



WIRE & WIRE PRODUCTS

ESTABLISHED IN 1964



Quarterly Report
Q3 2017

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.

MANAGEMENT DISCUSSION AND ANALYSIS.....	1
INTERIM UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS.....	18
SHAREHOLDER INFORMATION.....	back cover



Shipment of weldmesh rolls used for concrete reinforcement

MANAGEMENT DISCUSSION AND ANALYSIS

September 30, 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 November 2, 2017 and should be read in conjunction with the unaudited interim condensed consolidated financial statements for the three and nine months ended September 30, 2017. Tree Island Steel's unaudited interim condensed consolidated financial statements are prepared in accordance with International Accounting Standard ("IFRS") applicable to the preparation of financial statements and are reported in Canadian dollars. Additional information relating to Tree Island Steel, including the audited consolidated financial statements and Annual Information Form ("AIF") for the year ended December 31, 2016, can be found at www.sedar.com or on Tree Island Steel's website at www.treeisland.com.

1 FORWARD LOOKING STATEMENTS AND RISK

This management's discussion and analysis ("MD&A") includes forward-looking information with respect to Tree Island Steel, including our business, operations and strategies, as well as financial performance and conditions. The use of forward-looking words such as, "may," "will," "expect" or similar variations generally identify such statements. Any statements that are not statements of historical fact should be considered to be forward-looking statements. Although we believe that the forward-looking statements are reasonable, they involve risks and uncertainties, including the risks and uncertainties discussed under the heading "Risks Relating to the Company's Business" in the Company's AIF for the year ended December 31, 2016.

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

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

2 NON-IFRS MEASURES

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

3 TREE ISLAND STEEL LTD.

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

There were 30,580,756 Shares outstanding as of September 30, 2017 and as of November 2, 2017 there were 30,426,856 Shares outstanding.

3.1 ORGANIZATIONAL STRUCTURE

Our corporate structure has the following primary entities: Tree Island Industries Limited (“TII 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 US 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 our products¹:

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

3.4 SEASONALITY

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

¹ 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 2017 BUSINESS OVERVIEW AND DEVELOPMENT

4.1 BUSINESS OVERVIEW

The spread between finished goods selling prices and raw material input costs continues to be the main factor impacting our business. The price for rod continued to increase but at a slightly slower pace than in prior quarters. The various trade cases and trade actions against the importation of steel rod into the US has deterred shipments from the countries under review. Further, the price of zinc, which is used in the galvanization process, also experienced rapid price increases during Q3 2017. Irrespective of these input cost increases, the price of finished goods in the markets we serve did not increase at a proportionate rate due to aggressive pricing strategies from international and domestic suppliers.

Excluding the stainless product lines from last year's revenues, which was divested at the end of Q3 2016, revenues in Q3 2017 increased by 2.8% when compared to the same period in 2016. Including the stainless product lines in the comparison, revenues in Q3 2017 decreased by 3.6% to \$55.6 million relative to the same period last year. Prices of finished goods in the end markets we serve have generally increased from prior quarters but the pace of the increase continues to lag behind the increase in raw material prices due to competitive pressures. This has resulted in a compression of our margin. Gross profit and EBITDA for Q3 2017 was \$2.3 million and (\$1.5) million, respectively, which is \$7.3 million and \$6.9 million less than the prior year, respectively. The decrease in EBITDA in Q3 2017 was less than the decrease in gross profit as a result of cost savings in SG&A.

On a year-to-date basis, excluding the stainless product lines from the comparison, revenues increased by 4.1%. Revenues during the nine-month period ended September 30, 2017, including the stainless product lines in the comparison, totalled \$180.1 million, 2.8% less than the same period last year. Gross profit decreased by \$16.4 million to \$15.7 million due to the smaller spread between selling prices and raw material input costs. The resulting decrease in gross profit was partially offset by lower SG&A expenses. The end result is an EBITDA of \$5.1 million, \$14.9 million less than the prior year.

4.2 US TRADE CASE AGAINST CARBON AND CERTAIN ALLOY STEEL WIRE ROD

The US Department of Commerce initiated a trade case against wire rod from 10 countries on behalf of US domestic producer plaintiffs Gerdau, Nucor, Keystone, and Charter Steel. The countries being investigated are Belarus, Italy, Russia, South Africa, South Korea, Spain, Turkey, Ukraine, United Arab Emirates, and the United Kingdom. Since May 12, 2017, imports from these countries have effectively been shut out.

Preliminary Antidumping Duties

The US Department of Commerce has calculated preliminary antidumping duty margins for the countries involved as follows:

Belarus:	280%
Italy:	22.06%
Korea:	10.09%
Russia:	436.8% to 756.93%
South Africa:	135.46% to 142.26%
Spain:	20.25% to 32.64%
Turkey:	2.80% to 8.01%
Ukraine:	34.98% to 44.03%
United Arab Emirates:	84.1%
United Kingdom:	41.96% to 147.63%

Preliminary Countervailing Duties

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%).

Critical Circumstances

Critical circumstances refers to the application of duties retroactively that may occur if there is a surge of product 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.

Next Steps

The US Department of Commerce has published the following schedule:

January 8, 2018:	US Department of Commerce final determinations;
February 22, 2018:	US International Trade Commission final determinations; and
March 1, 2018:	issuance of orders.

There are currently duties on wire rod into the US from Brazil, China, Indonesia, Mexico, Moldova, and Trinidad.

4.3 US 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 will fall 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 indications about the countries or products targeted or the means of limiting imports either by tariffs or quotas or a combination of both.

5 RESULTS FROM OPERATIONS

(\$'000 unless otherwise stated)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	<u>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>
Revenue	55,643	57,726	180,144	185,350
Cost of sales	(52,530)	(47,305)	(161,953)	(150,743)
Depreciation	(814)	(839)	(2,448)	(2,492)
Gross profit	2,299	9,582	15,743	32,115
Selling, general and administrative expenses	(3,872)	(4,880)	(12,417)	(14,573)
Operating income (loss)	(1,573)	4,702	3,326	17,542
Foreign exchange gain (loss)	(737)	(172)	(701)	(93)
Gain (loss) on sale of property, plant and equipment	(41)	12	(115)	12
Changes in financial instruments recognized at fair value	248	(223)	504	607
Financing expenses	(758)	(593)	(2,194)	(2,030)
Income (loss) before income taxes	(2,861)	3,726	820	16,038
Income tax (expense) recovery	709	(1,039)	(480)	(1,762)
Net income (loss)	(2,152)	2,687	340	14,276
Operating income (loss)	(1,573)	4,702	3,326	17,542
Add back depreciation	814	839	2,448	2,492
Foreign exchange gain (loss)	(737)	(172)	(701)	(93)
EBITDA ²	(1,496)	5,369	5,073	19,941
Net income (loss) per share - basic (\$/share)	(0.07)	0.09	0.01	0.46
Dividends per share (\$/share)	0.02	0.02	0.06	0.05
Sales volume (tons) ³	42,871	43,633	139,843	139,423
Gross profit per ton (\$/ton)	54	220	113	230
EBITDA per ton (\$/ton)	(35)	123	36	143
Financial Position as at:	September 30, 2017		December 31, 2016	
Total assets	143,370		137,455	
Total non-current financial liabilities	17,732		19,090	

6 COMPARISON OF RESULTS FOR THE THREE MONTHS ENDED SEPTEMBER 30, 2017 AND 2016

(\$'000 unless otherwise stated)	<u>Q3 2017</u>	<u>Q3 2016</u>	<u>Variance Fav/(Unfav)</u>	
SALES	55,643	57,726	(2,083)	(3.6%)

Excluding the stainless product lines from the comparison, which was divested at the end of Q3 2016, revenues increased by 2.8% as a result of the combination of more shipments and price increases implemented to offset the increase in raw material input prices. Including the stainless product lines in the comparison, revenues declined year-over-year. Revenues grew in three of the four sectors we participate in, with the exception being the commercial sector. Overall, domestic and international suppliers continue to aggressively price their goods and

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

³ Sales volumes excludes tons which were processed as part of tolling arrangements.

were gradually easing in price increases during the quarter, the pace of which was noticeably slower than the increase in raw material input prices.

