



WIRE & WIRE PRODUCTS

ESTABLISHED IN 1964



Management's Discussion and Analysis

September 30, 2022

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

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

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

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Vineyard Wire

TO OUR SHAREHOLDERS

Letter to Shareholders

In the third quarter of 2022, we experienced increased volume over the prior year's third quarter in the Canadian market, notably in the agricultural and commercial construction market segments, supporting fencing, agricultural wire and welded wire reinforcement product demand. However, demand slowed in the U.S. market in the quarter, with residential, commercial construction and industrial customers reducing purchasing volume in volatile economic conditions.

With the near term economic uncertainty, we remain cautious in our outlook for steel wire and wire products, requiring ongoing diligent management of raw materials, finished goods inventory and overall financial position.

Since our origin in 1964, we remain passionate regarding the Tree Island Steel brand as a North American leader in the supply of premium quality products. Our presence in Agricultural, Residential and Commercial Construction, as well as Industrial market segments speaks not only to the breadth of our access, but to the continued engagement and support of our customers, staff and stakeholders.

Sincerely,

Remy Stachowiak
President and COO, Tree Island Steel

MANAGEMENT DISCUSSION AND ANALYSIS

September 30, 2022

The following is a discussion of the financial condition and results of operations of Tree Island Steel ("Tree Island" or the "Company") and its wholly owned operating subsidiary Tree Island Industries (together with Tree Island Steel, referred to as "Tree Island"). This discussion is current to November 10, 2022 and should be read in conjunction with the unaudited interim condensed consolidated financial statements for the nine months ended September 30, 2022. Tree Island Steel's unaudited interim condensed consolidated financial statements are prepared in accordance with International Financial Reporting Standards ("IFRS") 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, 2021, 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, 2021.

The forward-looking statements contained herein reflect management's current beliefs and are based upon certain assumptions that management believes to be reasonable based on the information currently available to management. By their very nature, forward-looking statements involve inherent risks and uncertainties, both general and specific, and a number of factors could cause actual events or results to differ materially from the results discussed in the forward-looking statements. In evaluating these statements, prospective investors should specifically consider various factors including the risks outlined in the Company's most recent annual information form and management discussion and analysis 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 impact of COVID-19 on the Company, its customers and vendors, 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 and availability, 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, relocation of the Etiwanda operations, management of growth, changes in tax, environmental and other legislation, and other risks and uncertainties set forth in our publicly filed materials.

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

2 NON-IFRS MEASURES

References in this MD&A to “EBITDA” are to provide an adjusted EBITDA that we define as operating income adjusted by adding back total depreciation and foreign exchange gains or losses. EBITDA is not a measure recognized by IFRS and does not have a standardized meaning prescribed by IFRS. We believe that providing an EBITDA is an important supplemental measure for evaluating our performance. You are cautioned that our definition of 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 definition of EBITDA may not be comparable to similar measures presented by other issuers.

3 TREE ISLAND STEEL

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

There were 28,341,364 Shares outstanding as of September 30, 2022 and 28,308,269 Shares outstanding as of November 10, 2022.

On November 10, 2022 the Board of Directors declared a quarterly dividend of \$0.03 per Share and an additional \$0.02 per Share as a special dividend on the issued and outstanding Shares of the Company, payable on January 16, 2022 to holders of record at the close of business on December 31, 2022.

3.1 ORGANIZATIONAL STRUCTURE

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

3.2 PRODUCTS

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

We market our products under the following brands:



We offer consistent, high quality wire and wire products which meet or exceed customers' needs, ASTM standards and applicable codes, as well as a 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.

3.3 MARKETS

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

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

4 2022 BUSINESS OVERVIEW AND DEVELOPMENT

4.1 BUSINESS OVERVIEW

For the three months ended September 30, 2022, revenues decreased by \$4.4 million to \$80.2 million with lower U.S. demand, particularly in the construction and industrial market segments. The decrease in demand experienced during the quarter resulted in a gross profit of \$14.6 million during the period, from \$21.8 million in 2021. The decreased gross profit resulted in a net income for the third quarter of \$8.0 million, compared to \$13.4 million during the same period in 2021. The decrease in net income in the third quarter of 2022 is a result of the decreased gross profit.

