 2017 to complete our comprehensive evaluation of the impacts of the standard on our consolidated financial statements. The Company does not plan to adopt the new standard early and will adopt the standard on its respective effective date.

5 ACCOUNTS RECEIVABLE

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

($'000 unless otherwise stated)

	As at December 31, 2017	As at December 31, 2016
Current	23,590	22,205
30 - 60 days past due	1,255	772
61 - 90 days past due	265	354
Over 91 days past due	1,375	1,391
Total accounts receivable	26,485	24,722
Allowance for doubtful accounts	(338)	(259)
Net accounts receivable	26,147	24,463

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 $26.1 million as at December 31, 2017 ($24.5 million as at December 31, 2016).

At the end of each reporting period a review of the allowance 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.

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.

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

($'000 unless otherwise stated)

	As at December 31, 2017	As at December 31, 2016
Opening balance – January 1	259	189
Additions during the period	88	148
Reversals during the period	10	(15)
Collections	(12)	(7)
Write-offs during the period	-	(57)
Foreign exchange revaluation	(7)	1
Closing balance – December 31	338	259

6 INVENTORIES

Tree Island had the following categories of inventory:

($'000 unless otherwise stated)

	As at December 31, 2017	As at December 31, 2016
Raw materials	16,529	21,805
Finished and semi-finished products	29,216	32,809
Consumable supplies and spare parts	14,247	12,654
Total inventory	59,992	67,268

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 2017 and no write-downs were required in 2016. The reserves for slow moving inventory as at December 31, 2017 were $1.4 million ($1.7 million at December 31, 2016).

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

($'000 unless otherwise stated)

	Year Ended December 31,	
	2017	2016
Opening inventory	67,268	59,686
Raw material purchases	130,745	121,238
Finished goods purchased for resale	7,717	7,544
Conversion costs	67,485	69,321
Closing inventory	(59,992)	(67,268)
Cost of sales	213,223	190,521

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, 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
Additions	-	1,464	1,804	2,813	6,081
Disposals	-	(7)	(298)	-	(305)
Foreign exchange translation	(140)	(563)	(496)	20	(1,179)
As at December 31, 2017	9,695	44,326	30,560	3,909	88,490
Depreciation and impairment					
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
Depreciation for the period	16	1,262	2,252	-	3,530
Disposals	-	(7)	(227)	-	(234)
Foreign exchange translation	7	(277)	(508)	-	(778)
As at December 31, 2017	31	32,231	14,538	-	46,800
Net book value as at					
December 31, 2016	9,829	12,179	16,529	1,076	39,611
December 31, 2017	9,664	12,095	16,022	3,909	41,690

The carrying value of long-lived assets is reviewed when there are indicators of impairment. For the purposes of testing for impairment, or the reversal of impairment, Tree Island Steel's assets are grouped and tested at the CGU level. Tree Island considers both qualitative and quantitative factors when determining whether an asset may be impaired, or when a reversal of impairment is required. Where the carrying value of the assets is not expected to be recoverable from future cash flows, they are written down to their recoverable amount. Tree Island has noted no 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 $0.2 million ($0.4 million for 2016) 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.

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.

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 $38k ($40k for 2016) Letter of Credit outstanding as at December 31, 2017.

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.

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

($'000 unless otherwise stated)

	As at December 31, 2017	As at December 31, 2016
Revolving portion of the senior credit facility	33,468	28,941
Deferred financing costs	(69)	(114)
Total	33,399	28,827

The revolving portion of the Senior Credit Facility denominated in US dollars as at December 31, 2017 is $22.6 million ($18.1 million in 2016).

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, share repurchases, loans and guarantees and to sell or otherwise dispose of assets and merge or consolidate with another entity.

During 2017 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, 2017	As at December 31, 2016
Senior term loans - beginning of period	12,369	14,031
Foreign exchange revaluation	(74)	(54)
Payments	(1,749)	(1,608)
Senior term loans - end of period	10,546	12,369
Less: current portion	(1,738)	(1,757)
Total	8,808	10,612

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 years 5, 6 and 7, and US$190k in years 8, 9,10 and $90k in years 11, 12 and 13. Present value of the debt was determined using discounted cash flows and a credit adjusted discount rate of 9%. Using the effective interest rate method, the debt discount is amortized as accretion and charged to interest expense over the term of the amended long-term debt agreements.