Revenue by Market Segment

(\$'000 unless otherwise stated)

	Three Months Ended September 30,					
	2017		2016		Variance	
	Revenue	% of Total	Revenue	% of Total	Amount	%
Industrial	19,035	34.2%	18,123	31.4%	912	5.0%
Residential	19,673	35.4%	19,193	33.2%	480	2.5%
Commercial	11,946	21.5%	12,082	20.9%	(136)	(1.1%)
Agricultural	4,989	9.0%	4,737	8.2%	252	5.3%
Subtotal	55,643	100.0%	54,135	93.8%	1,508	2.8%
Stainless ⁴	-	0.0%	3,591	6.2%	(3,591)	(100.0%)
Total revenue	55,643	100.0%	57,726	100.0%	(2,083)	(3.6%)

Excluding the stainless product lines from the comparison, revenues generated in the US increased over the same period last year as a result of more shipments and higher prices relative to last year. By contrasts, shipments to Canadian customers were soft and negatively impacted revenue generation within Canada.

Revenue by Location

(\$'000 unless otherwise stated)

	Three Months Ended September 30,					
	2017		2016		Variance	
	Revenue	% of Total	Revenue	% of Total	Amount	%
United States	36,404	65.4%	33,625	58.2%	2,779	8.3%
Canada	17,281	31.1%	18,270	31.6%	(989)	(5.4%)
International	1,958	3.5%	2,240	3.9%	(282)	(12.6%)
Subtotal	55,643	100.0%	54,135	93.8%	1,508	2.8%
Stainless	-	0.0%	3,591	6.2%	(3,591)	(100.0%)
Total	55,643	100.0%	57,726	100.0%	(2,083)	(3.6%)

Average C\$/US\$ 1.2529 1.3051

(\$'000 unless otherwise stated)	Q3 2017	Q3 2016	Variance Fav/(Unfav)	
COST OF SALES	53,344	48,144	(5,200)	(10.8%)

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)	Q3 2017	Q3 2016	Variance Fav/(Unfav)	
GROSS PROFIT	2,299	9,582	(7,283)	(76.0%)

Gross profit for the three months amounted to \$2.3 million versus \$9.6 million during the same period in 2016 due to the continued impact of average selling prices lagging the increase in raw material input prices.

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.

Gross Profit

(\$'000 unless otherwise stated)

	Three Months Ended September 30,					
	2017		2016		Variance Fav / (Unfav)	
	Gross Profit	% of Total	Gross Profit	% of Total	Amount	%
US\$ gross profit ⁵	570	24.8%	5,963	62.2%	(5,394)	(90.4%)
C\$ gross profit	1,729	75.2%	3,619	37.8%	(1,889)	(52.2%)
Total gross profit	2,299	100.0%	9,582	100.0%	(7,283)	(76.0%)
Average C\$/US\$	1.2529		1.3051			

(\$'000 unless otherwise stated)	Q3 2017	Q3 2016	Variance Fav/(Unfav)	
SG&A EXPENSES	3,872	4,880	1,008	20.7%

The decrease in SG&A expenses are the result of lower compensation related items when compared to prior year. Our focus continues to remain on managing our costs.

(\$'000 unless otherwise stated)	Q3 2017	Q3 2016	Variance Fav/(Unfav)	
EBITDA	(1,496)	5,369	(6,865)	(127.9%)

EBITDA earned for the quarter is inclusive of the foreign exchange loss in the quarter. The decrease in EBITDA is primarily impacted by the lower gross profit realized in the quarter.

(\$'000 unless otherwise stated)	Q3 2017	Q3 2016	Variance Fav/(Unfav)	
FINANCING EXPENSES	758	593	(165)	(27.8%)

The value of total inventory on hand, particularly for raw materials and finished goods, increased as a result of the higher prices for raw materials. This resulted in additional borrowings to finance the additional value for the raw materials and finished goods which, in turn, contributed to the increase in financing costs over the prior year.

Financing Expenses

(\$'000 unless otherwise stated)

	Three Months Ended September 30,			
			Variance Fav / (Unfav)	
	2017	2016	Amount	%
Non-cash financing expenses	248	279	31	11.1%
Interest on senior credit facility	282	147	(135)	(91.8%)
Other interest and financing costs	216	155	(61)	(39.4%)
Deferred financing costs	12	12	-	0.0%
Total financing expenses	758	593	(165)	(27.8%)

(\$'000 unless otherwise stated)	Q3 2017	Q3 2016	Variance Fav/(Unfav)	
FOREIGN EXCHANGE GAIN (LOSS)	(737)	(172)	(565)	(328.5%)

The loss on foreign exchange is the result of losses in currency forward contracts settled in the period. The average transaction rate for our currency forward contracts during the quarter was C\$1.37 per US\$ compared to an average

⁵ After foreign exchange translation.

spot price of C\$1.25 per US\$. Our Canadian operation, whose functional currency is Canadian dollar, has a portion of its assets, liabilities, sales and expenses denominated in currencies other than the Canadian dollar, in particular the US dollar. With raw material costs being denominated in US dollar, having a significant portion of our sales also being denominated in US dollar creates a natural partial hedge. Foreign currency forward contracts are used to manage a portion of the remaining currency risk. Foreign exchange gains and losses are unpredictable in nature and therefore can vary significantly over time. As at September 30, 2017, the total notional value of US dollar currency forward contracts outstanding was US\$0.9 million.

<i>(\$'000 unless otherwise stated)</i>	Q3 2017	Q3 2016	Variance Fav/(Unfav)	
INCOME TAX RECOVERY (EXPENSE)	709	(1,039)	1,748	168.2%

In Q3 2017 an income tax recovery of \$709k was booked compared to tax expense of \$1.0 million for Q3 2016. This is the result of negative income in the quarter. The income tax expense is based on a statutory rate of 26% for Canadian taxable income and 31% for US based taxable income applied to the income of the respective subsidiaries before taxes, with adjustments for permanent differences between accounting and taxable income.

<i>(\$'000 unless otherwise stated)</i>	Q3 2017	Q3 2016	Variance Fav/(Unfav)	
NET INCOME (LOSS)	(2,152)	2,687	(4,839)	(180.1%)

The decrease in net income over the prior year is attributable to the lower operating income on account of lower realized gross profit due to the narrow spread between selling prices and raw material costs.

7 COMPARISON OF RESULTS FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2017 AND 2016

<i>(\$'000 unless otherwise stated)</i>	YTD 2017	YTD 2016	Variance Fav/(Unfav)	
SALES	180,144	185,350	(5,206)	(2.8%)

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-date basis improved by 4.1%. Including the stainless product lines in the comparison, year-to-date revenues decreased over the prior year. Stronger growth in revenues during Q1 2017 from the remaining business sectors partially offset the absence of the stainless product lines. Higher prices earned when compared to last year helped to offset the softer demand from the construction markets.