For the nine months ended September 30, 2022, revenues increased by \$45.4 million to \$271.3 million when compared to 2021. The increase is primarily due to prior price increases across all our market segments. The increased pricing experienced during the period, along with ongoing cost and inventory management, resulted in a gross profit of \$57.0 million during the period, from \$51.3 million in 2021. The increased gross profit resulted in a net income for the first nine months of \$33.9 million, compared to \$28.9 million during the same period in 2021. The increase in net income in the first three quarters of 2022 is a result of the improved gross profit.

During the three months ending September 30, 2022 certain term debt was early settled, in the amount of \$5.8 million. Subsequent to the period end, the remaining outstanding balance of \$5.7 million on the Senior Term Loan was paid in full.

The Company has renewed its normal course issuer bid, effective November 9, 2022 to November 8, 2023. The renewed bid allows the Company to purchase up to 1,410,000 Shares over the term.

5 SUMMARY FINANCIAL INFORMATION

| (\$'000 unless otherwise stated) | Three Months Ended | | Nine Months Ended | |
|--|--------------------|----------|-------------------|-----------|
| | September 30, | | September 30, | |
| Results from Operations: | 2022 | 2021 | 2022 | 2021 |
| Revenue | 80,202 | 84,642 | 271,318 | 225,894 |
| Cost of sales | (64,322) | (61,326) | (210,292) | (170,187) |
| Depreciation | (1,289) | (1,478) | (4,010) | (4,403) |
| Gross profit | 14,591 | 21,838 | 57,016 | 51,304 |
| Selling, general and administrative expenses | (3,674) | (3,734) | (10,731) | (10,534) |
| Operating income | 10,917 | 18,104 | 46,285 | 40,770 |
| Foreign exchange gain (loss) | (2) | 445 | (40) | 233 |
| Other expenses | (126) | - | (156) | (3) |
| Financing expenses | (629) | (663) | (1,783) | (1,853) |
| Income before income taxes | 10,160 | 17,886 | 44,306 | 39,147 |
| Income tax expense | (2,147) | (4,488) | (10,445) | (10,217) |
| Net income | 8,013 | 13,398 | 33,861 | 28,930 |
| Net income per share | 0.28 | 0.47 | 1.19 | 1.02 |

| Financial position as of: | September 30, 2022 | December 31, 2021 |
|---|--------------------|-------------------|
| Total assets | 194,004 | 225,806 |
| Total non-current financial liabilities | 37,009 | 38,907 |

| Adjusted EBITDA: | Three Months Ended | | Nine Months Ended | |
|------------------------------|--------------------|--------|-------------------|--------|
| | September 30, | | September 30, | |
| | 2022 | 2021 | 2022 | 2021 |
| Operating income | 10,917 | 18,104 | 46,285 | 40,770 |
| Add back depreciation | 1,289 | 1,478 | 4,010 | 4,403 |
| Foreign exchange gain (loss) | (2) | 445 | (40) | 233 |
| Adjusted EBITDA | 12,204 | 20,027 | 50,255 | 45,406 |

6 COMPARISON OF RESULTS FOR THE THREE MONTHS ENDED SEPTEMBER 30, 2022 AND 2021

| | | | | |
|---|-------------|-------------|-----------------------------|--------|
| <i>(\$'000 unless otherwise stated)</i> | 2022 | 2021 | Variance Fav/(Unfav) | |
| REVENUE | 80,202 | 84,642 | (4,440) | (5.2%) |

The decrease in revenue over the comparative period by 5.2% is primarily due to a reduction in sales volume, which was partially offset by higher selling prices.

