



WIRE & WIRE PRODUCTS

ESTABLISHED IN 1964



Consolidated Financial Statements

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

INTERIM UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

September 30, 2022 and 2021

NOTICE OF NO AUDITOR REVIEW OF INTERIM FINANCIAL STATEMENTS

Under National Instrument 51-102 “Continuous Disclosure Obligation”, 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 have been prepared by and are the responsibility of Tree Island Steel’s management.

Tree Island Steel’s independent auditor, KPMG 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 10, 2022

INTERIM UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
September 30, 2022 and 2021

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

(\$'000 unless otherwise stated)

	<i>Notes</i>	As at September 30, 2022	As at December 31, 2021
Cash		2,951	33,251
Accounts receivable	5, 12.1	42,732	38,054
Inventory	6	72,516	77,512
Prepaid expenses		6,191	6,785
Current assets		124,390	155,602
Property, plant and equipment	7	48,305	49,042
Right of use assets	8.1	20,000	19,886
Other non-current assets		1,309	1,276
Total assets		194,004	225,806
Accounts payable and accrued liabilities		13,897	27,278
Income taxes payable		1,765	18,305
Other current liabilities		87	55
Dividends payable		1,417	2,275
Current portion of long-term borrowing	9.2	5,733	2,819
Current portion of ROU lease liabilities	8.2	3,241	3,546
Current liabilities		26,140	54,278
Senior revolving facility	9.1	8,935	-
Senior term loans	9.2	-	10,363
ROU Lease liabilities	8	24,028	24,289
Other non-current liabilities		567	517
Deferred Income tax liabilities		3,479	3,738
Total liabilities		63,149	93,185
Shareholders' equity		130,855	132,621
Total liabilities and shareholders' equity		194,004	225,806

See accompanying Notes to the Interim Unaudited Condensed Consolidated Financial Statements

Approved on behalf of Tree Island Steel.

[Signed]

"Amar S. Doman"

Executive Chairman of the Board of Directors

INTERIM UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
September 30, 2022 and 2021

CONSOLIDATED STATEMENTS OF OPERATIONS

(\$'000 unless otherwise stated)	Notes	Three Months Ended September 30,		Nine Months Ended September 30,	
		2022	2021	2022	2021
Revenue	5, 12.1, 19.1	80,202	84,642	271,318	225,894
Cost of sales	6	(64,322)	(61,326)	(210,292)	(170,187)
Depreciation	7, 8.1	(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	10	(629)	(663)	(1,783)	(1,853)
Income before income taxes		10,160	17,886	44,306	39,147
Income tax expense	13.1	(2,147)	(4,488)	(10,445)	(10,217)
Net income		8,013	13,398	33,861	28,930
Net income per share	17	0.28	0.47	1.19	1.02
Weighted average number of shares	17	28,398,732	28,436,719	28,421,879	28,459,988

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(\$'000 unless otherwise stated)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2022	2021	2022	2021
Net income for the year	8,013	13,398	33,861	28,930
Unrealized gain on foreign exchange translation	2,065	(162)	2,530	1
Comprehensive income	10,078	13,236	36,391	28,931

See accompanying Notes to the Interim Unaudited Condensed Consolidated Financial Statements