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

	Nine Months Ended September 30,					
	2017		2016		Variance	
	<u>Revenue</u>	<u>% of Total</u>	<u>Revenue</u>	<u>% of Total</u>	<u>Amount</u>	<u>%</u>
Industrial	62,979	35.0%	58,078	31.3%	4,901	8.4%
Residential	58,405	32.4%	58,945	31.8%	(540)	(0.9%)
Commercial	34,336	19.1%	34,624	18.7%	(288)	(0.8%)
Agricultural	24,424	13.6%	21,332	11.5%	3,092	14.5%
Subtotal	180,144	100.0%	172,979	93.3%	7,165	4.1%
Stainless	-	0.0%	12,371	6.7%	(12,371)	(100.0%)
Total revenue	180,144	100.0%	185,350	100.0%	(5,206)	(2.8%)

When compared to the same period last year, demand from the end markets in the US was generally firm for the first nine months. Coupled with the price increases and excluding the stainless product lines from the comparison, revenues generated in the US was better than the prior year. Revenues in Canada were also better than the prior

year as price increases implemented to offset the increase in raw materials input prices offset softer demand from the construction markets.

Revenue by Location

(\$'000 unless otherwise stated)

	Nine Months Ended September 30 ,					
	2017		2016		Variance	
	Revenue	% of Total	Revenue	% of Total	Amount	%
United States	112,796	62.6%	107,301	57.9%	5,495	5.1%
Canada	60,530	33.6%	59,570	38.8%	960	1.6%
International	6,818	3.8%	6,108	3.3%	710	11.6%
Subtotal	180,144	100.0%	172,979	93.3%	7,165	4.1%
Stainless	-	0.0%	12,371	6.7%	(12,371)	(100.0%)
Total	180,144	100.0%	185,350	100.0%	(5,206)	(2.8%)
Average C\$/US\$	1.3069		1.3205			

(\$'000 unless otherwise stated)	YTD 2017	YTD 2016	Variance Fav/(Unfav)	
COST OF SALES	164,401	153,235	(11,166)	(7.3%)

Cost of sales amounted to 91.3% of revenues compared to 82.7% last year as a result of the increase in raw material costs, particularly for rod and zinc which is used in the galvanizing process. The cost of conversion, as a percentage of revenues, is generally in-line with that of prior year.

(\$'000 unless otherwise stated)	YTD 2017	YTD 2016	Variance Fav/(Unfav)	
GROSS PROFIT	15,743	32,115	(16,372)	(51.0%)

Gross profit for the nine months amounted to \$15.7 million versus \$32.1 million during the same period in 2016 as the price adjustments for finished goods in the end markets we serve lagged the rapid increase in raw material input costs. Gross margin for the nine months was 8.7% compared to 17.3% in the prior year.

Gross Profit

(\$'000 unless otherwise stated)

	Nine Months Ended September 30 ,					
	2017		2016		Variance Fav / (Unfav)	
	Gross Profit	% of Total	Gross Profit	% of Total	Amount	%
US\$ gross profit	8,204	52.1%	19,511	60.8%	(11,306)	(57.9%)
C\$ gross profit	7,539	47.9%	12,604	39.2%	(5,066)	(40.2%)
Total gross profit	15,743	100.0%	32,115	100.0%	(16,372)	(51.0%)
Average C\$/US\$	1.3069		1.3205			

(\$'000 unless otherwise stated)	YTD 2017	YTD 2016	Variance Fav/(Unfav)	
SG&A EXPENSES	12,417	14,573	2,156	14.8%

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

<i>(\$'000 unless otherwise stated)</i>	YTD 2017	YTD 2016	Variance Fav/(Unfav)	
EBITDA	5,073	19,941	(14,868)	(74.6%)

EBITDA earned for the nine months is inclusive of the foreign exchange loss in the period. The decrease in EBITDA is primarily impacted by the lower gross profit realized.

<i>(\$'000 unless otherwise stated)</i>	YTD 2017	YTD 2016	Variance Fav/(Unfav)	
FINANCING EXPENSES	2,194	2,030	(164)	(8.1%)

Financing Expenses

(\$'000 unless otherwise stated)

	Nine Months Ended September 30,			
	<u>2017</u>	<u>2016</u>	<u>Variance Fav / (Unfav)</u> <u>Amount</u>	<u>%</u>
Non-cash financing expenses	827	866	39	4.5%
Interest on senior credit facility	765	502	(263)	(52.4%)
Other interest and financing costs	566	626	60	9.6%
Deferred financing costs	36	36	-	0.0%
Total financing expenses	2,194	2,030	(164)	(8.1%)

Our financing expenses are slightly more than the prior year due to the higher amounts borrowed, which is reflective of the increase in value of raw materials and finished goods in inventory due to the higher prices for rod and zinc.

<i>(\$'000 unless otherwise stated)</i>	YTD 2017	YTD 2016	Variance Fav/(Unfav)	
FOREIGN EXCHANGE GAIN (LOSS)	(701)	(93)	(608)	(653.8%)

The loss on foreign exchange is the result of losses in currency forward contracts settled in the period. The average transaction rate for our currency forward contracts during the first nine months of the year was C\$1.35 per US\$ compared to an average spot price of C\$1.31 per US\$. Our Canadian operation, whose functional currency is Canadian dollar, has a portion of its assets, liabilities, sales and expenses denominated in currencies other than the Canadian dollar, in particular the US dollar. With raw material costs being denominated in US dollar, having a significant portion of our sales also being denominated in US dollar creates a natural partial hedge. Foreign currency forward contracts are used to manage a portion of the remaining currency risk. Foreign exchange gains and losses are unpredictable in nature and therefore can vary significantly over time. As at September 30, 2017, the total notional value of US dollar currency forward contracts outstanding was US\$0.9 million.

<i>(\$'000 unless otherwise stated)</i>	YTD 2017	YTD 2016	Variance Fav/(Unfav)	
INCOME TAX EXPENSE	(480)	(1,762)	1,282	72.8%

For the nine months ended September 30, 2017 an income tax expense of \$0.5 million was booked compared to tax expense of \$1.8 million for the same period in 2016. In the prior period we were able to utilize tax benefits to reduce taxable income. The income tax expense is based on a statutory rate of 26% for Canadian taxable income and 31% for US based taxable income applied to the income of the respective subsidiaries before taxes, with adjustments for permanent differences between accounting and taxable income.

<i>(\$'000 unless otherwise stated)</i>	YTD 2017	YTD 2016	Variance Fav/(Unfav)	
NET INCOME	340	14,276	(13,936)	(97.6%)

The decrease in net income over the prior year is attributable to the lower operating income on account of lower realized gross profit due to the narrow spread between selling prices and raw material costs.

8 FINANCIAL CONDITION AND LIQUIDITY

8.1 WORKING CAPITAL

Working Capital

(\$'000 unless otherwise stated)

	As at September 30,	
	2017	2016
Cash	1,436	6,124
Accounts receivable	29,778	31,750
Inventories	64,747	58,992
Other current assets	4,711	6,932
Total current assets	100,672	103,798
Senior credit facility	(40,439)	(25,371)
Accounts payable and accrued liabilities	(16,448)	(18,903)
Dividends payable	(611)	(622)
Other current liabilities	(280)	(2,768)
Current portion of long term debt	(3,534)	(3,795)
Total current liabilities	(61,312)	(51,459)
Net working capital	39,360	52,339

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 September 30, 2017 was \$2.0 million less than last year, reflecting the lower sales revenues relative to last year as a result of the absence of the stainless products lines. The increase in the senior credit facility reflects the increase in the value of inventories which increased due to the rising costs of raw materials, particularly rod and zinc.

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. The increase in the value of inventory is predominantly due to the rising costs of raw materials, which also translates into higher values for finished goods in inventory.

