



WIRE & WIRE PRODUCTS

ESTABLISHED IN 1964



Quarterly Report
June 30, 2023

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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TO OUR SHAREHOLDERS

Letter to Shareholders

For the three-month period ended June 30, 2023, revenues decreased by \$34.8 million to \$63.6 million, from \$98.4 million in the same period in 2022, the decrease was the result of a reduction in steel pricing, macroeconomic conditions and lower shipped volumes from the previously announced closure of our Etiwanda facility. Gross profit for the second quarter decreased to \$9.1 million, from \$21.6 million in the same period in 2022, impacted by lower volumes and return of margins to more historic levels particularly in the industrial wire products. Adjusted EBITDA amounted to \$6.8 million, compared to \$19.3 million during the same period in 2022 from lower gross profit. In the quarter we also incurred \$2.1 million in restructuring costs associated with headcount reductions.

For the six months ended June 30, 2023, revenues decreased by \$52.3 million to \$138.9 million compared to 2022 and gross profit decreased to \$20.9 million from \$42.4 million for the same factors as in the quarter. This resulted in an Adjusted EBITDA of \$16.6 million, compared to \$38.1 million during the same period in 2022.

In June 2023, the Company successfully completed an early exit of the Etiwanda facility. Relocation of higher performing equipment to other locations was also completed during the quarter. Installation and recommissioning of the relocated equipment is expected to be completed throughout Q3, 2023.

I am proud of our employees' commitment and contribution during the shutdown of the Etiwanda facility, their efforts involved in relocating equipment, all while delivering a positive quarter in a challenging business environment.

Sincerely,
Nancy Davies
Chief Operating Officer, Tree Island Steel

MANAGEMENT DISCUSSION AND ANALYSIS

June 30, 2023

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 July 27, 2023 and should be read in conjunction with the interim unaudited condensed consolidated financial statements for the six months ended June 30, 2023. 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, 2022, 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, 2022.

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 global health pandemics 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 certain production equipment from 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 manufacturing 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 27,679,418 Shares outstanding as of June 30, 2023.

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 to 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®	Welded wire mesh Concrete reinforcing products	Commercial construction, mining, infrastructure projects	North America and International
Residential Construction	Tree Island®, Halsteel®, TrueSpec®, K-Lath®, ToughPanel®	Collated, bulk and packaged nails Stucco reinforcing mesh Welded wire panels	Construction and renovation for new and existing homes	North America and International

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 2023 BUSINESS OVERVIEW AND DEVELOPMENT

4.1 BUSINESS OVERVIEW

For the three-month period ended June 30, 2023, revenues decreased by \$34.8 million to \$63.6 million, from \$98.4 million in the same period in 2022, due to a reduction in steel pricing, macroeconomic conditions and lower shipped volume from the previously announced closure of our Etiwanda facility. Gross profit for the second quarter decreased to \$9.1 million, from \$21.6 million in the same period in 2022, impacted by lower volumes and return of margins to more historic levels particularly in the industrial wire products. Adjusted EBITDA amounted to \$6.8 million, compared to \$19.3 million during the same period in 2022 from lower gross profit. In the quarter we also incurred \$2.1 million in restructuring costs associated with headcount reductions.

For the six months ended June 30, 2023, revenues decreased by \$52.3 million to \$138.9 million compared to 2022 and gross profit decreased to \$20.9 million from \$42.4 million, impacted by the same factors as the quarter. The lower gross margins also resulted in an Adjusted EBITDA of \$16.6 million, compared to \$38.1 million during the same period in 2022.

4.2 APPOINTMENT OF OFFICERS

The Company announced on July 27, 2023 the appointment of Nancy Davies as Chief Operating Officer to lead the Company reporting to Executive Chairman Amar S. Doman and the appointment of Brian Liu as VP Finance and CFO. Ms. Davies has been serving in the role of Interim President and COO, as well as CFO, since the departure of the Company's previous President and COO in April 2023. Ms. Davies joined Tree Island Steel in 2008 and became VP Finance and CFO in 2011. Mr. Liu is currently Senior Director, Procurement, Transportation and Logistics. Mr Liu has held a number of senior leadership positions within Tree Island Steel, since joining in 2016.

4.3 SITE CLOSURE AND REORGANIZATION COSTS

In the first quarter of 2023 the Company chose to exercise its early termination option of the lease for the Etiwanda facility, which it sold in 2021.

With the decision to permanently close the Etiwanda operations and relocate higher performing equipment to other locations and dispose of the remaining equipment, the Company announced in January 2023 that it would be permanently laying off impacted production staff and certain supervisory, sales and management staff. In June 2023 the company completed the closure of the site and relocated all targeted equipment to other sites. The expected completion of the installation of the relocated equipment is in Q3 2023. In the three and six months ended June 30, 2023 the Company incurred \$1.0 million and \$1.3 million respectively for the closure of the site.

Please see Note 21 in the accompanying Notes to the Interim Unaudited Condensed Consolidated Financial Statements.

The company incurred \$2.1 million in reorganization costs associated with headcount reductions.