INTERIM UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

September 30, 2022 and 2021

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

<i>(\$'000 unless otherwise stated)</i>	Shareholders' Capital <i>Note 11</i>	Retained Earnings	Accumulated Other Comprehensive Loss	Total
Balance as at December 31, 2021	223,163	(88,012)	(2,530)	132,621
Repurchase of shares	-	-	-	-
Net Income	-	12,727	-	12,727
Dividends	-	(34,974)	-	(34,974)
Other comprehensive loss	-	-	(409)	(409)
Balance as at March 31, 2022	223,163	(110,259)	(2,939)	109,965
Repurchase of shares	(34)	-	-	(34)
Net Income	-	13,121	-	13,121
Dividends	-	(1,421)	-	(1,421)
Other comprehensive income	-	-	874	874
Balance as at June 30, 2022	223,129	(98,559)	(2,065)	122,505
Repurchase of shares	(311)	-	-	(311)
Net Income	-	8,013	-	8,013
Dividends	-	(1,417)	-	(1,417)
Other comprehensive income	-	-	2,065	2,065
Balance as at September 30, 2022	222,818	(91,963)	-	130,855
Balance as at December 31, 2020	223,363	(169,726)	(2,568)	51,069
Repurchase of shares	(139)	-	-	(139)
Net Income	-	6,464	-	6,464
Dividends	-	(854)	-	(854)
Other comprehensive income	-	-	8	8
Balance as at March 31, 2021	223,224	(164,116)	(2,560)	56,548
Repurchase of shares	(29)	-	-	(29)
Net Income	-	9,068	-	9,068
Dividends	-	(853)	-	(853)
Other comprehensive income	-	-	155	155
Balance as at June 30, 2021	223,195	(155,901)	(2,405)	64,889
Repurchase of shares	(32)	-	-	(32)
Net Income	-	13,398	-	13,398
Dividends	-	(2,275)	-	(2,275)
Other comprehensive income	-	-	(162)	(162)
Balance as at September 30, 2021	223,163	(144,778)	(2,567)	75,818

See accompanying Notes to the Interim Unaudited Condensed Consolidated Financial Statements

INTERIM UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
September 30, 2022 and 2021

CONSOLIDATED STATEMENTS OF CASH FLOWS

(\$'000 unless otherwise stated)	Notes	Three Months Ended		Nine Months Ended	
		September 30,		September 30,	
		2022	2021	2022	2021
Net income		8,013	13,398	33,861	28,930
Depreciation		1,289	1,478	4,010	4,403
Unrealized foreign exchange loss on revaluation of lease liability		1,605	628	2,028	20
Net financing costs		629	663	1,783	1,853
Deferred income tax expense		(60)	-	(259)	(2)
Exchange revaluation of foreign denominated debt	9	388	233	499	(12)
Working capital adjustments					
Accounts receivable		9,069	(7,463)	(4,678)	(18,684)
Inventories		(6,521)	(12,791)	4,996	(24,673)
Accounts payable and accrued liabilities		(2,846)	14,657	(13,396)	17,025
Prepaid expenses		(20)	1,175	564	(1,919)
Income and other taxes		(1,344)	2,952	(16,541)	5,984
Other		122	14	86	(117)
Net cash provided by operating activities		10,324	14,944	12,953	12,808
Purchase of property, plant and equipment		(102)	(179)	(1,014)	(734)
Net cash used in investing activities		(102)	(179)	(1,014)	(734)
Term loans - repayment, net	9.2	(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)
Advance on (repayment of) senior revolving facility		(609)	(12,428)	8,935	(3,074)
Dividend paid		(1,421)	(852)	(38,670)	(2,277)
Repurchase of common shares		(311)	(32)	(345)	(200)
Net cash used in financing activities		(10,569)	(15,073)	(42,361)	(10,680)
Effect of exchange rate change on cash		113	19	122	1
Increase (decrease) in cash		(234)	(289)	(30,300)	1,395
Cash - beginning of period		3,185	2,929	33,251	1,245
Cash - end of period		2,951	2,640	2,951	2,640

See accompanying Notes to the Interim Unaudited Condensed Consolidated Financial Statements

1 NATURE OF BUSINESS

These interim unaudited condensed consolidated financial statements of Tree Island Steel ("Tree Island" or the "Company") for the nine months ended September 30, 2022 and 2021 were authorized for issue in accordance with a resolution of the Board of Directors on November 10, 2022.

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 ("TI Canada") (collectively "Tree Island"). TI Canada supplies a diverse range of steel wire and fabricated steel wire products to customers in Canada, the United States, and internationally.