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 September 30,		Nine Months Ended September 30,	
	<u>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>
Cash provided by (used in) operating activities	(1,315)	5,503	5,363	19,195
Working capital adjustments	2,812	(832)	(3,442)	(4,474)
Net cash provided by (used in) operating activities	<u>1,497</u>	<u>4,671</u>	<u>1,921</u>	<u>14,721</u>
Net cash provided by (used in) investing activities	<u>(772)</u>	<u>(1,145)</u>	<u>(5,956)</u>	<u>(2,274)</u>
Advance on (repayment of) senior term loans	(434)	(438)	(1,313)	(1,168)
Repayment of long-term debt	(450)	(471)	(2,082)	(2,132)
Other payables	(152)	(28)	(4)	(764)
Interest paid	(463)	(297)	(1,288)	(1,067)
Advance on (repayment of) senior revolving facility	888	2,607	12,661	(1,184)
Dividend payment	(615)	(622)	(1,851)	(1,244)
Share buyback	(589)	-	(1,946)	(67)
Net cash provided by (used in) financing activities	<u>(1,815)</u>	<u>751</u>	<u>4,177</u>	<u>(7,626)</u>
Exchange rate changes on foreign cash balances	<u>(34)</u>	<u>3</u>	<u>(57)</u>	<u>(23)</u>
Increase (decrease) in cash balances	<u>(1,124)</u>	<u>4,280</u>	<u>85</u>	<u>4,798</u>

For the three months ended September 30, 2017 net cash decreased due to investing and financing activities. The net cash used in investing activities for the nine months ended September 30, 2017 was for capital maintenance activities and deposits for manufacturing equipment.

8.3 SENIOR CREDIT FACILITY

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

The senior credit facility has defined covenants, the primary one being based on the remaining funds within the senior credit facility that is available ("Availability Test"). Only if this amount falls below a certain threshold then

other covenants, which include a defined fixed charge coverage ratio, are tested. In addition, there are other restrictive covenants that limit the discretion of management with respect to certain business matters.

As at September 30, 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 AGREEMENTS

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

9 CAPITAL EXPENDITURES AND CAPACITY

For the three months ended September 30, 2017, we made capital expenditures of \$0.8 million and for the year-to-date we made capital expenditures of \$6.0 million. 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 \$3.6 million in capital equipment commitments in 2017. The capital assets we have committed to are expected to be delivered throughout the remainder of 2017 and into the first half of 2018 with commissioning of the equipment generally taking between one month to three months after arrival.

10 CONTRACTUAL OBLIGATIONS AND COMMITMENTS

As of September 30, 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.

Contractual Obligations and Commitments

(\$'000 unless otherwise stated)

	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>2020</u>	<u>2021</u>	<u>Thereafter</u>	<u>Total</u>
Production materials	14,565	8,206	-	-	-	-	22,771
Machinery and equipment	501.11	3,141	-	-	-	-	3,642
Operating leases	680	2,081	1,999	1,703	1,645	18,052	26,160
Total commitments	<u>15,746</u>	<u>13,428</u>	<u>1,999</u>	<u>1,703</u>	<u>1,645</u>	<u>18,052</u>	<u>52,573</u>
Senior revolving facility	40,439	-	-	-	-	-	40,439
AP and accrued liabilities	16,448	-	-	-	-	-	16,448
Other current liabilities	280	-	-	-	-	-	280
Dividends	611	-	-	-	-	-	611
Senior term loans	434	1,737	1,737	7,068	-	-	10,976
Long-term debt	449	2,421	2,220	1,333	1,333	5,085	12,841
Total financial liabilities	<u>58,661</u>	<u>4,158</u>	<u>3,957</u>	<u>8,401</u>	<u>1,333</u>	<u>5,085</u>	<u>81,595</u>
Total obligations and commitments	<u>74,407</u>	<u>17,586</u>	<u>5,956</u>	<u>10,104</u>	<u>2,978</u>	<u>23,137</u>	<u>134,168</u>

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 the normal course of our business activity. For the capital assets we have committed to purchase but have not yet received, amounts remaining to be paid are purchase commitments. All committed amounts are expected to be paid by 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.

The Company enters into US dollar currency forward contracts for periods consistent with a portion of US dollar currency transaction exposures, generally from one to three months. These are not designated as cash flow, fair value or net investment hedges. As of September 30, 2017, the total notional value of US dollar currency forward contracts outstanding was US\$0.9 million and the fair value mark to market loss on the contracts was \$22k.

11 SUMMARY OF QUARTERLY FINANCIAL RESULTS

Summary of Quarterly Financial Results

(\$'000 unless otherwise stated)

	Sep 30, <u>2017</u>	Jun 30, <u>2017</u>	Mar 31, <u>2017</u>	Dec 31, <u>2016</u>	Sep 30, <u>2016</u>	Jun 30, <u>2016</u>	Mar 31, <u>2016</u>	Dec 31, <u>2015</u>
Revenue	55,643	61,455	63,046	45,903	57,726	65,384	62,240	54,274
Gross profit	2,299	5,942	7,502	5,295	9,583	11,521	11,009	5,933
Foreign exchange gain (loss)	(737)	(61)	97	(282)	(172)	319	(240)	127
EBITDA	(1,496)	2,376	4,193	1,032	5,369	7,857	6,712	1,815
Net income (loss)	(2,152)	736	1,756	(711)	2,687	6,360	5,226	5,523
Net income (loss) per unit - basic	(0.07)	0.04	0.06	(0.02)	0.09	0.20	0.17	0.18
Gross profit per ton	54	130	146	148	220	226	246	152
EBITDA per ton	(35)	52	82	29	123	154	150	47

The table above provides selected quarterly financial information for the eight most recent fiscal quarters to September 30, 2017. Sales volume in the fourth quarter of the year has traditionally been the lowest in the year due to the seasonality of our business and the markets we sell to. Quarter-over-quarter results may also be impacted by unusual or infrequently occurring items.

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

From Q1 to Q3, 2017 inclusive, gross profit and EBITDA were negatively impacted by the rapid rise in raw material costs.

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

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

12 ACCOUNTING POLICIES AND STATEMENTS

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

Our significant accounting policies are described in Note 3 of the December 31, 2016 audited consolidated financial statements, the Annual Information Form for the year ended December 31, 2016 and Note 3 to the September 30, 2017 interim unaudited condensed consolidated financial statements.

12.1 CRITICAL ACCOUNTING ESTIMATES

The areas that we consider to have critical accounting estimates are: financial instruments valued at fair value through profit and loss, inventory valuation, allowance for doubtful accounts, property, plant and equipment, and income taxes. These critical estimates and the judgments involved are discussed further in the audited consolidated financial statements for December 31, 2016 (Note 3).

13 RELATED PARTY TRANSACTIONS

13.1 TRANSACTIONS WITH ASSOCIATED COMPANIES

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

Based on Tree Island Steel’s outstanding Shares as at November 2, 2017, Futura owns 28.1% of the fully diluted Shares of the Company.

In addition, Mr. Doman is Chairman and CEO of CanWel Building Materials Group Ltd. (“CanWel”). For the three and nine months ended September 30, 2017, Tree Island sold, net of rebates, approximately \$0.6 million and \$2.5 million respectively (\$0.8 million and \$2.6 million respectively in 2016) of goods to CanWel and trade accounts receivable owing from CanWel as at September 30, 2017 is approximately \$0.2 million (approximately \$0.2 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 nine months ended September 30, 2017 was approximately \$0.5 million and \$2.2 million respectively (approximately \$0.5 and \$2.3 million respectively in 2016) which includes wages, salaries, other compensation paid in the period (if any) and social security contributions, paid annual and sick leave, vehicle costs and bonuses. It also includes directors’ fees paid to members of the Board.

14 RISKS AND UNCERTAINTIES

Investment in Tree Island Steel is subject to a number of risks. Our income is dependent upon the wire products business, which is susceptible to a number of risks. A detailed discussion of our significant business risks is provided in the 2016 Annual Information Form under the heading “Risk Factors” which can be found at www.sedar.com.