5 SUMMARY FINANCIAL INFORMATION

(\$'000 unless otherwise stated) Results from Operations:	Three Months Ended June 30,		Six Months Ended June 30,	
	2023	2022	2023	2022
Revenue	63,591	98,370	138,861	191,116
Cost of sales	(53,304)	(75,477)	(115,461)	(145,972)
Depreciation	(1,205)	(1,305)	(2,534)	(2,721)
Gross profit	9,082	21,588	20,866	42,423
Selling, general and administrative expenses	(3,352)	(3,693)	(6,836)	(7,057)
Operating income	5,730	17,895	14,030	35,366
Foreign exchange gain (loss)	(125)	75	18	(38)
Loss on property, plant, and equipment	(31)	-	(97)	-
Other expenses	-	(21)	-	(30)
Site closure costs	(1,040)	-	(1,340)	-
Reorganization costs	(2,097)	-	(2,097)	-
Financing expenses	(118)	(660)	(417)	(1,154)
Income before income taxes	2,319	17,289	10,097	34,144
Income tax expense	(668)	(4,170)	(2,596)	(8,298)
Net income	1,651	13,119	7,501	25,846
Net income per share	0.06	0.46	0.27	0.91

Financial position as of:	June 30, 2023	December 31, 2022
Total assets	174,409	176,326
Total non-current financial liabilities	26,196	27,557

Adjusted EBITDA:	Three Months Ended June 30,		Six Months Ended June 30,	
	2023	2022	2023	2022
Operating income	5,730	17,895	14,030	35,366
Add back depreciation	1,205	1,305	2,534	2,721
Foreign exchange gain (loss)	(125)	75	18	(38)
Adjusted EBITDA	6,810	19,275	16,582	38,049

<i>(\$'000 unless otherwise stated)</i>	<u>2023</u>	<u>2022</u>	<u>Variance Fav/(Unfav)</u>	
SG&A	3,352	3,693	341	9.2%

SG&A expenses are lower when compared to the prior period as a result of lower salaries due to the exit of the past president and lower legal expenses.

<i>(\$'000 unless otherwise stated)</i>	<u>2023</u>	<u>2022</u>	<u>Variance Fav/(Unfav)</u>	
FINANCING EXPENSES	118	660	542	82.1%

Financing costs decreased as a result of payment of our Senior Term Loans in the second half of 2022 and an increase in cash position on our Senior Revolving Facility compared to the prior period.

Financing Expenses

	Three Months Ended June 30,			
	<u>2023</u>	<u>2022</u>	<u>Variance Fav/(Unfav)</u>	
			<u>Amount</u>	<u>%</u>
Interest (income) expense on senior credit facility	(113)	149	262	175.8%
Interest on senior term facility	-	97	97	100.0%
Interest on lease liability	259	252	(7)	(2.8%)
Other interest (income) expense	(40)	154	194	126.0%
Deferred financing costs	12	8	(4)	(50.0%)
Total financing expenses	118	660	542	82.1%

<i>(\$'000 unless otherwise stated)</i>	<u>2023</u>	<u>2022</u>	<u>Variance Fav/(Unfav)</u>	
FOREIGN EXCHANGE GAIN (LOSS)	(125)	75	(200)	(266.7%)

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 June 30, 2023, the Company did not have any U.S. dollar currency forward contracts outstanding.

<i>(\$'000 unless otherwise stated)</i>	<u>2023</u>	<u>2022</u>	<u>Variance Fav/(Unfav)</u>	
SITE CLOSURE COSTS	1,040	-	(1,040)	N/A

During the three months ended June 30, 2023, the Company incurred a cost of \$0.4 million for site closure severance, and \$0.6 million for other site closure costs.

<i>(\$'000 unless otherwise stated)</i>	<u>2023</u>	<u>2022</u>	<u>Variance Fav/(Unfav)</u>	
REORGANIZATION COSTS	2,097	-	(2,097)	N/A

During the three months ended June 30, 2023 the Company has recorded \$2.1 million in restructuring costs associated with headcount reductions.

<i>(\$'000 unless otherwise stated)</i>	<u>2023</u>	<u>2022</u>	<u>Variance Fav/(Unfav)</u>	
INCOME TAX	668	4,170	3,502	84.0%

The income tax expense for 2023 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>	<u>2023</u>	<u>2022</u>	<u>Variance Fav/(Unfav)</u>	
NET INCOME	1,651	13,119	(11,468)	(87.4%)

The net income decrease over the comparative period is attributable to lower volumes and gross profits as well as the site closure and reorganization costs.

7 COMPARISON OF RESULTS FOR THE SIX MONTHS ENDED JUNE 30, 2023 AND 2022

<i>(\$'000 unless otherwise stated)</i>	<u>2023</u>	<u>2022</u>	<u>Variance Fav/(Unfav)</u>	
REVENUE	138,861	191,116	(52,255)	(27.3%)

For the six-month period ended June 30, 2023, revenues of \$138.9 million were \$52.3 million (27.3%) lower than the same period of 2022. Due to the same factors impacting the quarter, the decrease for the six-month period is primarily the result of a reduction in steel pricing, macroeconomic conditions and lower shipped volume from the previously announced closure of our Etiwanda facility.

Revenue by Market Segment

	Six Months Ended June 30,					
	2023		2022		Variance	
	Revenue	% of Total	Revenue	% of Total	Amount	%
Industrial	49,024	35.3%	67,081	35.1%	(18,057)	(26.9%)
Commercial	36,759	26.5%	56,368	29.5%	(19,609)	(34.8%)
Agricultural	19,433	14.0%	25,722	13.5%	(6,289)	(24.4%)
Residential	33,645	24.2%	41,945	21.9%	(8,300)	(19.8%)
Total	138,861	100.0%	191,116	100.0%	(52,255)	(27.3%)

Revenue by Location

	Six Months Ended June 30,					
	2023		2022		Variance	
	Revenue	% of Total	Revenue	% of Total	Amount	%
United States	81,846	58.9%	122,037	63.9%	(40,191)	(32.9%)
Canada	55,191	39.7%	64,770	33.9%	(9,579)	(14.8%)
International	1,824	1.4%	4,309	2.2%	(2,485)	(57.7%)
Total	138,861	100.0%	191,116	100.0%	(52,255)	(27.3%)

Average C\$/U.S.\$ 1.35 1.27

<i>(\$'000 unless otherwise stated)</i>	2023	2022	Variance Fav/(Unfav)	
COST OF SALES	115,461	145,972	30,511	20.9%

The costs of goods sold decreased when compared to the comparative period, primarily due to lower shipped volumes and reduction in unit costs due to declining raw material costs.