Revenue by Market Segment

| | Three Months Ended September 30, | | | | | |
|--------------|----------------------------------|---------------|---------------|---------------|----------------|--------------|
| | 2022 | | 2021 | | Variance | |
| | Revenue | % of Total | Revenue | % of Total | Amount | % |
| Industrial | 26,756 | 33.4% | 35,374 | 41.9% | (8,618) | (24.4%) |
| Commercial | 23,815 | 29.6% | 21,859 | 25.8% | 1,956 | 8.9% |
| Agricultural | 9,363 | 11.7% | 6,719 | 7.9% | 2,644 | 39.4% |
| Residential | 20,268 | 25.3% | 20,690 | 24.4% | (422) | (2.0%) |
| Total | 80,202 | 100.0% | 84,642 | 100.0% | (4,440) | -5.2% |

Overall revenues decreased over the comparative period, as a result of sales volume reduction in the current quarter, particularly in the construction and industrial segments.

Revenue by Location

| | Three Months Ended September 30, | | | | | |
|---------------|----------------------------------|---------------|---------------|---------------|----------------|--------------|
| | 2022 | | 2021 | | Variance | |
| | Revenue | % of Total | Revenue | % of Total | Amount | % |
| United States | 51,833 | 64.6% | 60,011 | 70.9% | (8,178) | (13.6%) |
| Canada | 27,820 | 34.7% | 22,889 | 27.0% | 4,931 | 21.5% |
| International | 549 | 0.7% | 1,742 | 2.1% | (1,193) | (68.5%) |
| Total | 80,202 | 100.0% | 84,642 | 100.0% | (4,440) | -5.2% |

Average C\$/U.S.\$ 1.31 1.26

| | | | | |
|---|-------------|-------------|-----------------------------|--------|
| <i>(\$'000 unless otherwise stated)</i> | 2022 | 2021 | Variance Fav/(Unfav) | |
| COST OF SALES | 64,322 | 61,326 | (2,996) | (4.9%) |

The cost of goods sold increased when compared to the comparative period, primarily due to higher raw materials and other conversion costs.

| | | | | |
|---|-------------|-------------|-----------------------------|---------|
| <i>(\$'000 unless otherwise stated)</i> | 2022 | 2021 | Variance Fav/(Unfav) | |
| GROSS PROFIT | 14,591 | 21,838 | (7,247) | (33.2%) |

Gross profit decreased to \$14.6 million, from \$21.8 million. The decreased gross profit for the period is primarily the result of lower volumes.

| | | | | |
|---|-------------|-------------|-----------------------------|------|
| <i>(\$'000 unless otherwise stated)</i> | 2022 | 2021 | Variance Fav/(Unfav) | |
| SG&A | 3,674 | 3,734 | 60 | 1.6% |

SG&A expenses are in line with the comparative period.

| | | | | |
|---|-------------|-------------|-----------------------------|------|
| <i>(\$'000 unless otherwise stated)</i> | 2022 | 2021 | Variance Fav/(Unfav) | |
| FINANCING EXPENSES | 629 | 663 | 34 | 5.1% |

Financing costs are overall in line with the comparative period, even though the period saw an increase in interest rates.

Financing Expenses

| | Three Months Ended September 30, | | | |
|------------------------------------|----------------------------------|------------|----------------------|-------------|
| | | | Variance Fav/(Unfav) | |
| | 2022 | 2021 | Amount | % |
| Interest on senior credit facility | 72 | 111 | 39 | 35.1% |
| Interest on senior term facility | 119 | 69 | (50) | (72.5%) |
| Interest on lease liability | 255 | 305 | 50 | 16.4% |
| Other interest and financing costs | 175 | 175 | - | 0.0% |
| Deferred financing costs | 8 | 3 | (5) | (166.7%) |
| Total financing expenses | 629 | 663 | 34 | 5.1% |

| | | | | |
|---|-------------|-------------|-----------------------------|----------|
| <i>(\$'000 unless otherwise stated)</i> | 2022 | 2021 | Variance Fav/(Unfav) | |
| FOREIGN EXCHANGE GAIN (LOSS) | (2) | 445 | (447) | (100.4%) |