15 DISCLOSURE CONTROLS AND PROCEDURES AND INTERNAL CONTROL OVER FINANCIAL REPORTING

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

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

Our Chief Executive Officer and Chief Financial Officer certified the appropriateness of the financial disclosures in the interim financial report together with the other financial information included in the interim filings for the period ended September 30, 2017. These executives also certified that they are responsible for the design of disclosure controls and procedures and internal control over financial reporting. There have been no changes in internal control over financial reporting during the quarter ended September 30, 2017 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

The Company’s Board of Directors and Audit Committee reviewed and approved the September 30, 2017 unaudited interim condensed consolidated financial statements and this MD&A prior to its release.

INTERIM UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

September 30, 2017 and 2016

NOTICE OF NO AUDITOR REVIEW OF INTERIM FINANCIAL STATEMENTS

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

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

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

November 2, 2017

INTERIM UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
September 30, 2017 and 2016

INTERIM UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

(\$'000 unless otherwise stated)

	As at September 30, 2017	December 31, 2016
Cash	1,436	1,351
Accounts receivable <i>(Note 5)</i>	29,778	24,463
Inventories <i>(Note 6)</i>	64,747	67,268
Prepaid expenses	4,646	4,231
Income taxes recoverable	65	-
Current assets	100,672	97,313
Property, plant and equipment <i>(Note 7)</i>	41,753	39,611
Deferred income tax asset	827	417
Other non-current assets	118	114
Total assets	143,370	137,455
Senior revolving facility <i>(Note 8.1)</i>	40,439	28,941
Accounts payable and accrued liabilities	16,448	15,363
Income taxes payable	-	269
Other current liabilities	280	237
Dividends payable	611	621
Current portion of long-term borrowing <i>(Notes 8.2, 9)</i>	3,534	4,361
Current liabilities	61,312	49,792
Senior term loans <i>(Note 8.2)</i>	9,239	10,612
Long-term debt <i>(Note 9)</i>	6,555	7,652
Other non-current liabilities	987	826
Deferred income tax liability	952	-
Total liabilities	79,045	68,882
Shareholders' equity	64,325	68,573
Total liabilities and shareholders' equity	143,370	137,455

See accompanying Notes to the Interim Unaudited Condensed Consolidated Financial Statements

Approved on behalf of Tree Island Steel Ltd.

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

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

INTERIM UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**September 30, 2017 and 2016****INTERIM UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF OPERATIONS***(\$'000 unless otherwise stated)*

	Three Months Ended September 30,		Nine Months Ended September 30,	
	<u>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>
Sales	55,643	57,726	180,144	185,350
Cost of sales (Note 6)	(52,530)	(47,305)	(161,953)	(150,743)
Depreciation	(814)	(839)	(2,448)	(2,492)
Gross profit	2,299	9,582	15,743	32,115
Selling, general and administrative expenses	(3,872)	(4,880)	(12,417)	(14,573)
Operating income (loss)	(1,573)	4,702	3,326	17,542
Foreign exchange gain (loss)	(737)	(172)	(701)	(93)
Gain (loss) on sale of property, plant and equipment	(41)	12	(115)	12
Changes in financial liabilities at fair value	248	(223)	504	607
Financing expenses (Note 10)	(758)	(593)	(2,194)	(2,030)
Income (loss) before income taxes	(2,861)	3,726	820	16,038
Income tax recovery (expense) (Note 13)	709	(1,039)	(480)	(1,762)
Net income (loss)	<u>(2,152)</u>	<u>2,687</u>	<u>340</u>	<u>14,276</u>
Net income (loss) per share (Note 17)	(0.07)	0.09	0.01	0.46
Weighted average number of shares (Note 17)	30,711,062	31,083,173	30,825,595	31,092,073

INTERIM UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME*(\$'000 unless otherwise stated)*

	Three Months Ended September 30,		Nine Months Ended September 30,	
	<u>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>
Net income (loss) for the year	(2,152)	2,687	340	14,276
Unrealized income (loss) on FX translation	(472)	115	(688)	(834)
Comprehensive income (loss)	<u>(2,624)</u>	<u>2,802</u>	<u>(348)</u>	<u>13,442</u>

See accompanying Notes to the Interim Unaudited Condensed Consolidated Financial Statements

INTERIM UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

September 30, 2017 and 2016

INTERIM UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF SHAREHOLDERS' EQUITY

(\$'000 unless otherwise stated)

	Shareholders' Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total
Balance as at December 31, 2016	230,423	(159,528)	(2,322)	68,573
Repurchase of shares	(1,349)	-	-	(1,349)
Net income	-	1,756	-	1,756
Dividends	-	(615)	-	(615)
Other comprehensive income (loss)	-	-	(84)	(84)
Balance as at March 31, 2017	229,074	(158,387)	(2,406)	68,275
Repurchase of shares	(8)	-	-	(8)
Net income	-	736	-	736
Dividends	-	(615)	-	(615)
Other comprehensive income (loss)	-	-	(239)	(239)
Balance as at June 30, 2017	229,066	(158,266)	(2,645)	68,149
Repurchase of shares	(589)	-	-	(589)
Net income (loss)	-	(2,152)	-	(2,152)
Dividends	-	(611)	-	(611)
Other comprehensive income (loss)	-	-	(472)	(472)
Balance as at September 30, 2017	228,477	(161,029)	(3,117)	64,325
Balance as at December 31, 2015	230,568	(170,920)	(1,832)	57,816
Repurchase of shares	(32)	-	-	(32)
Net Income	-	5,227	-	5,227
Dividends	-	(311)	-	(311)
Other comprehensive income (loss)	-	-	(1,041)	(1,041)
Balance as at March 31, 2016	230,536	(166,004)	(2,873)	61,659
Repurchase of shares	(36)	-	-	(36)
Net income	-	6,361	-	6,361
Dividends	-	(622)	-	(622)
Other comprehensive income	-	-	97	97
Balance as at June 30, 2016	230,500	(160,265)	(2,776)	67,459
Repurchase of shares	-	-	-	-
Net income	-	2,687	-	2,687
Dividends	-	(622)	-	(622)
Other comprehensive income	-	-	115	115
Balance as at September 30, 2016	230,500	(158,200)	(2,661)	69,639

See accompanying Notes to the Interim Unaudited Condensed Consolidated Financial Statements