<i>(\$'000 unless otherwise stated)</i>	2023	2022	Variance Fav/(Unfav)	
GROSS PROFIT	20,866	42,423	(21,557)	(50.8%)

Gross profit decreased by \$21.6 million (50.8%) to \$20.9 million, primarily due to reduced volumes and the return of margins to more historic levels.

<i>(\$'000 unless otherwise stated)</i>	2023	2022	Variance Fav/(Unfav)	
SG&A	6,836	7,057	221	3.1%

SG&A expenses are lower as a result of decreased salaries due to the exit of the past president and lower legal costs.

<i>(\$'000 unless otherwise stated)</i>	2023	2022	Variance Fav/(Unfav)	
FOREIGN EXCHANGE (GAIN) LOSS	(18)	38	56	147.4%

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 June 30, 2023, the Company did not have any U.S. dollar currency forward contracts outstanding.

<i>(\$'000 unless otherwise stated)</i>	<u>2023</u>	<u>2022</u>	<u>Variance Fav/(Unfav)</u>	
SITE CLOSURE COSTS	1,340	-	(1,340)	N/A

During the six months ended June 30, 2023 the Company has recorded \$0.5 million for site closure severance, and \$0.8 million for other site closure costs.

<i>(\$'000 unless otherwise stated)</i>	<u>2023</u>	<u>2022</u>	<u>Variance Fav/(Unfav)</u>	
REORGANIZATION COSTS	2,097	-	(2,097)	N/A

During the six months ended June 30, 2023 the Company has recorded \$2.1 million in restructuring costs associated with headcount reductions.

<i>(\$'000 unless otherwise stated)</i>	<u>2023</u>	<u>2022</u>	<u>Variance Fav/(Unfav)</u>	
FINANCING EXPENSES	417	1,154	737	63.9%

Financing costs decreased as a result of payment of our Senior Term Loans in the second half of 2022 and an increase in cash position on our Senior Revolving Facility compared to the prior period.

Financing Expenses

	Six Months Ended June 30,			
	<u>2023</u>	<u>2022</u>	<u>Variance Fav/(Unfav)</u>	
			<u>Amount</u>	<u>%</u>
Interest (income) expense on senior credit facility	(184)	134	318	237.3%
Interest on senior term facility	-	165	165	100.0%
Interest on lease liability	524	504	(20)	(4.0%)
Other interest expense	57	338	281	83.1%
Deferred financing costs	20	13	(7)	(53.8%)
Total financing expenses	417	1,154	737	63.9%

<i>(\$'000 unless otherwise stated)</i>	<u>2023</u>	<u>2022</u>	<u>Variance Fav/(Unfav)</u>	
INCOME TAX	2,596	8,298	5,702	68.7%

The income tax expense for the period has decreased due to lower taxable income. 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>	<u>2023</u>	<u>2022</u>	<u>Variance Fav/(Unfav)</u>	
NET INCOME	7,501	25,846	(18,345)	(71.0%)

The net income decreased over the comparative period due to lower gross profits as well as the site closure and reorganization costs.

8 FINANCIAL CONDITION AND LIQUIDITY

8.1 WORKING CAPITAL

A summary of the composition of our working capital as at June 30, 2023 compared to 2022 is provided below:

(\$'000 unless otherwise stated)	As at June 30,	
	2023	2022
Cash	21,939	3,185
Accounts receivable	32,905	51,801
Inventories	47,100	65,995
Other current assets	6,186	6,152
	<u>108,130</u>	<u>127,133</u>
Accounts payable and accrued liabilities	(15,871)	(16,743)
Dividends payable	(1,384)	(1,421)
Other current liabilities	(18)	(3,209)
	<u>(17,273)</u>	<u>(21,373)</u>
Net balance	90,857	105,760

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 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.

Cash balance increased by \$18.8 million during the six months ended June 30, 2023 as a result of lower spend on inventories due to the closure of the Etiwanda operations and declining raw material costs.

Accounts receivable as at June 30, 2023 were lower than the same period last year, reflecting the decrease in revenue in Q2 2023 compared to the same quarter last year.

Inventories were lower as at June 30, 2023, when compared to the same period in 2022, primarily as a result of lower quantities from the closure of the Etiwanda site, reduced purchases of raw material and lower inventory costs due to declining raw material costs.

Accounts payable were lower as at June 30, 2023, compared to the same period in 2022, due to timing of payments to our suppliers.

Other current liabilities as at June 30, 2023 were lower than the same period last year primarily as the result of timing of payment of tax installments.