Our Canadian operation, whose functional currency is the Canadian dollar, has a portion of its assets, liabilities, sales and expenses denominated in currencies other than the Canadian dollar, in particular the U.S. dollar. With raw material costs being denominated in U.S. dollars, having a significant portion of our sales also being denominated in U.S. dollars creates a natural partial hedge. Foreign currency forward contracts are used to manage a portion of the remaining currency risk. Foreign exchange gains and losses are unpredictable in nature and therefore can vary significantly over time. As at September 30, 2022, the Company did not have any U.S. dollar currency forward contracts outstanding.

| | | | | |
|---|-------------|-------------|-----------------------------|-------|
| <i>(\$'000 unless otherwise stated)</i> | 2022 | 2021 | Variance Fav/(Unfav) | |
| INCOME TAX | 2,147 | 4,488 | 2,341 | 52.2% |

The income tax expense for 2022 has decreased due to lower taxable income this year. Income tax expense is based on a statutory rate of 27.0% for Canadian taxable income and 29.8% for U.S. based taxable income applied to the income of the respective subsidiaries before taxes, with adjustments for permanent differences between accounting and taxable income.

| | | | | |
|---|-------------|-------------|-----------------------------|---------|
| <i>(\$'000 unless otherwise stated)</i> | 2022 | 2021 | Variance Fav/(Unfav) | |
| NET INCOME | 8,013 | 13,398 | (5,385) | (40.2%) |

The net income decrease over the comparative period is attributable to lower volumes and gross profits.

7 COMPARISON OF RESULTS FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2022 AND 2021

| <i>(\$'000 unless otherwise stated)</i> | 2022 | 2021 | Variance Fav/(Unfav) | |
|---|-------------|-------------|-----------------------------|-------|
| REVENUE | 271,318 | 225,894 | 45,424 | 20.1% |

The increase in revenue over the comparative period by 20.1% is primarily due to higher selling prices, from passing through increased raw materials and other operating costs.

Revenue by Market Segment

| | Nine Months Ended September 30, | | | | | |
|--------------|---------------------------------|---------------|----------------|---------------|---------------|--------------|
| | 2022 | | 2021 | | Variance | |
| | Revenue | % of Total | Revenue | % of Total | Amount | % |
| Industrial | 93,837 | 34.6% | 84,095 | 37.2% | 9,742 | 11.6% |
| Commercial | 80,183 | 29.6% | 51,790 | 22.9% | 28,393 | 54.8% |
| Agricultural | 35,085 | 12.9% | 32,206 | 14.3% | 2,879 | 8.9% |
| Residential | 62,213 | 22.9% | 57,803 | 25.6% | 4,410 | 7.6% |
| Total | 271,318 | 100.0% | 225,894 | 100.0% | 45,424 | 20.1% |

Overall revenues increased over the comparative period, as a result of increased selling prices during the period, which was partially offset by a decrease in sales volumes in Industrial, Agricultural and Residential Construction segments.

Revenue by Location

| | Nine Months Ended September 30, | | | | | |
|---------------|---------------------------------|---------------|----------------|---------------|---------------|--------------|
| | 2022 | | 2021 | | Variance | |
| | Revenue | % of Total | Revenue | % of Total | Amount | % |
| United States | 173,870 | 64.1% | 152,618 | 67.6% | 21,252 | 13.9% |
| Canada | 92,590 | 34.1% | 68,502 | 30.3% | 24,088 | 35.2% |
| International | 4,858 | 1.8% | 4,774 | 2.1% | 84 | 1.8% |
| Total | 271,318 | 100.0% | 225,894 | 100.0% | 45,424 | 20.1% |

Average C\$/U.S.\$ 1.28 1.25

| <i>(\$'000 unless otherwise stated)</i> | 2022 | 2021 | Variance Fav/(Unfav) | |
|---|-------------|-------------|-----------------------------|---------|
| COST OF SALES | 210,292 | 170,187 | (40,105) | (23.6%) |