INTERIM UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

September 30, 2017 and 2016

INTERIM UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

(\$'000 unless otherwise stated)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	<u>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>
Net income (loss)	(2,152)	2,687	340	14,276
Depreciation	814	839	2,448	2,492
Changes in financial liabilities recognized at fair value	(248)	223	(504)	(607)
Loss (gain) on sale of property, plant and equipment	2	212	49	212
Amortization and write-off of deferred financing	12	12	36	36
Non-cash accretion of long term debt	165	279	714	867
Net financing costs	581	302	1,444	1,127
Deferred income tax expense (recovery)	(709)	850	478	1,561
Exchange revaluation of foreign denominated debt	220	99	358	(769)
Working capital adjustments				
Accounts receivable	1,719	4,253	(6,036)	(4,257)
Inventories	1,272	(3,370)	591	694
Accounts payable and accrued liabilities	(1,293)	976	2,506	2,305
Prepaid expenses	1,067	(2,613)	(475)	(3,038)
Income and other taxes	-	(30)	(90)	(18)
Other	47	(48)	62	(160)
Net cash provided by operating activities	<u>1,497</u>	<u>4,671</u>	<u>1,921</u>	<u>14,721</u>
Proceeds on sale of property, plant and equipment	21	317	25	317
Purchase of property, plant and equipment	(793)	(1,462)	(5,981)	(2,591)
Net cash used in investing activities	<u>(772)</u>	<u>(1,145)</u>	<u>(5,956)</u>	<u>(2,274)</u>
Term loans - advance (repayment)	(434)	(438)	(1,313)	(1,168)
Repayment of long-term debt	(450)	(471)	(2,082)	(2,132)
Other financing liabilities	(152)	(28)	(4)	(764)
Interest paid	(463)	(297)	(1,288)	(1,067)
Increase (decrease) of senior revolving facility	888	2,607	12,661	(1,184)
Dividend paid	(615)	(622)	(1,851)	(1,244)
Repurchase of common shares	(589)	-	(1,946)	(67)
Net cash provided by (used in) financing activities	<u>(1,815)</u>	<u>751</u>	<u>4,177</u>	<u>(7,626)</u>
Effect of exchange rate change on cash	<u>(34)</u>	<u>3</u>	<u>(57)</u>	<u>(23)</u>
Increase (decrease) in cash	(1,124)	4,280	85	4,798
Cash - beginning of period	2,560	1,844	1,351	1,326
Cash - end of period	<u>1,436</u>	<u>6,124</u>	<u>1,436</u>	<u>6,124</u>

See accompanying Notes to the Interim Unaudited Condensed Consolidated Financial Statements

1 NATURE OF BUSINESS

These consolidated financial statements of Tree Island Steel Ltd. ("Tree Island Steel" or the "Company") for the quarter ended September 30, 2017 were authorized for issue in accordance with a resolution of the Board of Directors on November 2, 2017.

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

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

2 BASIS OF PREPARATION

The interim condensed consolidated financial statements as at and for the three month and nine months ended September 30, 2017 have been prepared in accordance with International Accounting Standard ("IAS") 34, "Interim Financial Reporting". They should be read in conjunction with the annual consolidated financial statements and the notes thereto for the year ended December 31, 2016 and do not include all information required for the full annual financial statements. Certain comparative information has been reclassified to conform to the presentation adopted during the period.

3 SIGNIFICANT ACCOUNTING POLICIES, CRITICAL ACCOUNTING JUDGEMENTS AND ESTIMATES

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

NOTES TO THE INTERIM UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

September 30, 2017 and 2016

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 periods beginning on or after January 1, 2018 with early adoption permitted.

IFRS 16 Leases

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

The Company has conducted a preliminary 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 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 all three standards, the associated disclosure requirements, our method of adoption for each of the standards and any additional changes, modifications, clarifications or interpretations undertaken by the IASB subsequent to September 30, 2017 to complete our comprehensive evaluation of the impacts of the standards on our consolidated financial statements. At this time, the Company does not plan to adopt any of the new standards early and will adopt each one of the standards on the respective effective dates.

5 ACCOUNTS RECEIVABLE

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

(\$'000 unless otherwise stated)

	As at September 30, 2017	As at December 31, 2016
Current	26,715	22,205
30 - 60 days past due	800	772
61 - 90 days past due	330	354
Over 91 days past due	2,231	1,391
Total accounts receivable	30,076	24,722
Allowance for doubtful accounts	(298)	(259)
Net accounts receivable	29,778	24,463

Accounts receivable are non-interest bearing and are generally due on 30-day to 90-day terms. These terms are consistent for related party receivables as disclosed in Note 12. The maximum credit risk that Tree Island was exposed to by way of its accounts receivable is equal to the net amount of \$29.8 million as at September 30, 2017 (\$24.5 million as at December 31, 2016).

At the end of each reporting period, a review of the provision for bad and doubtful accounts is performed. It is an assessment of the potential amount of trade accounts receivable that will be paid by customers after the consolidated statements of financial position date. The assessment is made by reference to age, status and risk of each receivable, current economic conditions and historical information. The trade accounts receivable balance is

NOTES TO THE INTERIM UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
September 30, 2017 and 2016

reduced through the use of the allowance for doubtful accounts and the amount of the loss is recognized in the consolidated statement of operations. Reversals to the allowance for doubtful accounts occur when previously allowed for trade accounts receivable are collected. Individual trade accounts receivable, together with any associated allowance previously recognized, are written off when there is no realistic prospect of future recovery. Accounts receivables with related parties are discussed in Note 12.1.

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

(\$'000 unless otherwise stated)

	As at September 30, 2017	As at December 31, 2016
Opening balance – beginning of period	259	189
Additions during the period	46	148
Reversals during the period	8	(15)
Payments	(10)	(7)
Write-offs during the period	-	(57)
Foreign exchange revaluation	(5)	1
Closing balance – end of period	298	259

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

6 INVENTORIES

At each period end, the ending inventories on hand are reviewed to determine if a write down to net realizable value is required. Based on this review, it was determined that no write downs were necessary in three and nine months periods ended September 30, 2017 and 2016. The reserve for slow moving inventory as at September 30, 2017 was \$1.5 million (\$1.8 million at September 30, 2016).

Tree Island had the following categories of inventory:

(\$'000 unless otherwise stated)

	As at September 30, 2017	As at December 31, 2016
Raw materials	18,170	21,805
Finished and semi-finished products	32,658	32,809
Consumable supplies and spare parts	13,919	12,654
Total inventory	64,747	67,268

NOTES TO THE INTERIM UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
September 30, 2017 and 2016

For the three month periods ended September 30, 2017 and 2016, Tree Island recognized, in income, inventory costs for the following:

(\$'000 unless otherwise stated)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	<u>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>
Opening inventory	54,426	43,599	54,467	45,187
Raw material purchases	22,720	26,305	81,238	77,355
Finished goods purchased for resale	3,716	1,861	7,882	6,580
Conversion costs	22,189	22,656	68,887	68,737
Closing inventory	(50,521)	(47,116)	(50,521)	(47,116)
Cost of sales	<u>52,530</u>	<u>47,305</u>	<u>161,953</u>	<u>150,743</u>

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	-	1,439	1,094	2,879	5,412
Disposals	-	(7)	(297)	-	(304)
Foreign exchange translation	(150)	(605)	(533)	(40)	(1,328)
As at September 30, 2017	<u>9,685</u>	<u>44,259</u>	<u>29,814</u>	<u>3,915</u>	<u>87,673</u>
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	12	930	1,510	-	2,452
Disposals	-	(7)	(226)	-	(233)
Foreign exchange translation	7	(296)	(292)	-	(581)
As at September 30, 2017	<u>27</u>	<u>31,880</u>	<u>14,013</u>	<u>-</u>	<u>45,920</u>
Net book value as at					
December 31, 2016	9,827	12,179	16,529	1,076	39,611
September 30, 2017	9,658	12,379	15,801	3,915	41,753

The carrying value of long-lived assets is reviewed each reporting period. For the purposes of testing for impairment, or the reversal of impairment, Tree Island Steel's assets are grouped and tested at the CGU level. Tree Island considers both qualitative and quantitative factors when determining whether an asset may be impaired, or when a

NOTES TO THE INTERIM UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

September 30, 2017 and 2016

reversal of impairment is required. Where the carrying value of the assets is not expected to be recoverable from future cash flows, they are written down to their recoverable amount. Tree Island has noted no indicators of impairment for this reporting period.

8 SENIOR CREDIT FACILITY

On April 21, 2014 the Company renewed its senior banking facility with Wells Fargo Capital Finance Corporation Canada ("Wells Fargo"). The five year senior secured committed banking facility (the "Senior Credit Facility") was increased from \$40 million to \$60 million and matures in April of 2019. Under the terms of the Senior Credit Facility, up to \$60 million may be borrowed for Tree Island's financing requirements in Canadian and/or US dollars. The amount advanced under the Senior Credit Facility at any time is limited to a defined percentage of inventories, accounts receivable, machinery and equipment, and real estate, less certain reserves. The Senior Credit Facility is secured by a first charge over Tree Island's assets supported by the appropriate guarantees, pledges and assignments, and requires that certain covenants be met by Tree Island.