Our objective for managing the investment in working capital is to maximize the turnover of productive current assets, specifically 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		Six Months Ended	
	June 30,		June 30,	
<i>(\$'000 unless otherwise stated)</i>	2023	2022	2023	2022
Cash provided by operating activities				
before working capital adjustments	2,490	15,924	9,938	30,065
Working capital adjustments	1,724	839	6,567	(27,427)
Net cash provided by operating activities	4,214	16,763	16,505	2,638
Net cash used in investing activities	(1,231)	(518)	(2,003)	(912)
Repayment of senior term loans	-	(707)	-	(1,411)
Lease interest paid	(259)	(252)	(524)	(504)
Lease principal payments	(977)	(1,049)	(2,088)	(1,604)
Other interest paid	(84)	(302)	(217)	(543)
Other interest received	113	-	184	-
Deferred financing expenses	(85)	-	(85)	-
Repayment of senior revolving facility	-	9,544	-	9,544
Dividend paid	(1,411)	(34,974)	(2,826)	(37,249)
Share buyback	(1,682)	(34)	(1,935)	(34)
Net cash used in financing activities	(4,385)	(27,774)	(7,491)	(31,801)
Exchange rate impact on foreign cash balances	(101)	19	(48)	9
Increase (decrease) in cash balances	(1,503)	(11,510)	6,963	(30,066)

8.3 SENIOR CREDIT FACILITY

On May 8, 2023, the Company announced the successful renewal of its senior banking facility with current lender Wells Fargo Capital Finance Corporation Canada for a three year period maturing on July 1, 2026. With the proceeds of the sale of the Etiwanda facility applied to the banking facility, available cash balances, and the Company's positive cash flow, the overall limit of the three year Senior Credit Facility decreased to \$35 million from the current \$80 million.

The facility enables the Company to borrow up to \$35.0 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 \$25.0 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 and accounts receivable less certain reserves. In addition, up to \$10.0 million may be borrowed as term debt, in Canadian and/or U.S. dollars.

The Senior Credit Facility is secured by a first charge over the Company's assets supported by guarantees and pledges 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.

As at June 30, 2023 the Company was in compliance with its covenants on the Senior Credit Facility.

9 CAPITAL EXPENDITURES AND CAPACITY

For the six months ended June 30, 2023, we made expenditures of \$2.1 million, of which \$0.6 million were for capital maintenance activities and \$1.5 million were equipment relocation expenditures.

10 CONTRACTUAL OBLIGATIONS AND COMMITMENTS

As of June 30, 2023, 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 material purchases are to be delivered over the next two quarters.

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 June 30, 2023, 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 June 30, 2023, the Company did not have any U.S. dollar currency forward contracts outstanding.

Contractual Obligations and Commitments

<i>(\$'000 unless otherwise stated)</i>	<u>2023</u>	<u>2024</u>	<u>2025</u>	<u>2026</u>	<u>2027</u>	<u>Thereafter</u>	<u>Total</u>
Production materials	41,237	-	-	-	-	-	41,237
AP and accrued liabilities	15,871	-	-	-	-	-	15,871
Other current liabilities	18	-	-	-	-	-	18
Dividends	1,384	-	-	-	-	-	1,384
Lease liabilities	1,050	1,558	1,531	1,542	1,566	27,937	35,184
Total obligations and commitments	59,560	1,558	1,531	1,542	1,566	27,937	93,694

11 SUMMARY OF QUARTERLY FINANCIAL RESULTS

The table below provides selected quarterly financial information for the eight most recent fiscal quarters to June 30, 2023. 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

<i>(\$'000 unless otherwise stated)</i>	<u>Jun 30,</u> <u>2023</u>	<u>Mar 31,</u> <u>2023</u>	<u>Dec 31,</u> <u>2022</u>	<u>Sep 30,</u> <u>2022</u>	<u>Jun 30,</u> <u>2022</u>	<u>Mar 31,</u> <u>2022</u>	<u>Dec 31,</u> <u>2021</u>	<u>Sep 30,</u> <u>2021</u>
Revenue	63,591	75,271	67,116	80,202	98,370	92,746	75,954	84,642
Gross profit	9,082	11,785	9,317	14,591	21,588	20,835	17,323	21,838
Foreign exchange gain (loss)	(125)	141	4	(2)	75	(113)	(373)	445
Net income (loss)	1,651	5,850	(756)	8,013	13,119	12,727	59,041	13,398
Net income (loss) per unit - basic	0.06	0.21	(0.03)	0.28	0.46	0.45	2.08	0.47

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 and Q4 2022, slower demand resulted in decreased gross profits from lower volumes. The decrease was partially offset by higher prices in the period.
- Net income decreased in Q4 2022 from lower gross profit and the additional costs incurred as a result of the Etiwanda facility site closure provision and equipment impairment related to the Etiwanda site closure.
- During the first half of 2023, margins were impacted from lower volumes and margins returning to pre-pandemic levels.

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, 2022 Consolidated Financial Statements and in the Annual Information Form for the year ended December 31, 2022.

12.1 CRITICAL ACCOUNTING ESTIMATES

The areas that we considered to have critical accounting estimates are: inventory valuation, allowance for doubtful accounts, assessment of impairment related to 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, 2022.

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, sits on the Board of Directors.

Based on Tree Island Steel's outstanding Shares as at June 30, 2023, Futura owns 35.4% 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 six months ended June 30, 2023, Tree Island sold, net of rebates, approximately \$0.6 million and \$1.2 million (\$0.6 and \$1.6 million in 2022) of goods to DBM and trade accounts receivable owing from DBM as at June 30, 2023 is approximately \$0.3 million (\$0.2 million in 2022). 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 six months ended June 30, 2023 were approximately \$0.3 million and \$0.6 million (\$0.4 million and \$0.7 million in 2022) 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 “2023 Business Overview and Development”. A detailed discussion of our significant business risks is provided in the 2022 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.