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

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

($’000 unless otherwise stated)

	As at December 31, 2017	As at December 31, 2016
Beginning of period	10,256	12,139
Payments	(2,542)	(2,615)
Foreign exchange revaluation	(601)	(415)
Accretion of debt discount	1,074	1,147
End of period	8,187	10,256
Less: current portion	(1,806)	(2,604)
Net long-term debt	6,381	7,652

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

10 FINANCING EXPENSES

($'000 unless otherwise stated)

	Year Ended December 31, 2017	2016
Non-cash accretion of debt discount and interest on long term debt	1,074	1,146
Interest on senior revolving facility (Note 8.1)	1,056	687
Other interest and financing costs	789	872
Amortization of deferred financing costs	48	48
Total	2,967	2,753

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 1,414,774 Shares were repurchased (totaling $4,446 million at an average price of $3.14 per Share) and cancelled in the year ended December 31, 2017. Shares issued and outstanding are as follows:

($'000 except for Shares)

	Shares	Gross	Issuance Cost[6]	Net
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
Repurchase of common shares	(1,414,774)	(4,446)	-	(4,446)
Shareholders' capital - December 31, 2017	29,649,799	237,377	11,400	225,977

11.1 NORMAL COURSE ISSUER BID

The Company renewed its normal course issuer bid (the "Bid"), effective as of September 21, 2017, to purchase up to 1,500,000 Shares. The expiration date of the normal course issuer bid is September 20, 2018 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, 2017 to September 20, 2017 the Company purchased and cancelled 507,886 Shares under the previous normal course issuer bid that expired on September 20, 2017. Under the Bid, from the period September 21, 2017 to December 31, 2017, 906,888 Shares were purchased and cancelled prior to January 1, 2018.

30,100 Shares were purchased under the Bid for the period January 1, 2018 to February 22, 2018.

[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.

Based on Tree Island Steel's outstanding Shares as at February 22, 2018, Futura owns 28.9% of the fully diluted Shares of the Company.

In addition, Mr. Doman is Chairman and CEO of CanWel Building Materials Group Ltd. ("CanWel"). For the year ended December 31, 2017, Tree Island sold, net of rebates, approximately $2.9 million ($2.7 million in 2016) of goods to CanWel and trade accounts receivable owing from CanWel as at December 31, 2017 is approximately $0.1 million (approximately $0.1 million in 2016). 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, 2017 was approximately $2.7 million (approximately and $2.8 million in 2016) which includes wages, salaries and social security contributions, paid annual and sick leave, vehicle costs and bonuses and severance amount payable to an officer. 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 2017 amounted to $1.5 million ($1.5 million in 2016). 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)

	Year Ended December 31,	
	2017	2016
Current tax recovery (expense)	(2)	(504)
Deferred tax recovery (expense)	(1,781)	(929)
Total in the Consolidated Statements of Operations	(1,783)	(1,433)

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,	
	2017	2016
Income (loss) before provision for income taxes	145	15,001
Tax Rate	26.0%	26.0%
Expected income tax recovery (expense)	(38)	(3,900)
Revisions to prior year estimates	(70)	(63)
Items not deductible for tax	(100)	(148)
Foreign exchange on intercompany loans	556	310
Differential tax rates on U.S. subsidiary	784	(26)
Change in unrecognized deferred tax benefits	(2,920)	552
Withholding taxes	-	(222)
Loss previously not recognized	75	2,070
Other	(70)	(6)
Total in the Consolidated Statements of Operations	(1,783)	(1,433)

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,	
	2017	2016
Non-capital tax loss-carry forwards	3,449	3,607
Property, plant and equipment	(4,774)	(5,978)
Capital losses	-	853
Long-Term Debt	106	(185)
Unrealized foreign exchange (gain) loss	(18)	4
Reserves and other liabilities	(20)	890
Goodwill and intangibles	2	330
Interest and other	(163)	896
Deferred tax asset (liability)	(1,418)	417
Deferred tax asset (liability) beginning of period	417	1,346
Deferred tax recovery (expense) during the period	(1,781)	(929)
Deferred tax asset (liability) - Other	(54)	-
Deferred tax asset (liability) end of period	(1,418)	417

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, 2017	2016
Non-capital tax loss carry-forwards	-	23
Goodwill and intangibles	198	-
Unrealized foreign exchange losses	829	471
Reserves and other liabilities	232	31
Capital losses	1,882	1,812
Interest and other	6,566	8,065
Deferred tax asset	9,707	10,402

14.3 INCOME TAX LOSS CARRY-FORWARDS

As at December 31, 2017, 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
2019	-	-	-
2021	-	-	-
2028	-	-	-
2029	-	-	-
2030	-	-	-
2031	27	-	6,848
2032	265	-	463
3033	-	-	1,237
3034	-	-	3,419
2035	5,112	-	2,130
2036	-	3,647	4,228
Total	5,404	3,647	18,325

As at December 31, 2017, 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, accounts payable, dividends 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 Loans and long-term debt are based on estimated market interest rate on similar borrowings. The carrying value of the Senior Term Loans approximates 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 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.