8.1 Senior Credit Facility

The Senior Credit Facility includes a \$10.0 million Letter of Credit sub-facility which enables TI Canada and TI USA to open documentary and standby letters of credit for raw material purchases. There was a \$39k Letter of Credit outstanding as at September 30, 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 Loan (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) 64% of eligible inventory.

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

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

(\$'000 unless otherwise stated)

	As at September 30, 2017	As at December 31, 2016
Revolving portion of the senior credit facility	40,439	28,941
Deferred financing costs	(118)	(114)
Total	40,321	28,827

The revolving portion of the Senior Credit Facility denominated in US dollars as at September 30, 2017 is \$20.4 million (\$20.4 million in 2016).

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

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

NOTES TO THE INTERIM UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

September 30, 2017 and 2016

certain other payments, investments, loans and guarantees and to sell or otherwise dispose of assets and merge or consolidate with another entity.

As at September 30, 2017, the availability was in excess of the Availability Test and the Company was in compliance with its financial 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 one is denominated in US dollars.

The following amounts are outstanding under the Senior Term Loans:

(\$'000 unless otherwise stated)

	As at September 30, 2017	As at December 31, 2016
Senior term loans - beginning of period	12,369	14,031
Foreign exchange revaluation	(80)	(54)
Payments	(1,313)	(1,608)
Senior term loans - end of period	10,976	12,369
Less: current portion	(1,737)	(1,757)
Total	9,239	10,612

9 LONG-TERM DEBT

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

(\$'000 unless otherwise stated)

	As at September 30, 2017	As at December 31, 2016
Beginning of period	10,256	12,139
Payments	(2,082)	(2,615)
Foreign exchange revaluation	(536)	(415)
Accretion of debt discount	714	1,147
End of period	8,352	10,256
Less: current portion	(1,797)	(2,604)
Net long-term debt	6,555	7,652

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

NOTES TO THE INTERIM UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

September 30, 2017 and 2016

method, the debt discount is amortized as accretion and charged to interest expense over the term of the amended long-term debt agreements.

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

10 FINANCING EXPENSES

(\$'000 unless otherwise stated)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	<u>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>
Non-cash accretion of debt discount and interest on long term debt	248	279	827	866
Interest on senior credit facility	282	147	765	502
Other interest and financing costs	216	155	566	626
Amortization of deferred financing costs	12	12	36	36
Total	<u>758</u>	<u>593</u>	<u>2,194</u>	<u>2,030</u>

11 SHAREHOLDERS' CAPITAL

Tree Island is authorized to issue an unlimited number of Shares. The Shares have no par value. There were no Shares issued and 483,817 Shares were cancelled in the nine months ended September 30, 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	(483,817)	(3,446)	-	(3,446)
Shareholders' capital - September 30, 2017	<u>30,580,756</u>	<u>238,377</u>	<u>11,400</u>	<u>226,977</u>

11.1 NORMAL COURSE ISSUER BID

The Company had a normal course issuer bid (the "Bid") effective from September 19, 2016 to September 20, 2017 to purchase up to 1,600,000 Shares. Tree Island had no obligations to purchase any Shares under the bid. For the period January 1, 2017 to September 30, 2017 the Company purchased 483,817 Shares under the Bid at a total cost of \$1.9 million (at an average price of \$4.02 per Share). All 483,817 Shares were cancelled prior to September 30, 2017.

The Company renewed the Bid, effective as of September 21, 2017, to purchase up to 1,500,000 Shares. The expiration date of the 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. Subsequent to September 30, 2017, 153,900 Shares were purchased at a total value of \$0.4 million, or \$2.80 per Share. All 153,900 Shares were cancelled.

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 November 2, 2017, Futura owns 28.1% of the fully diluted Shares of the Company.

In addition, Mr. Doman is Chairman and CEO of CanWel Building Materials Group Ltd. ("CanWel"). For the three and nine months ended September 30, 2017, Tree Island sold, net of rebates, approximately \$0.6 million and \$2.5 million respectively (\$0.8 million and \$2.6 million respectively in 2016) of goods to CanWel and trade accounts receivable owing from CanWel as at September 30, 2017 is approximately \$0.2 million (approximately \$0.2 million in 2016). Outstanding trade accounts receivable from CanWel at period end are unsecured, interest free and settlement occurs in cash.

12.2 TRANSACTIONS WITH KEY MANAGEMENT PERSONNEL

Included in the definition of key management for purposes of disclosure of related party transactions are members of Board of Directors and officers of Tree Island Steel. Amounts for key management personnel for the three and nine months ended September 30, 2017 was approximately \$0.5 million and \$2.2 million respectively (approximately \$0.5 and \$2.3 million respectively in 2016) which includes wages, salaries, other compensation paid in the period (if any) and social security contributions, paid annual and sick leave, vehicle costs and bonuses. It also includes directors' fees paid to members of the Board.

13 INCOME TAXES

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

13.1 INCOME TAX RECOVERY (EXPENSE)

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

(\$'000 unless otherwise stated)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	<u>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>
Current tax recovery (expense)	-	(189)	(2)	(201)
Deferred tax recovery (expense)	709	(850)	(478)	(1,561)
Total recorded in the Statement of Operations	<u>709</u>	<u>(1,039)</u>	<u>(480)</u>	<u>(1,762)</u>

14 FINANCIAL INSTRUMENTS

14.1 FAIR VALUE OF FINANCIAL INSTRUMENTS

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

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

- Cash, accounts receivable, the revolving portion of the senior credit facility and accounts payable and accrued liabilities approximate their carrying amounts largely due to the short-term nature of these instruments;
- Fair value on the Company's senior term loan, and long-term debt are based on estimated market interest rate on similar borrowings. The fair value of the senior term loan approximate fair value as the interest rates approximate market. A one percent (1%) change in the market interest rate would change the fair value of long term debt by \$0.3 million;
- Fair value of the forward exchange contracts are estimated using observable foreign exchange spot and forward rates. The Company does not consider interest rates or the credit quality of counterparties as significant inputs to the valuation.

(\$'000 unless otherwise stated)

	As at September 30, 2017		As at December 31, 2016	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Cash and cash investments	1,436	1,436	1,351	1,351
Accounts receivable	29,778	29,778	24,463	24,463
Commodity purchase contract embedded derivative	509	509	-	-
Total financial assets	31,723	31,723	25,814	25,814
Senior revolving facility	40,439	40,439	28,941	28,941
Accounts payable and accrued liabilities	16,448	16,448	15,363	15,363
Senior term loans	10,976	10,976	12,368	12,368
Long-term debt	8,352	8,241	10,256	9,750
Foreign exchange forward contracts	22	22	-	-
Commodity purchase contract embedded derivative	-	-	17	17
Total financial liabilities	76,237	76,126	66,945	66,439

14.2 FAIR VALUE HIERARCHY

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

NOTES TO THE INTERIM UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

September 30, 2017 and 2016

The three levels of fair value estimation are:

- Level 1: Quoted (unadjusted) market prices in active markets for identical assets or liabilities;
- Level 2: Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable; and
- Level 3: Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

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

(\$'000 unless otherwise stated)

	Level 1	Level 2	Level 3
Senior revolving facility	-	40,439	-
Senior term loans	-	10,976	-
Long-term debt	-	-	8,241
Commodity purchase contract embedded derivative	-	(509)	-
Foreign exchange forward contract	-	22	-