The Interim 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 six months ended June 30, 2023. 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 six months ended June 30, 2023, 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 June 30, 2023 unaudited condensed consolidated financial statements and this MD&A prior to its release.

INTERIM UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2023 and 2022

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.

July 27, 2023

INTERIM UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2023 and 2022

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

<i>Notes</i>	As at June 30, 2023	As at December 31, 2022
Cash	21,939	14,976
Accounts receivable	32,905	30,445
Inventory	47,100	57,531
Prepaid expenses	4,925	5,223
Income taxes recoverable	1,261	1,142
Current assets	108,130	109,317
Property, plant and equipment	46,343	46,296
Right of use assets	18,268	19,401
Other non-current assets	1,668	1,312
Total assets	174,409	176,326
Accounts payable and accrued liabilities	15,871	16,943
Other current liabilities	18	19
Dividends payable	1,384	1,415
Current portion of ROU lease liabilities	857	2,296
Current liabilities	18,130	20,673
ROU Lease liabilities	22,594	23,616
Other non-current liabilities	234	456
Deferred income tax liabilities	3,368	3,485
Total liabilities	44,326	48,230
Shareholders' equity	130,083	128,096
Total liabilities and shareholders' equity	174,409	176,326

See accompanying Notes to the 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
June 30, 2023 and 2022

CONSOLIDATED STATEMENTS OF OPERATIONS

	<i>Notes</i>	Three Months Ended June 30,		Six Months Ended June 30,	
		2023	2022	2023	2022
Revenue	5, 12.1, 20.1	63,591	98,370	138,861	191,116
Cost of sales	6	(53,304)	(75,477)	(115,461)	(145,972)
Depreciation	8.1	(1,205)	(1,305)	(2,534)	(2,721)
Gross profit		9,082	21,588	20,866	42,423
Selling, general and administrative expenses		(3,352)	(3,693)	(6,836)	(7,057)
Operating income		5,730	17,895	14,030	35,366
Foreign exchange gain (loss)		(125)	75	18	(38)
Loss on sale of property, plant and equipment		(31)	-	(97)	-
Other expenses		-	(21)	-	(30)
Site closure costs	21	(1,040)	-	(1,340)	-
Reorganization costs	21	(2,097)	-	(2,097)	-
Financing expenses	10	(118)	(660)	(417)	(1,154)
Income before income taxes		2,319	17,289	10,097	34,144
Income tax expense	14.1	(668)	(4,170)	(2,596)	(8,298)
Net income		1,651	13,119	7,501	25,846
Net income per share	18	0.06	0.46	0.27	0.91
Dividends per share		0.05	1.23	0.10	1.28
Weighted average number of shares	18	28,034,488	28,433,107	28,146,767	28,433,645

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Three Months Ended June 30,		Six Months Ended June 30,	
	2023	2022	2023	2022
Net income for the year	1,651	13,119	7,501	25,846
Unrealized gain on foreign exchange translation	(769)	876	(784)	467
Comprehensive income	882	13,995	6,717	26,313

See accompanying Notes to the Unaudited Condensed Consolidated Financial Statements

INTERIM UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2023 and 2022

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

	Shareholders' Capital <i>Note 11</i>	Retained Earnings	Accumulated Other Comprehensive Loss	Total
Balance as at December 31, 2022	222,629	(94,133)	(400)	128,096
Repurchase of shares	(253)	-	-	(253)
Net Income	-	5,850	-	5,850
Dividends	-	(1,411)	-	(1,411)
Other comprehensive loss	-	-	(15)	(15)
Balance as at March 31, 2023	222,376	(89,694)	(415)	132,267
Repurchase of shares	(1,682)	-	-	(1,682)
Net Income	-	1,651	-	1,651
Dividends	-	(1,384)	-	(1,384)
Other comprehensive income	-	-	(769)	(769)
Balance as at June 30, 2023	220,694	(89,427)	(1,184)	130,083
Balance as at December 31, 2021	223,163	(88,012)	(2,530)	132,621
Net Income	-	12,727	-	12,727
Dividends	-	(34,974)	-	(34,974)
Other comprehensive income	-	-	(409)	(409)
Balance as at March 31, 2022	223,163	(110,259)	(2,939)	109,965
Repurchase of shares	(34)	-	-	(34)
Net Income	-	13,119	-	13,119
Dividends	-	(1,421)	-	(1,421)
Other comprehensive income	-	-	876	876
Balance as at June 30, 2022	223,129	(98,561)	(2,063)	122,505

See accompanying Notes to the Unaudited Condensed Consolidated Financial Statements

INTERIM UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2023 and 2022
CONSOLIDATED STATEMENTS OF CASH FLOWS