As of December 31, 2017, the Company had no outstanding foreign exchange forward purchase contracts.

($'000 unless otherwise stated)

	As at December 31, 2017		As at December 31, 2016	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Cash and cash investments	1,651	1,651	1,351	1,351
Accounts receivable	26,147	26,147	24,463	24,463
Total financial assets	27,798	27,798	25,814	25,814
Senior revolving facility	33,468	33,468	28,941	28,941
Accounts payable and accrued liabilities	18,272	18,272	15,363	15,363
Senior term loans	10,546	10,546	12,368	12,368
Long-term debt	8,187	7,920	10,256	9,750
Commodity purchase contract embedded derivative	67	67	17	17
Total financial liabilities	70,540	70,273	66,945	66,439

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
Senior revolving facility	-	33,468
Senior term loans	-	10,546
Long-term debt	-	7,920
Commodity purchase contract embedded derivative	-	67

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, 2017:

($'000 unless otherwise stated)

	Carrying Amount	Contractual Cash Flow	Less Than 1 Year	1 – 2 Years	Greater Than 2 Years
Senior revolving facility	33,468	33,468	33,468	-	-
Accounts payable and accrued liabilities	18,272	18,272	18,272	-	-
Senior term loans	10,546	10,546	1,738	8,808	-
Long-term debt	8,187	12,502	1,806	4,198	6,498
As at December 31, 2017	70,473	74,788	55,284	13,006	6,498

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

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, 2017, the Company had no outstanding U.S. dollar currency forward contracts.

For the period ending December 31, 2017, a $0.01 increase (decrease) in the Canadian dollar to U.S. dollar exchange rate will increase (decrease) net comprehensive income by $26 thousand.

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, 2017, the zinc forward contracts had a notional value of $1.4 million and a fair value gain of $67 thousand.

16 MANAGEMENT OF CAPITAL

The table below is what management considers capital:

($'000 unless otherwise stated)

	As at December 31, 2017	As at December 31, 2016
Total shareholders' equity	59,269	68,573
Senior revolving facility	33,468	28,941
Senior term loans	10,546	12,369
Long-term debt	8,187	10,256
Total capital	111,470	120,139

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 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.

17 NET INCOME PER SHARE

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

Diluted earnings per Share amount is 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, 2017 the Company does not have any instruments issued that could be dilutive.

1,414,774 Shares were repurchased and cancelled for the year ended December 31, 2017 and 30,100 Shares were repurchased and cancelled from January 1, 2018 up to February 22, 2018 (Note 11).

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

($'000 unless otherwise stated)

	Year Ended December 31,	
	2017	2016
Net income (loss) for the year	(1,638)	13,568
Weighted average number of shares outstanding:	30,623,785	31,088,505
Net income per share ($/share)	(0.05)	0.44

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, 2017, Tree Island's wholly owned subsidiaries have committed to raw material purchases (including finished goods) totalling $44.6 million ($31.3 million in 2016). As at December 31, 2017, the Company also committed to purchase manufacturing equipment, with the total amount outstanding totalling $3.5 million ($5.1 million in 2016).

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, 2017
Less than 1 year	2,920
1 to 5 years	9,807
More than 5 years	16,535
Total capital	29,262

19 SEGMENTED INFORMATION

19.1 MARKET SEGMENTS

Revenues for each group for the twelve months ended December 31, 2017 and 2016 were as follows:

($'000 unless otherwise stated)

	Year Ended December 31,	
	2017	2016
Industrial	84,379	75,926
Residential	76,687	72,320
Commercial	44,753	44,034
Agricultural	28,886	24,964
Subtotal	234,705	217,244
Specialty[7]	-	14,009
Total revenue	234,705	231,253

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.

[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.*

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)

	Year Ended December 31,	
	2017	2016
United States	148,336	149,652
Canada	78,269	73,832
International	8,100	7,769
Total revenue	234,705	231,253

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)

	Year Ended December 31,	
	2017	2016
United States	12,315	11,154
Canada	29,444	28,571
Total non-current assets	41,759	39,725

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

Executive Officers:

Dale R. MacLean
President and Chief Executive Officer

Remy Stachowiak
Chief Operating Officer

Nancy Davies
Chief Financial Officer and Vice President, Finance

Shares:

Market Information

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

Registrar and Transfer Agent

Computershare Investor Services Inc.

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