2 BASIS OF PREPARATION

2.1 BASIS OF PREPARATION

The interim unaudited condensed consolidated financial statements as at and for the nine months ended September 30, 2022 and 2021 have been prepared in accordance with the 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 13, 2021 and do not include all the information required for the full annual financial statements. Certain comparative information has been reclassified to conform to the presentation adopted during the period.

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

2.2 FUNCTIONAL CURRENCY AND PRESENTATION CURRENCY

The functional and presentation currency of the Company is the Canadian dollar. All amounts have been rounded to the nearest thousand, except as otherwise indicated. TI Canada's wholly-owned subsidiaries, TIWH and TI USA use the U.S. Dollar as their functional currency.

3 SIGNIFICANT ACCOUNTING POLICIES, CRITICAL ACCOUNTING JUDGMENTS AND ESTIMATES

The accounting policies, methods of application and critical judgements and estimates used in the preparation of these interim unaudited condensed consolidated financial statements are consistent with those disclosed in the annual consolidated financial statements as at December 31, 2021.

4 FUTURE IFRS STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE

Tree Island prepares its interim unaudited condensed consolidated financial statements in accordance with IFRS standards. At this time, new standards, interpretations or amendments to existing accounting standards are either not applicable or not expected to have a significant impact on Tree Island's unaudited condensed consolidated financial statements in the current year.

NOTES TO THE INTERIM UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

September 30, 2022 and 2021

5 REVENUE AND ACCOUNTS RECEIVABLE

Revenue is net of the cost of freight associated with those sales to customers where the Company arranges the freight. For the nine months ending September 30, 2022, freight cost amounts to \$17.3 million (\$13.4 million in 2021).

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

	As at September 30, 2022	As at December 31, 2021
Current	41,011	35,911
Over 30 days past due	2,213	2,629
Total accounts receivable	43,224	38,540
Allowance for doubtful accounts	(492)	(486)
Net accounts receivable	42,732	38,054

Accounts receivable are non-interest bearing and are generally due on 30-day to 90-day terms. The credit risk that Tree Island was exposed to by way of its accounts receivable is equal to the net amount of \$42.7 million as at September 30, 2022 (\$38.1 million as at December 31, 2021).

At the end of each reporting period a review of the allowance for bad and doubtful accounts is performed. It is an assessment of the expected credit loss associated with trade accounts receivable after the consolidated statement of financial position date. The assessment is made by reference to age, status and risk of each receivable, current economic conditions and historical information. The trade accounts receivable balance is reduced through the use of the allowance for doubtful accounts and the amount of the loss is recognized in the consolidated statement of operations. Reversals to the allowance for doubtful accounts occur when previously allowed for trade accounts receivable are collected. Individual trade accounts receivable, together with any associated allowance previously recognized, are written off when there is no realistic prospect of future recovery. Accounts receivable with related parties are discussed in Note 12.1.

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

	As at September 30, 2022	As at December 31, 2021
Opening balance - beginning of period	486	331
Additions during the period	-	232
Payments	-	(77)
Foreign exchange revaluation	6	-
Closing balance - end of period	492	486

See Note 15.1 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.

NOTES TO THE INTERIM UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

September 30, 2022 and 2021

6 INVENTORIES

Tree Island had the following categories of inventory:

	As at September 30, 2022	As at December 31, 2021
Raw materials	31,720	30,397
Finished and semi-finished products	25,394	33,006
Consumable supplies and spare parts	15,402	14,109
Total inventory	72,516	77,512

For the three and nine months ended September 30, 2022 and 2021, Tree Island recognized, in income, inventory costs for the following:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2022	2021	2022	2021
Opening inventory	65,995	58,690	77,512	46,808
Material purchases	55,730	59,911	159,192	151,667
Conversion costs	15,113	14,206	46,104	43,193
Closing inventory	(72,516)	(71,481)	(72,516)	(71,481)
Cost of sales	64,322	61,326	210,292	170,187

The reserves for slow moving inventory as at September 30, 2022 were \$1.5 million (\$1.7 million at December 31, 2021).