The cost of goods sold increased when compared to the comparative period, primarily due to higher raw materials and other conversion costs.

| <i>(\$'000 unless otherwise stated)</i> | 2022 | 2021 | Variance Fav/(Unfav) | |
|---|-------------|-------------|-----------------------------|-------|
| GROSS PROFIT | 57,016 | 51,304 | 5,712 | 11.1% |

Gross profit increased to \$57.0 million, from \$51.3 million. The increased gross profit for the period is primarily the result of higher sell prices combined with ongoing cost and inventory management.

| | | | | |
|---|-------------|-------------|-----------------------------|--------|
| <i>(\$'000 unless otherwise stated)</i> | 2022 | 2021 | Variance Fav/(Unfav) | |
| SG&A | 10,731 | 10,534 | (197) | (1.9%) |

SG&A expenses are in line when compared to prior period.

| | | | | |
|---|-------------|-------------|-----------------------------|------|
| <i>(\$'000 unless otherwise stated)</i> | 2022 | 2021 | Variance Fav/(Unfav) | |
| FINANCING EXPENSES | 1,783 | 1,853 | 70 | 3.8% |

Financing costs are in line with the comparative period.

Financing Expenses

| | Nine Months Ended September 30, | | | |
|------------------------------------|---------------------------------|--------------|----------------------|-------------|
| | 2022 | 2021 | Variance Fav/(Unfav) | |
| | | | Amount | % |
| Interest on senior credit facility | 206 | 346 | 140 | 40.5% |
| Interest on senior term facility | 284 | 212 | (72) | (34.0%) |
| Interest on lease liability | 760 | 918 | 158 | 17.2% |
| Other interest and financing costs | 513 | 368 | (145) | (39.4%) |
| Deferred financing costs | 20 | 9 | (11) | (122.2%) |
| Total financing expenses | 1,783 | 1,853 | 70 | 3.8% |

| | | | | |
|---|-------------|-------------|-----------------------------|----------|
| <i>(\$'000 unless otherwise stated)</i> | 2022 | 2021 | Variance Fav/(Unfav) | |
| FOREIGN EXCHANGE LOSS | 40 | (233) | (273) | (117.2%) |

Our Canadian operation, whose functional currency is the Canadian dollar, has a portion of its assets, liabilities, sales and expenses denominated in currencies other than the Canadian dollar, in particular the U.S. dollar. With raw material costs being denominated in U.S. dollars, having a significant portion of our sales also being denominated in U.S. dollars creates a natural partial hedge. Foreign currency forward contracts are used to manage a portion of the remaining currency risk. Foreign exchange gains and losses are unpredictable in nature and therefore can vary significantly over time. As at September 30, 2022, the Company did not have any U.S. dollar currency forward contracts outstanding.

| | | | | |
|---|-------------|-------------|-----------------------------|--------|
| <i>(\$'000 unless otherwise stated)</i> | 2022 | 2021 | Variance Fav/(Unfav) | |
| INCOME TAX | 10,445 | 10,217 | (228) | (2.2%) |

The income tax expense for 2022 has increased due to higher taxable income this year. Income tax expense is based on a statutory rate of 27.0% for Canadian taxable income and 29.8% for U.S. based taxable income applied to the income of the respective subsidiaries before taxes, with adjustments for permanent differences between accounting and taxable income.

| | | | | |
|---|-------------|-------------|-----------------------------|-------|
| <i>(\$'000 unless otherwise stated)</i> | 2022 | 2021 | Variance Fav/(Unfav) | |
| NET INCOME | 33,861 | 28,930 | 4,931 | 17.0% |

The net income increase over the comparative period is attributable to higher gross profits.