	Notes	Three Months Ended June 30,		Six Months Ended June 30,	
		2023	2022	2023	2022
Net income		1,651	13,119	7,501	25,846
Depreciation	7, 8.1	1,205	1,305	2,534	2,721
Equipment impairment	7.1			-	-
Unrealized foreign exchange loss on revaluation of lease liability		(515)	802	(493)	423
Loss on sale of property, plant and equipment		31	-	97	-
Net financing costs		118	660	417	1,154
Deferred income tax expense		-	(199)	(118)	(199)
Exchange revaluation of foreign denominated debt	9.2	-	237	-	120
Working capital adjustments					
Accounts receivable		3,602	(1,740)	(2,460)	(13,747)
Inventories		10,186	8,157	10,431	11,517
Accounts payable and accrued liabilities		(9,732)	602	(1,238)	584
Prepaid expenses		(1,280)	(2,801)	(64)	(10,550)
Income and other taxes		(1,086)	(3,344)	(119)	(15,197)
Other		34	(35)	17	(34)
Net cash provided by operating activities		4,214	16,763	16,505	2,638
Purchase of property, plant and equipment		(1,231)	(518)	(2,003)	(912)
Net cash used in investing activities		(1,231)	(518)	(2,003)	(912)
Term loans - repayment, net	9.2	-	(707)	-	(1,411)
Lease interest paid		(259)	(252)	(524)	(504)
Lease principal payments		(977)	(1,049)	(2,088)	(1,604)
Other interest paid		(84)	(302)	(217)	(543)
Other interest received		113	-	184	-
Deferred financing fees		(85)	-	(85)	-
Repayment of senior revolving facility		-	9,544	-	9,544
Dividend paid		(1,411)	(34,974)	(2,826)	(37,249)
Repurchase of common shares		(1,682)	(34)	(1,935)	(34)
Net cash used in financing activities		(4,385)	(27,774)	(7,491)	(31,801)
Effect of exchange rate change on cash		(101)	19	(48)	9
Increase (decrease) in cash		(1,503)	(11,510)	6,963	(30,066)
Cash - beginning of period		23,442	14,695	14,976	33,251
Cash - end of period		21,939	3,185	21,939	3,185

See accompanying Notes to the Unaudited Condensed Consolidated Financial Statements

NOTES TO THE INTERIM UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2023 and 2022

1 NATURE OF BUSINESS

These interim unaudited condensed consolidated financial statements of Tree Island Steel ("Tree Island" or the "Company") for the six months ended June 30, 2023 and 2022 were authorized for issue in accordance with a resolution of the Board of Directors on July 27, 2023.

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 six months ended June 30, 2023 and 2022 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 31, 2022 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, 2022.

4 FUTURE IFRS STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE

Tree Island prepares its audited 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 audited consolidated financial statements in the current year.

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 six months ending June 30, 2023, freight cost amounts to \$8.1 million (\$12.7 million in 2022).

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

	As at June 30, 2023	As at December 31, 2022
Current	32,170	28,351
Over 30 days past due	1,164	2,524
Total accounts receivable	33,334	30,875
Allowance for doubtful accounts	(429)	(430)
Net accounts receivable	32,905	30,445

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 \$32.9 million as at June 30, 2023 (\$30.4 million as at December 31, 2022).

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.

NOTES TO THE INTERIM UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2023 and 2022

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

	As at June 30, 2023	As at December 31, 2022
Opening balance - beginning of period	430	486
Write-offs during the period	-	(60)
Foreign exchange revaluation	(1)	4
Closing balance - end of period	429	430

See Note 16.1 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.

6 INVENTORIES

Tree Island had the following categories of inventory:

	As at June 30, 2023	As at December 31, 2022
Raw materials	10,661	15,901
Finished and semi-finished products	21,378	26,554
Consumable supplies and spare parts	15,061	15,076
Total inventory	47,100	57,531

For the three and six months ended June 30, 2023 and 2022, Tree Island recognized, in income, inventory costs for the following:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2023	2022	2023	2022
Opening inventory	57,286	74,152	57,531	77,512
Material purchases	29,025	52,052	75,268	103,854
Conversion costs	14,093	15,268	29,762	30,601
Closing inventory	(47,100)	(65,995)	(47,100)	(65,995)
Cost of sales	53,304	75,477	115,461	145,972

The reserves for slow moving inventory as at June 30, 2023 were \$1.2 million (\$1.5 million at December 31, 2022).

June 30, 2023 and 2022

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 June 30, 2023.

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.

In the first quarter of 2023 the Company gave formal notice that it will elect to exercise the early termination provision of the lease for the Etiwanda facility, which it sold on December 16, 2021. As of June 30, 2023 certain equipment was relocated to other sites to replace less efficient, lower performing equipment and any remaining equipment that was not relocated was disposed off to extract the most value for the Company. In 2023 the company will be incurring approximately \$2.8 million to relocate and install the targeted equipment at other sites, of which \$1.5 million has already been spent year-to-date.

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, 2021	13,338	47,042	43,801	411	104,592
Additions	-	18	1,011	537	1,566
Disposals	-	-	(508)	-	(508)
Foreign exchange translation	-	268	971	8	1,247
As at December 31, 2022	13,338	47,328	45,275	956	106,897
Additions	-	72	385	1,670	2,127
Disposals	-	-	(1,907)	-	(1,907)
Foreign exchange translation	-	(91)	(196)	-	(287)
As at June 30, 2023	13,338	47,309	43,557	2,626	106,830
Depreciation and impairment					
As at December 31, 2021	-	32,549	23,001	-	55,550
Depreciation for the period	-	1,333	2,129	-	3,462
Disposals	-	-	(308)	-	(308)
Equipment impairment	-	-	1,363	-	1,363
Foreign exchange translation	-	82	452	-	534
As at December 31, 2022	-	33,964	26,637	-	60,601
Depreciation for the period	-	671	922	-	1,593
Disposals	-	-	(1,578)	-	(1,578)
Equipment impairment (Note 7.1)	-	-	-	-	-
Foreign exchange translation	-	(32)	(97)	-	(129)
As at June 30, 2023	-	34,603	25,884	-	60,487
Net book value as at					
December 31, 2022	13,338	13,364	18,638	956	46,296
June 30, 2023	13,338	12,706	17,673	2,626	46,343

NOTES TO THE INTERIM UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2023 and 2022

8 LEASES

In the first quarter of 2023 the Company gave formal notice that it will elect to exercise the early termination provision of the lease for the Etiwanda facility and completed the exit in June 2023.