NOTES TO THE INTERIM UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

September 30, 2022 and 2021

7 PROPERTY, PLANT AND EQUIPMENT

The carrying value of property, plant and equipment 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 Cash Generating Unit level. Tree Island considers both qualitative and quantitative factors when determining whether an asset may be impaired, or when a reversal of impairment is required. Where the carrying value of the assets is not expected to be recoverable from future cash flows, they are written down to their recoverable amount. Tree Island has noted no indicators of impairment as at September 30, 2022.

From time to time the Company makes investments to update, replace or make additions to existing capital assets, which includes, but is not limited to, the buildings occupied and capital equipment. These investments are part of the normal course of business activity.

The net book value of the Company's property, plant and equipment is detailed below:

	Land & Improvement	Building & Improvement	Machinery & Equipment	Capital in Progress	Total
Cost					
As at December 31, 2020	9,748	46,960	43,029	744	100,481
Additions	5,625	5,816	1,142	(313)	12,270
Disposals	(2,026)	(5,693)	(309)	(19)	(8,047)
Foreign exchange translation	(9)	(41)	(61)	(1)	(112)
As at December 31, 2021	13,338	47,042	43,801	411	104,592
Additions	-	-	512	494	1,006
Foreign exchange translation	-	319	1,154	10	1,483
As at September 30, 2022	13,338	47,361	45,467	915	107,081
Depreciation and impairment					
As at December 31, 2020	70	36,194	21,150	-	57,414
Depreciation for the period	16	1,408	2,155	-	3,579
Disposals	-	(5,121)	(272)	-	(5,393)
Foreign exchange translation	(86)	68	(32)	-	(50)
As at December 31, 2021	-	32,549	23,001	-	55,550
Depreciation for the period	-	997	1,589	-	2,586
Foreign exchange translation	-	99	541	-	640
As at September 30, 2022	-	33,645	25,131	-	58,776
Net book value as at					
December 31, 2021	13,338	14,493	20,800	411	49,042
September 30, 2022	13,338	13,716	20,336	915	48,305

NOTES TO THE INTERIM UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

September 30, 2022 and 2021

8 LEASES

Below is a table of the carrying amounts of Tree Island's right-of-use assets and lease liabilities and the related movements during the period:

8.1 RIGHT OF USE ASSETS

	Land & buildings	Machinery & equipment	Total right-of-use assets
Cost			
As at December 31, 2020	31,475	2,197	33,672
Additions	157	336	493
Disposals	(7,099)	(273)	(7,372)
Foreign exchange translation	(99)	5	(94)
As at December 31, 2021	24,434	2,265	26,699
Additions	-	156	156
Disposals	(169)	(394)	(563)
Foreign exchange translation	1,885	55	1,940
As at Sep 30, 2022	26,150	2,082	28,232
Depreciation and impairment			
As at December 31, 2020	(6,653)	(1,037)	(7,690)
Additions	(1,850)	(414)	(2,264)
Disposals	2,887	251	3,138
Foreign exchange translation	6	(3)	3
As at December 31, 2021	(5,610)	(1,203)	(6,813)
Depreciation for period	(1,080)	(344)	(1,424)
Disposals	169	315	484
Foreign exchange translation	(442)	(37)	(479)
As at Sep 30, 2022	(6,963)	(1,269)	(8,232)
Carrying value as at:			
December 31, 2021	18,824	1,062	19,886
Sep 30, 2022	19,187	813	20,000

NOTES TO THE INTERIM UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
September 30, 2022 and 2021