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

Item	Valuation Technique	Significant Observable Inputs	Sensitivity of the input to fair value
Long-term debt	DCF	Change in discount rate	A 1% increase (decrease) in the discount rate will result in a decrease (increase) in fair value of approximately \$271k

15 RISK EXPOSURE AND MANAGEMENT

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

15.1 CREDIT RISK

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

NOTES TO THE INTERIM UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
September 30, 2017 and 2016

15.2 LIQUIDITY RISK

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

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

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

The table below summarizes the future undiscounted contractual cash flow requirements for financial liabilities (including scheduled interest payments on interest bearing liabilities) as at September 30, 2017 and December 31, 2016:

(\$'000 unless otherwise stated)

	Carrying Amount	Contractual Cash Flow	Less Than 1 Year	1 – 2 Years	Greater Than 2 Years
Senior revolving facility	40,439	40,439	40,439	-	-
Accounts payable and accrued liabilities	16,448	16,448	16,448	-	-
Senior term loans	10,976	10,976	1,737	3,474	5,765
Long-term debt	8,352	12,841	1,797	4,641	6,403
As at September 30, 2017	76,215	80,704	60,421	8,115	12,168
Senior revolving facility	28,941	28,941	28,941	-	-
Accounts payable and accrued liabilities	15,363	15,363	15,363	-	-
Senior term loans	12,368	12,368	1,756	3,532	7,080
Long-term debt	10,256	15,984	2,604	4,477	8,903
As at December 31, 2016	66,928	72,656	48,664	8,009	15,983

15.3 FOREIGN CURRENCY RISK

The significant market risk exposures affecting the financial instruments are those related to foreign currency exchange rates and interest rates. For the period ending September 30, 2017, a \$0.01 increase (decrease) in the Canadian dollar to US dollar exchange rate will increase (decrease) net comprehensive income by \$0.3 million.

Tree Island's US dollar-denominated cash, accounts receivable, accounts payable and accrued liabilities, Senior Credit Facility and long-term debt are exposed to foreign currency exchange rate risk because the value of these financial instruments will fluctuate with changes in the US/Canadian dollar exchange rate. The Company enters into US dollar currency forward contracts for periods consistent with a portion of US dollar currency transaction exposures, generally from one to three months. These are not designated as cash flow, fair value or net investment hedges. As of September 30, 2017, the total notional value of US dollar currency forward contracts outstanding was US\$0.9 million and the fair value mark to market loss on the contracts was \$22k.

NOTES TO THE INTERIM UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
September 30, 2017 and 2016

15.4 INTEREST RATE RISK

Tree Island is exposed to interest rate risk on its Senior Credit Facility, which is further discussed in Note 8. A one percent increase in the interest rates charged on the Senior Credit Facility would increase financing expenses by \$0.4 million annually. Tree Island does not use derivative instruments to manage the interest rate risk.

15.5 RAW MATERIAL PRICE RISK

Tree Island is exposed to changes in the price of the materials used in its production process and, from time to time, enters into contracts to purchase a portion of the zinc to be used. These are not designated as cash flow, fair value or net investment hedges. As of September 30, 2017 the fair value of zinc forward contracts was a notional amount of \$2.1 million and the mark to market gain on the contracts was \$0.5 million.

16 MANAGEMENT OF CAPITAL

The Company's objectives when managing its capital are:

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

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

(\$'000 unless otherwise stated)

	<u>As at September 30, 2017</u>	<u>As at December 31, 2016</u>
Total shareholders' equity	64,325	68,573
Senior revolving facility	40,439	28,941
Senior term loans	10,976	12,369
Long-term debt	8,352	10,256
Total capital	<u>124,092</u>	<u>120,139</u>

17 NET INCOME PER SHARE

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

(\$'000 unless otherwise stated)

	<u>Three Months Ended</u> <u>September 30,</u>		<u>Nine Months Ended</u> <u>September 30,</u>	
	<u>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>
Net income (loss) for the period	(2,152)	2,687	340	14,276
Weighted average number of shares outstanding:	30,711,062	31,083,173	30,825,595	31,092,073
Net income (loss) per share (\$/share)	(0.07)	0.09	0.01	0.46

NOTES TO THE INTERIM UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

September 30, 2017 and 2016

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

Diluted earnings per Share amounts, if applicable, are calculated by dividing the net income for the year (after adjusting for interest and accretion, net of tax) by the weighted average number of Shares outstanding during the year plus the weighted average number of Shares that would be issued on conversion of all the dilutive potential units into Shares. As at September 30, 2017 the Company does not have any instruments issued that could be dilutive.

The company has repurchased and cancelled 483,817 Shares in the nine months ended September 30, 2017 (Note 11).

18 PROVISIONS AND COMMITMENTS

18.1 LITIGATION AND CLAIMS

Tree Island is party to certain legal actions and claims, none of which individually, or in the aggregate, is expected to have a material adverse effect on its financial position, statement of operations or cash flows.

18.2 PURCHASE COMMITMENTS

As at September 30, 2017, Tree Island's wholly owned subsidiaries have committed to production material purchases (including finished goods) totalling \$22.8 million (\$30.4 million – September 30, 2016) and capital equipment purchase commitments of \$3.6 million. The committed product material purchases, which are to be delivered before the end of Q1 2018, and capital equipment purchases, which are to be delivered before the end of Q2 2018, are in the normal course of our business activity.

19 SEGMENTED INFORMATION

19.1 MARKET SEGMENTS

Revenues for each group for the three and nine months ended September 30, 2017 and 2016 were as follows:

(\$'000 unless otherwise stated)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	<u>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>
Industrial	19,035	18,123	62,979	58,078
Residential	19,673	19,193	58,405	58,945
Commercial	11,946	12,082	34,336	34,624
Agricultural	4,989	4,737	24,424	21,332
Specialty	-	3,591	-	12,371
Total revenue	<u>55,643</u>	<u>57,726</u>	<u>180,144</u>	<u>185,350</u>

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

On September 30, 2016, the Company's stainless product lines and its related machinery, equipment and business assets were divested to a third party. The stainless product lines were included in the specialty market. Sales of

NOTES TO THE INTERIM UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
September 30, 2017 and 2016

specialty products not included as part of the divestiture of the stainless business has been reclassified as industrial products for 2017 and for 2016 for comparative purposes.

19.2 GEOGRAPHIC SEGMENTS

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

(\$'000 unless otherwise stated)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	<u>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>
United States	36,404	37,216	112,796	119,672
Canada	17,281	18,270	60,530	59,570
International	1,958	2,240	6,818	6,108
Total revenue	<u>55,643</u>	<u>57,726</u>	<u>180,144</u>	<u>185,350</u>

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

(\$'000 unless otherwise stated)

	<u>September 30, 2017</u>	<u>December 31, 2016</u>
United States	12,292	11,154
Canada	29,579	28,571
Total non-current assets	<u>41,871</u>	<u>39,725</u>

SHAREHOLDER INFORMATION

TREE ISLAND STEEL
LTD.

Board of Directors:

Amar S. Doman –
Chairman of the Board

Dale R. MacLean

Peter Bull

Harry Rosenfeld

Michael Fitch

Sam Fleiser

Theodore A. Leja

Joe Downes

Leadership Team:

Dale R. MacLean
*President and Chief
Executive Officer*

Remy Stachowiak
Chief Operating Officer

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

James Miller
*Vice President, Corporate
Development and
Procurement*

Shares:

Market Information

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

Registrar and Transfer Agent

Computershare Investor
Services Inc.

Corporate Head Office:

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

Website:

www.treeisland.com

Investor Relations:

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

Auditors:

Ernst & Young LLP
Vancouver, B.C.