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, 2021	24,434	2,265	26,699
Additions	-	194	194
Disposals	(167)	(479)	(646)
Foreign exchange translation	1,586	104	1,690
As at December 31, 2022	25,853	2,084	27,937
Additions	348	-	348
Disposals	(1,217)	(344)	(1,561)
Foreign exchange translation	(553)	(12)	(565)
As at June 30, 2023	24,431	1,728	26,159
Depreciation and impairment			
As at December 31, 2021	(5,610)	(1,203)	(6,813)
Additions	(1,401)	(634)	(2,035)
Disposals	167	375	542
Foreign exchange translation	(370)	140	(230)
As at December 31, 2022	(7,214)	(1,322)	(8,536)
Depreciation for period	(658)	(234)	(892)
Disposals	1,217	157	1,374
Foreign exchange translation	143	20	163
As at June 30, 2023	(6,512)	(1,379)	(7,891)
Carrying value as at:			
December 31, 2022	18,639	762	19,401
June 30, 2023	17,919	349	18,268

NOTES TO THE INTERIM UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2023 and 2022

8.2 LEASE LIABILITY

	Land & buildings	Machinery & equipment	Total lease liabilities
Lease liability			
As at December 31, 2021	26,751	1,084	27,835
New contracts and renewals	-	251	251
Contract disposal	-	(79)	(79)
Interest expense	994	31	1,025
Payment of lease liability	(4,321)	(488)	(4,809)
Foreign exchange translation	1,697	(8)	1,689
Lease liability as at December 31, 2022	25,121	791	25,912
New contracts and renewals	348	-	348
Contract disposal	-	(176)	(176)
Interest expense	513	11	524
Payment of lease liability	(2,370)	(242)	(2,612)
Foreign exchange translation	(527)	(18)	(545)
As at June 30, 2023	23,085	366	23,451
Less: current portion	(611)	(246)	(857)
Total As at June 30, 2023	22,474	120	22,594

9 SENIOR CREDIT FACILITY

On May 8, 2023, the Company announced the successful renewal of its senior banking facility with current lender Wells Fargo Capital Finance Corporation Canada for a three year period maturing on July 1, 2026. With the proceeds of the sale of the Etiwanda facility applied to the banking facility, available cash balances, and the Company's positive cash flow, the overall limit of the three year Senior Credit Facility decreases to \$35 million from the current \$80 million.

- \$25.0 million of Senior Revolving Credit facility; and
- \$10.0 million of Senior Term facility.

9.1 SENIOR REVOLVING CREDIT FACILITY

The Senior Credit Facility is secured by a first charge over the Company's assets supported by guarantees and pledges 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 Senior Credit Facility includes a \$5.0 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 \$1.1 million Letter of Credit outstanding as at June 30, 2023.

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.

NOTES TO THE INTERIM UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
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Interest payable on funds borrowed in Canadian or U.S. currency is at variable rates.

There is no balance outstanding under the Senior Revolving Credit portion of the Senior Credit Facility.

	As at June 30, 2023	As at December 31, 2022
Deferred financing costs	(85)	(15)
Total	(85)	(15)

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 June 30, 2023 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 \$10 million denominated in either Canadian or U.S. dollars.

The following amounts are outstanding under the Senior Term Facility:

	As at June 30, 2023	As at December 31, 2022
Senior term loans - beginning of period	-	13,182
Foreign exchange revaluation	-	474
Payments	-	(13,656)
Total	-	-

In 2022, the outstanding balance on the Senior Term Loan was paid in full.

NOTES TO THE INTERIM UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2023 and 2022

10 FINANCING EXPENSES

	<i>Notes</i>	Three Months Ended June 30,		Six Months Ended June 30,	
		2023	2022	2023	2022
Accretion on long term debt		-	-	-	-
Interest (income) on senior credit facility	9.1	(113)	149	(184)	134
Interest on senior term facility	9.2	-	97	-	165
Interest on lease liability		259	252	524	504
Other interest and financing costs		(40)	154	57	338
Amortization of deferred financing costs		12	8	20	13
Total		118	660	417	1,154

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, 2021	28,434,188	234,563	11,400	223,163
Repurchase of common shares	(147,299)	(534)	-	(534)
Shareholders' capital - December 31, 2022	28,286,889	234,029	11,400	222,629
Repurchase of common shares	(607,471)	(1,935)	-	(1,935)
Shareholders' capital - June 30, 2023	27,679,418	232,094	11,400	220,694

11.1 NORMAL COURSE ISSUER BID

The Company has an ongoing normal course issuer bid (the "Bid"). The current Bid is effective November 9, 2022 to November 8, 2023. The Bid allows the Company to purchase up to 1,410,000 Shares over the term. Tree Island has no obligation to purchase any Shares under the Bid.

For the period January 1, 2023 to June 30, 2023 the Company canceled 607,471 Shares purchased under the Bid at a total cost of \$1.9 million (at an average price of \$3.19 per Share).

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, sits on the Board of Directors.