8.2 LEASE LIABILITY

	Land & buildings	Machinery & equipment	Total lease liabilities
Lease liability			
As at December 31, 2020	28,975	1,173	30,148
New contracts and renewals	3,994	342	4,336
Contract disposal	(4,952)	(22)	(4,974)
Interest expense	1,160	39	1,199
Payment of lease liability	(2,327)	(445)	(2,772)
Foreign exchange translation	(99)	(3)	(102)
Lease liability as at December 31, 2021	26,751	1,084	27,835
New contracts and renewals	-	156	156
Contract disposal	-	(79)	(79)
Interest expense	737	23	760
Payment of lease liability	(3,067)	(365)	(3,432)
Foreign exchange translation	2,007	22	2,029
As at Sep 30, 2022	26,428	841	27,269
Less: current portion	(2,823)	(418)	(3,241)
Total as at September 30, 2022	23,605	423	24,028

9 SENIOR CREDIT FACILITY

The Company has a senior banking facility with Wells Fargo Capital Finance Corporation Canada (“Wells Fargo”). The five-year senior secured committed banking facility (the “Senior Credit Facility”) which matures in July 2023, may be used for Tree Island’s financing requirements in Canadian and/or U.S. dollars, and comprises of the following:

- \$60.0 million of Senior Revolving Credit facility; and
- \$20.0 million of Senior Term facility.

The Company has begun the process of renewing the credit facilities.

9.1 SENIOR REVOLVING CREDIT FACILITY

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 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 \$726 thousand Letter of Credit outstanding as at September 30, 2022.

The amount available under the revolving portion of the Senior Credit Facility is limited to the amount of the calculated borrowing base as prescribed in the Senior Credit Facility, less issued Letters of Credit.

Interest payable on funds borrowed in Canadian or U.S. currency is at variable rates.

NOTES TO THE INTERIM UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
September 30, 2022 and 2021

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

	As at September 30, 2022	As at December 31, 2021
Revolving portion of the senior credit facility	8,935	-
Deferred financing costs	(25)	(44)
Total	8,910	(44)

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

The Senior Credit Facility has financial tests and other covenants with which the Company and its subsidiaries must comply, 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, or make certain other payments, investments, loans and guarantees and to sell or otherwise dispose of assets and merge or consolidate with another entity.

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

9.2 SENIOR TERM FACILITY

Under the terms of the Senior Credit Facility, the Company has designated portions up to a total of \$20 million denominated in either Canadian or U.S. dollars.

The following amounts are outstanding under the Senior Term Facility:

	As at September 30, 2022	As at December 31, 2021
Senior term loans - beginning of period	13,182	16,040
Foreign exchange revaluation	499	(55)
Payments	(7,948)	(2,803)
Senior term loans - end of period	5,733	13,182
Less: current portion	(5,733)	(2,819)
Total	-	10,363

During the three months ending September 30, 2022 certain term debt was early settled, in the amount of \$5.9 million. Subsequent to the period end, the remaining outstanding balance of \$5.7 million on the Senior Term Loan was paid in full.

10 FINANCING EXPENSES

	<i>Notes</i>	Three Months Ended September 30,		Nine Months Ended September 30,	
		2022	2021	2022	2021
Interest on senior credit facility	9.1	72	111	206	346
Interest on senior term facility	9.2	119	69	284	212
Interest on lease liability		255	305	760	918
Other interest and financing costs		175	175	513	368
Amortization of deferred financing costs		8	3	20	9
Total		629	663	1,783	1,853

11 SHAREHOLDERS' CAPITAL

Tree Island is authorized to issue an unlimited number of common shares with no par value.

Shares issued and outstanding are as follows:

	Shares	Gross	Issuance Cost	Net
Shareholders' capital - December 31, 2020	28,503,514	234,763	11,400	223,363
Repurchase of common shares	(69,326)	(200)	-	(200)
Shareholders' capital - December 31, 2021	28,434,188	234,563	11,400	223,163
Repurchase of common shares	(92,824)	(345)	-	(345)
Shareholders' capital - September 30, 2022	28,341,364	234,218	11,400	222,818

11.1 NORMAL COURSE ISSUER BID

The Company has an ongoing normal course issuer bid (the "Bid"). The current Bid is effective November 9, 2021 to November 8, 2022. The Bid allows the Company to purchase up to 1,421,000 Shares over the term. Tree Island has no obligation to purchase any Shares under the Bid.