8 FINANCIAL CONDITION AND LIQUIDITY

8.1 WORKING CAPITAL

A summary of the composition of our working capital as at September 30, 2022 compared to 2021 is provided below:

| (\$'000 unless otherwise stated) | As at September 30, | |
|--|---------------------|-----------------|
| | 2022 | 2021 |
| Cash | 2,951 | 2,640 |
| Accounts receivable | 42,732 | 43,503 |
| Inventories | 72,516 | 71,481 |
| Other current assets | 6,191 | 5,071 |
| | <u>124,390</u> | <u>122,695</u> |
| Accounts payable and accrued liabilities | (13,897) | (34,767) |
| Dividends payable | (1,417) | (2,275) |
| Other current liabilities | (1,852) | (7,441) |
| | <u>(17,166)</u> | <u>(44,483)</u> |
| Net balance | <u>107,224</u> | <u>78,212</u> |

We define working capital as current assets less current liabilities. Current assets include cash, accounts receivable, inventories and other current assets. Current liabilities includes accounts payable and accrued liabilities, dividends payable and other current liabilities and excludes income taxes payable and current portions of long-term borrowings and ROU lease liabilities.

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

Our investment in working capital fluctuates from quarter-to-quarter, based on factors such as seasonal sales demand, strategic purchasing decisions taken by management, and the timing of collections from customers and payments made to our suppliers. Sales and working capital requirements may be higher during seasonal peaks.

Accounts receivable as at September 30, 2022 were lower than the same period last year, reflecting the decrease in revenue in Q3 2022 compared to the same quarter last year.

Inventories levels were higher as at September 30, 2022, when compared to the same period in 2021, as a result of higher raw material costs incurred during the period, which were offset by lower inventory quantities held at period end.

Accounts payable were lower as at September 30, 2022, compared to the same period in 2021 as a result of a difference in timing for payments to our raw material suppliers.

Other current liabilities as at September 30, 2022 were lower than the same period last year primarily as a result of lower taxes payable, due to the timing of the tax installment payments during the period.

Our objective for managing the investment in working capital is to maximize the turnover of productive current assets, being accounts receivable and inventories. We work with our key vendors to use vendor credit when available on advantageous terms.

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

We manage our accounts receivable and the related credit risk by focusing on the credit worthiness of customers, by assigning 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, and appropriate precautions are taken to improve collectability or limit increasing credit exposure. We maintain provisions for potential credit losses (allowance for doubtful accounts) and such losses to date have been within our expectations.

8.2 CASH FLOW

Summary Cash Flow

| | Three months ended | | Nine months ended | |
|--|--------------------|----------|-------------------|----------|
| | September 30, | | September 30, | |
| | 2022 | 2021 | 2022 | 2021 |
| <i>(\$'000 unless otherwise stated)</i> | | | | |
| Cash provided by operating activities before working capital adjustments | 11,864 | 16,400 | 41,922 | 35,192 |
| Working capital adjustments | (1,540) | (1,456) | (28,969) | (22,384) |
| Net cash provided by operating activities | 10,324 | 14,944 | 12,953 | 12,808 |
| Net cash used in investing activities | (102) | (179) | (1,014) | (734) |
| Repayment of senior term loans | (6,537) | (703) | (7,948) | (2,104) |
| Lease interest paid | (255) | (305) | (760) | (919) |
| Lease principal payments | (1,078) | (397) | (2,672) | (1,183) |
| Other interest paid | (358) | (356) | (901) | (923) |
| (Payment) Advance on senior revolving facility | (609) | (12,428) | 8,935 | (3,074) |
| Dividend paid | (1,421) | (852) | (38,670) | (2,277) |
| Share buyback | (311) | (32) | (345) | (200) |
| Net cash used in financing activities | (10,569) | (15,073) | (42,361) | (10,680) |
| Exchange rate impact on foreign cash balances | 113 | 19 | 122 | 1 |
| Increase (decrease) in cash balances | (234) | (289) | (30,300) | 1,395 |

For the third quarter of 2022, net cash from operating activities has decreased compared to prior year, as a result of decreased income. The net cash used in investing activities was the result of maintenance capital which is further described in Section 9. The net cash used by financing activities was mainly due to the payment of the Special Dividend in Q2, 2022 and the early repayment of certain term debt.