Based on Tree Island Steel's outstanding Shares as at June 30, 2023, Futura owns 35.4% 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 six months ended June 30, 2023, Tree Island sold, net of rebates, approximately \$0.6 million and \$1.2 million (\$0.6 million and \$1.6 million in 2022) of goods to DBM and trade accounts receivable owing from DBM as at June 30, 2023 is approximately \$0.3 million (\$0.2 million in 2022). 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 six months ended June 30, 2023 were approximately \$0.3 million and \$0.6 million (\$0.4 million and \$0.7 million approximately in 2022) 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 INCOME TAXES

14.1 INCOME TAX EXPENSE

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2023	2022	2023	2022
Current tax expense	(668)	(4,369)	(2,714)	(8,497)
Deferred tax recovery	-	199	118	199
Total in the Consolidated Statement of Operations	(668)	(4,170)	(2,596)	(8,298)

June 30, 2023 and 2022

15 FINANCIAL INSTRUMENTS

15.1 FAIR VALUE OF FINANCIAL INSTRUMENTS

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

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

- Cash, accounts receivable 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 not change the fair value of Senior Term Facility as the outstanding balance has been paid during the year;
- 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 June 30, 2023		As at December 31, 2022	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Cash and cash equivalent	21,939	21,939	14,976	14,976
Accounts receivable	32,905	32,905	30,445	30,445
Total financial assets	54,844	54,844	45,421	45,421
Accounts payable, accrued & other current liabilities	15,871	15,871	16,943	16,943
Lease liabilities	23,451	23,451	25,912	25,912
Total financial liabilities	39,322	39,322	42,855	42,855

15.2 FAIR VALUE HIERARCHY

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

The three levels of fair value estimation are:

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

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

16 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.

16.1 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.

16.2 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.

NOTES TO THE INTERIM UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**June 30, 2023 and 2022**

The table below summarizes the future undiscounted contractual cash flow requirements for financial liabilities (including scheduled interest payments on interest bearing liabilities) as at June 30, 2023:

	Carrying Amount	Contractual Cash Flow	Less Than 1 Year	1 - 2 Years	Greater Than 2
Accounts payable, accrued and other liabilities	15,889	15,889	15,889	-	-
Lease liability	23,451	35,184	1,847	1,526	31,811
As at June 30, 2023	39,340	51,073	17,736	1,526	31,811
Accounts payable, accrued and other liabilities	16,962	16,962	16,962	-	-
Lease liability	25,912	38,423	3,342	1,626	33,455
As at December 31, 2022	42,874	55,385	20,304	1,626	33,455

16.3 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 June 30, 2023, the Company had no outstanding U.S. dollar currency forward contracts.

For the three months ended June 30, 2023, a \$0.01 increase (decrease) in the Canadian dollar to U.S. dollar exchange rate would have increased (decreased) net comprehensive income by \$0.3 million.

16.4 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.

Changes in interest rates would not have an impact on the Company, as at June 30, 2023, the Senior Term Loan was fully paid off.

NOTES TO THE INTERIM UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2023 and 2022

16.5 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 June 30, 2023, the Company had no outstanding zinc forward contracts.

17 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 June 30, 2023	As at December 31, 2022
Total shareholders' equity	130,083	128,096
Lease liabilities	23,451	25,912
Total capital	153,534	154,008

18 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 June 30, 2023 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 June 30,		Six Months Ended June 30,	
	2023	2022	2023	2022
Net income for the period	1,651	13,119	7,501	25,846
Weighted average number of shares outstanding:	28,034,488	28,433,107	28,146,767	28,433,645
Net income per share (\$/share)	0.06	0.46	0.27	0.91

19 PROVISIONS AND COMMITMENTS

19.1 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.

19.2 PURCHASE COMMITMENTS

As at June 30, 2023, Tree Island's wholly owned subsidiaries have committed to material purchases (including finished goods) totaling \$41.2 million (\$54.3 million in 2022).

20 SEGMENTED INFORMATION

20.1 MARKET SEGMENTS

Revenues for each group for the three and six months ended June 30, 2023 and 2022 were as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2023	2022	2023	2022
Industrial	23,811	37,088	49,024	67,081
Commercial	16,660	28,832	36,759	56,368
Agricultural	6,761	11,094	19,433	25,722
Residential	16,359	21,356	33,645	41,945
Total revenue	63,591	98,370	138,861	191,116

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

June 30, 2023 and 2022

20.2 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 June 30,		Six Months Ended June 30,	
	2023	2022	2023	2022
United States	39,793	65,291	81,846	122,037
Canada	23,078	30,616	55,191	64,770
International	720	2,463	1,824	4,309
Total revenue	63,591	98,370	138,861	191,116

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 June 30,	As at December 31,
	2023	2022
United States	21,919	29,870
Canada	44,360	37,139
Total non-current assets	66,279	67,009

21 SITE CLOSURE AND REORGANIZATION COSTS

In the first quarter of 2023 the Company chose to exercise its early termination option of the lease for the Etiwanda facility, which it sold in 2021.

In fiscal 2022, the Company recorded a dismantling provision of \$1.1 million. As of June 30, 2023, all costs related to this provision have been incurred and no further costs are anticipated.

During the three and six months ended June 30, 2023 the Company has recorded in the Statement of Operations the following:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2023	2022	2023	2022
Other site exit costs	638	-	813	-
Severance costs	402	-	527	-
Total	1,040	-	1,340	-

During the six months ended June 30, 2023 the Company has recorded \$2.1 million in restructuring costs associated with headcount reductions.

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:

Nancy Davies
Chief Operating Officer

Brian Liu
Vice President,
Finance and *CFO*

Shares:

Market Information

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

Registrar and Transfer Agent

Computershare Investor
Services Inc.

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Investor Relations:

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