For the period January 1, 2022 to September 30, 2022 the Company canceled 92,824 Shares purchased under the Bid at a total cost of \$345 thousand (at an average price of \$3.72 per Share).

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.

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 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 (Note 5).

12.2 TRANSACTION 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.

13 INCOME TAXES

13.1 INCOME TAX EXPENSE

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2022	2021	2022	2021
Current tax expense	(2,207)	(4,488)	(10,704)	(10,219)
Deferred tax expense	60	-	259	2
Total in the Consolidated Statement of Operations	(2,147)	(4,488)	(10,445)	(10,217)

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 and accounts payable and accrued liabilities approximate their carrying amounts largely due to the short-term nature of these instruments;
- Fair value on amounts under the Company's Senior Term Facility are based on estimated market interest rate on similar borrowings. The carrying value approximates fair value as the interest rates approximate market. A 1% change in the market interest rate would change the fair value of Senior Term Facility by \$0.1 million.
- Fair value of the forward exchange forward contracts is estimated using observable foreign exchange spot and forward rates. The Company does not consider interest rates or the credit quality of counterparties as significant inputs to the valuation; and
- Fair value on the Company's lease liabilities are based on estimated market interest rate on similar borrowings. The carrying value of the lease liabilities approximates fair value as the interest rates approximate market.

	As at September 30, 2022		As at December 31, 2021	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Cash and cash equivalent	2,951	2,951	33,251	33,251
Accounts receivable	42,732	42,732	38,054	38,054
Total financial assets	45,683	45,683	71,305	71,305
Senior revolving facility	8,935	8,935	-	-
Accounts payable, accrued & other current liabilities	13,897	13,897	27,278	27,278
Senior term loans	5,733	5,733	13,182	13,182
Lease liabilities	27,269	27,269	27,835	27,835
Total financial liabilities	55,834	55,834	68,295	68,295

14.2 FAIR VALUE HIERARCHY

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

The three levels of fair value estimation are:

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

The only financial estimates carried at fair value are commodity purchase derivatives, which are level 2 financial instruments.

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 and appropriate precautions are taken to manage credit risk. Provisions for potential credit losses (allowance for doubtful accounts) are maintained and any such losses to date have been within management's expectations. Cash is held by financial institutions with a superior-quality credit rating. Hence Tree Island considers that the risk of non-performance of such instruments is negligible.

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.

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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, 2022:

	Carrying Amount	Contractual Cash Flow	Less Than 1	1 - 2 Years	Greater Than 2
Senior revolving facility	8,935	8,935	8,935	-	-
Accounts payable, accrued and other liabilities	13,984	13,984	13,984	-	-
Senior term loans (principal)	5,733	5,733	5,733	-	-
Senior term loans (interest)	-	121	121	-	-
Lease liability	27,269	41,852	5,933	1,681	34,238
As at September 30, 2022	55,921	70,625	34,706	1,681	34,238
Accounts payable, accrued and other liabilities	27,333	27,333	27,333	-	-
Senior term loans (principal)	13,182	13,182	2,819	5,638	4,725
Senior term loans (interest)	-	911	300	242	369
Lease liability	27,835	41,982	2,918	2,573	36,491
As at December 31, 2021	68,350	83,408	33,370	8,453	41,585

15.3 FOREIGN CURRENCY RISK

Tree Island's U.S. dollar-denominated cash, accounts receivable, accounts payable and accrued liabilities and Senior Credit Facility are exposed to foreign currency exchange rate risk because the value of these financial instruments will fluctuate with the changes in the U.S./Canadian dollar exchange rate. The Company enters into U.S. dollar currency forward contracts for periods consistent with a portion of U.S. dollar currency transaction exposures, generally from one to three months. These are not designated as cash flow, fair value or net investment hedges. As of September 30, 2022, the Company had no outstanding U.S. dollar currency forward contracts.