8.3 SENIOR CREDIT FACILITY

The Company's senior secured committed banking facility matures in July 2023. The facility enables the Company to borrow up to \$80.0 million in Canadian and/or U.S. funds. Interest payable on funds borrowed in Canadian and U.S. currency is at variable rates. For the revolving facility, up to \$60.0 million may be borrowed at any time in Canadian and/or U.S. dollars with the amount advanced under the revolving facility limited to a defined percentage of inventories, accounts receivable, machinery and equipment, and real estate, less certain reserves. In addition, up to \$20.0 million may be borrowed as term debt, in Canadian and/or U.S. dollars for financing existing machinery and equipment and future capital expenditures.

The 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 that a certain amount of credit availability be maintained. 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. The Company has begun the process of renewing the credit facilities.

As at September 30, 2022 the Company was in compliance with its covenants on the Senior Credit Facility.

9 CAPITAL EXPENDITURES AND CAPACITY

For the nine months ended September 30 2022, we made capital expenditures of \$1.0 million. These expenditures were for capital maintenance activities.

10 CONTRACTUAL OBLIGATIONS AND COMMITMENTS

As of September 30, 2022, we were committed to the contracts, operating leases and debt repayments (including scheduled interest payments on interest bearing debt) set out below, which will be financed through working capital and our Senior Credit Facility.

The production materials include raw materials, such as wire rod and zinc, and finished goods. These 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 Q4 2022.

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 disclosed as purchase commitments. As of September 30, 2022, the Company did not have any capital equipment commitments outstanding.

From time to time, the Company enters into U.S. dollar currency forward contracts for periods consistent with a portion of U.S. dollar currency transaction exposures, generally from one to three months. These are not designated as cash flow, fair value or net investment hedges. As of September 30, 2022, the Company did not have any U.S. dollar currency forward contracts outstanding.

Contractual Obligations and Commitments

| <i>(\$'000 unless otherwise stated)</i> | <u>2022</u> | <u>2023</u> | <u>2024</u> | <u>2025</u> | <u>2026</u> | <u>Thereafter</u> | <u>Total</u> |
|--|---------------|---------------|--------------|--------------|--------------|-------------------|---------------|
| Production materials | 20,213 | - | - | - | - | - | 20,213 |
| AP and accrued liabilities | 13,897 | - | - | - | - | - | 13,897 |
| Other current liabilities | 87 | - | - | - | - | - | 87 |
| Dividends | 1,417 | - | - | - | - | - | 1,417 |
| Lease liabilities | 1,384 | 5,003 | 1,624 | 1,604 | 1,631 | 30,606 | 41,852 |
| Senior revolving facility | - | 8,935 | - | - | - | - | 8,935 |
| Senior term loans (principal) | 5,733 | - | - | - | - | - | 5,733 |
| Senior term loans (interest) | 121 | - | - | - | - | - | 121 |
| Total obligations and commitments | 42,852 | 13,938 | 1,624 | 1,604 | 1,631 | 30,606 | 92,255 |

11 SUMMARY OF QUARTERLY FINANCIAL RESULTS

The table below provides selected quarterly financial information for the eight most recent fiscal quarters to September 30, 2022. Sales volumes in the fourth quarter of the year are traditionally lower in the year due to the seasonality of our business. Quarter-over-quarter results may also be impacted by unusual or infrequently occurring items.