For the three months ended September 30, 2022, a \$0.01 increase (decrease) in the Canadian dollar to U.S. dollar exchange rate would have increased (decreased) net comprehensive income by \$0.2 million.

15.4 INTEREST RATE RISK

Tree Island is exposed to interest rate risk on its Senior Credit Facility. Interest payable on the funds advanced under the Senior Credit Facility are based on variable rates.

A one percent increase in the interest rates charged on the Senior Term Loan would increase financing expenses by \$0.1 million annually. Tree Island does not use derivative instruments to manage the interest rate risk.

NOTES TO THE INTERIM UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

September 30, 2022 and 2021

15.5 RAW MATERIAL PRICE RISK

Tree Island is exposed to changes in the price of the materials used in its production process and, from time to time, enters into forward contracts to purchase a portion of the zinc used. These are not designated as cash flow or fair value hedges. As at September 30, 2022, the Company had no outstanding zinc forward contracts.

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 and Senior Term Loan agreements as described further in Notes 9.1 and 9.2.

The Company manages the capital structure in accordance with these objectives, with considerations given to changes in economic conditions and the risk characteristics of the underlying assets in particular, by closely monitoring cash flows and compliance with external debt covenants. The table below is what management considers capital:

	As at September 30, 2022	As at December 31, 2021
Total shareholders' equity	130,855	132,621
Senior revolving facility	8,935	-
Senior term loans	5,733	13,182
Lease liabilities	27,269	27,835
Total capital	172,792	173,638

17 NET INCOME PER SHARE

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

Diluted earnings per Share amount is calculated by dividing the net income for the year by the weighted average number of Shares outstanding during the year plus the weighted average number of Shares that would be issued on conversion of all the dilutive potential units into Shares. As at September 30, 2022 the Company does not have any instruments issued that could be dilutive.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2022	2021	2022	2021
Net income for the period	8,013	13,398	33,861	28,930
Weighted average number of shares outstanding:	28,398,732	28,436,719	28,421,879	28,459,988
Net income per share (\$/share)	0.28	0.47	1.19	1.02

18 PROVISIONS AND COMMITMENTS

18.1 LITIGATION AND CLAIMS

From time to time Tree Island is party to certain legal actions and claims. In the period there are no known claims which individually, or in the aggregate, is expected to have a material adverse effect on its financial position, consolidated statement of operations or cash flows.

18.2 PURCHASE COMMITMENTS

As at September 30, 2022, Tree Island's wholly owned subsidiaries have committed to material purchases (including finished goods) totalling \$20.2 million (\$60.0 million in 2021).

19 SEGMENTED INFORMATION

19.1 MARKET SEGMENTS

Revenues for each group for the three and nine months ended September 30, 2022 and 2021 were as follows:

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2022	2021	2022	2021
Industrial	26,756	35,374	93,837	84,095
Commercial	23,815	21,859	80,183	51,790
Agricultural	9,363	6,719	35,085	32,206
Residential	20,268	20,690	62,213	57,803
Total revenue	80,202	84,642	271,318	225,894

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, Commercial Construction, Agricultural and Residential Construction. No one customer is more than 10% of total revenue.

NOTES TO THE INTERIM UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

September 30, 2022 and 2021

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:

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2022	2021	2022	2021
United States	51,833	60,011	173,870	152,618
Canada	27,820	22,889	92,590	68,502
International	549	1,742	4,858	4,774
Total revenue	80,202	84,642	271,318	225,894

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

	As at September 30,	As at December 31,
	2022	2021
United States	30,775	31,085
Canada	38,839	39,119
Total non-current assets	69,614	70,204

20 SUBSEQUENT EVENTS

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, 2023 to holders of record at the close of business on December 31, 2022.

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.

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.