Summary of Quarterly Financial Results

| | Sep 30, | Jun 30, | Mar 31, | Dec 31, | Sep 30, | Jun 30, | Mar 31, | Dec 31, |
|---|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|
| | <u>2022</u> | <u>2022</u> | <u>2022</u> | <u>2021</u> | <u>2021</u> | <u>2021</u> | <u>2021</u> | <u>2020</u> |
| <i>(\$'000 unless otherwise stated)</i> | | | | | | | | |
| Revenue | 80,202 | 98,370 | 92,746 | 75,954 | 84,642 | 74,410 | 66,842 | 54,199 |
| Gross profit | 14,591 | 21,588 | 20,835 | 17,323 | 21,838 | 16,839 | 12,627 | 6,607 |
| Foreign exchange gain (loss) | (2) | 75 | (113) | (373) | 445 | (99) | (113) | (226) |
| Net income | 8,013 | 13,119 | 12,727 | 59,041 | 13,398 | 9,068 | 6,464 | 1,682 |
| Net income per unit - basic | 0.28 | 0.46 | 0.45 | 2.08 | 0.47 | 0.32 | 0.22 | 0.06 |

Commentary:

- In Q3 and Q4 2021 demand continued to remain strong across our geographic regions, with increased pricing and ongoing cost discipline supporting improved results.
- In Q4 2021 we recognised a gain before tax on the sale of the Etiwanda property of \$63.2 million which further increased the net income generated by operations.
- During Q1 and Q2 2022, increased pricing offset increased raw material costs which resulted in improved gross profits.
- During Q3 2022, slower demand resulted in decreased gross profits. The decrease was partially offset by higher prices in the period.

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, 2021 Consolidated Financial Statements and in the Annual Information Form for the year ended December 31, 2021.

12.1 CRITICAL ACCOUNTING ESTIMATES

The areas that we considered to have critical accounting estimates are: inventory valuation, allowance for doubtful accounts, property, plant and equipment, lease discount rates applied and useful life. These critical estimates and the judgments involved are discussed further in Note 3 to the Consolidated Financial Statements for December 31, 2021.

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 10, 2022, Futura owns 34.6% of the fully diluted Shares of the Company.

In addition, Mr. Doman is Chairman and CEO of Doman Building Materials Group Ltd. ("DBM"). For the three and nine months ended September 30, 2022, Tree Island sold, net of rebates, approximately \$0.6 million and \$2.3 million (\$0.9 million and \$2.8 million in 2021) of goods to DBM and trade accounts receivable owing from DBM as at September 30, 2022 is approximately \$0.1 million (approximately \$0.5 million in 2021). Outstanding trade accounts receivable from DBM 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, 2022 were approximately \$0.4 million and \$1.1 million (\$0.6 million and \$1.4 million approximately in 2021) which includes wages, salaries and retirement contributions, paid annual and sick leave, vehicle costs and also includes directors' fees paid to members of the Board.

14 RISKS AND UNCERTAINTIES

Investment in Tree Island Steel is subject to a number of risks. Our income is dependent upon the wire products business, which is susceptible to a number of risks. Risks pertaining to current economic conditions are discussed in the section above under the heading “2021 Business Overview and Development”. A detailed discussion of our significant business risks is provided in the 2021 Annual Information Form under the heading “Risk Factors” which can be found at www.sedar.com.

15 LITIGATIONS AND CLAIMS

From time to time Tree Island is party to certain legal actions, claims and tax audits. In the period there are no known claims which individually, or in the aggregate, are expected to have a material adverse effect on its financial position, consolidated statement of operations or cash flows. As more information becomes known with respect to any claims, actions or tax audits, the Company then establishes provisions in the period.

16 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 President and Chief Operating Officer, in the capacity of 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 three months ended September 30, 2022. These executives also certified that they are responsible for the design and effectiveness 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, 2022, 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, 2022 unaudited condensed consolidated financial statements and this MD&A prior to its release.

SHAREHOLDER INFORMATION

TREE ISLAND STEEL

Board of Directors:

Amar S. Doman –
Executive Chairman of
the Board

Peter Bull

Harry Rosenfeld

Sam Fleiser

Theodore A. Leja

Joe Downes

Executive Officers:

Remy Stachowiak
*President,
Chief Operating Officer*

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

Shares:

Market Information

Tree Island Steel 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
amahdavi@treeisland.com

Auditors:

KPMG LLP Vancouver, B.C.

