TREE ISLAND STEEL

WIRE & WIRE PRODUCTS

ESTABLISHED IN 1964

1964

TREE ISLAND

2024

Consolidated Financial Statements

March 31, 2024

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.

INTERIM UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2024 and 2023

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.

May 2, 2024

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

($'000 unless otherwise stated)	*Notes*	As at March 31, 2024	As at December 31, 2023
Cash & cash equivalents	*5*	20,205	20,340
Accounts receivable	*6, 13.1*	28,878	23,748
Inventory	7	46,470	52,071
Prepaid expenses		5,215	4,693
Income taxes recoverable	*14*	3,341	3,953
Current assets		104,109	104,805
Property, plant and equipment	8	48,182	48,292
Right of use assets	*9.1*	18,541	18,345
Other non-current assets		3,196	2,818
Total assets		174,028	174,260
Accounts payable and accrued liabilities		15,551	15,080
Interest payable		22	30
Income tax payable		803	2,281
Dividends payable		813	814
Current portion of ROU lease liabilities	*9.2*	1,173	739
Current liabilities		18,362	18,944
Senior revolving facility	*10.1*	14	-
ROU Lease liabilities	*9.2*	23,086	23,057
Other non-current liabilities		124	219
Deferred income tax liabilities		5,200	5,163
Total liabilities		46,786	47,383
Shareholders' equity		127,242	126,877
Total liabilities and shareholders' equity		174,028	174,260

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

CONSOLIDATED STATEMENTS OF OPERATIONS

($'000 unless otherwise stated)	*Notes*	Three Months Ended March 31, 2024	2023 Restated
Revenue	*6, 13.1, 20.1*	60,590	79,749
Freight and distribution costs		4,037	4,478
Subtotal		56,553	75,271
Cost of sales		(50,409)	(62,157)
Depreciation	*8, 9.1*	(1,316)	(1,329)
Gross profit		4,828	11,785
Selling, general and administrative expenses		(3,391)	(3,484)
Operating income		1,437	8,301
Foreign exchange gain		381	141
Loss on sale of property, plant and equipment		-	(66)
Site closure costs		-	(300)
Interest Income		208	137
Financing expenses	*11*	(561)	(436)
Income before income taxes		1,465	7,777
Income tax expense	*14.1*	(840)	(1,927)
Net income		625	5,850
Net income per share	*18*	0.02	0.21
Dividends per share		0.03	0.05
Weighted average number of shares	*18*	27,109,265	28,259,968

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

($'000 unless otherwise stated)	Three Months Ended March 31, 2024	2023
Net income	625	5,850
Unrealized gain (loss) on foreign exchange translation	645	(15)
Comprehensive income	1,270	5,835

See accompanying Notes to the Unaudited Condensed Consolidated Financial Statements

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

($'000 unless otherwise stated)	Shareholders' Capital *Note 12*	Retained Earnings	Accumulated Other Comprehensive Loss	Total
Balance as at December 31, 2023	218,976	(91,019)	(1,080)	126,877
Repurchase of shares	(92)	-	-	(92)
Net Income	-	625	-	625
Dividends	-	(813)	-	(813)
Other comprehensive gain	-	-	645	645
Balance as at March 31, 2024	218,884	(91,207)	(435)	127,242
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

See accompanying Notes to the Unaudited Condensed Consolidated Financial Statements

CONSOLIDATED STATEMENTS OF CASH FLOWS

($'000 unless otherwise stated)	*Notes*	Three Months Ended March 31, 2024	2023
Net income		625	5,850
Depreciation	*8, 9.1*	1,316	1,329
Unrealized foreign exchange gain on revaluation of lease liability		565	22
Loss on sale of property, plant and equipment		-	66
Net financing costs		353	320
Deferred income tax expense (recovery)		37	(118)
Working capital adjustments			
Accounts receivable		(5,243)	(6,062)
Inventories		5,374	245
Accounts payable and accrued liabilities		472	8,494
Prepaid expenses		(900)	1,216
Income and other taxes		(866)	967
Other		(107)	(122)
Net cash provided by operating activities		1,626	12,207
Investment income on cash equivalents		199	21
Purchase of property, plant and equipment		(683)	(709)
Net cash used in investing activities		(484)	(688)
Lease interest paid		(268)	(265)
Lease principal payments		(303)	(1,111)
Other interest paid		(269)	(62)
Advance of senior revolving facility		14	-
Dividend paid		(814)	(1,415)
Repurchase of common shares		(92)	(253)
Net cash used in financing activities		(1,732)	(3,106)
Effect of exchange rate change on cash		455	53
Increase (decrease) in cash		(135)	8,466
Cash and cash equivalents - beginning of period		20,340	14,976
Cash and cash equivalents - end of period		20,205	23,442

See accompanying Notes to the 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 three months ended March 31, 2024 and 2023 were authorized for issue in accordance with a resolution of the Board of Directors on May 2, 2024.

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 three months ended March 31, 2024 and 2023 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, 2023 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 MATERIAL ACCOUNTING POLICIES, CRITICAL ACCOUNTING JUDGEMENTS 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, 2023.

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 consolidated financial statements in the current year.

5 CASH AND CASH EQUIVALENTS

Cash and cash equivalents consist of cash on hand, demand deposits, and highly liquid money market mutual fund investments. These investments are readily convertible into known amounts of cash and are subject to an insignificant risk of changes in value. None of the balances represent restricted funds.

The carrying amount of cash and cash equivalents approximates their fair value due to the short-term nature of these instruments. Information about credit risk is presented in Note 16.1.

The following table presents Tree Island's cash and cash equivalent balances:

	As at March 31, 2024	As at December 31, 2023
Cash	5,352	7,551
Cash equivalents	14,853	12,789
Total cash and cash equivalents	20,205	20,340

6 REVENUE AND ACCOUNTS RECEIVABLE

For both the sale of goods and contract manufacturing, stated revenue includes freight, where applicable, and is net of early payment discounts and rebates granted. Freight costs, incurred for the purpose of shipping product out to customers, represent flow through costs for the Company and are passed on to the end customer. These recoverable amounts of the costs are included in the Company's top-line revenue. Since these flow through costs can vary significantly, from customer to customer and year to year, changes in revenue may not be indicative of the Company's revenue trends. Therefore, the Company also presents revenue net of freight and distribution costs.

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

	As at March 31, 2024	As at December 31, 2023
Current	28,857	22,667
Over 30 days past due	352	1,393
Total accounts receivable	29,209	24,060
Allowance for doubtful accounts	(331)	(312)
Net accounts receivable	28,878	23,748

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 $28.9 million as at March 31, 2024 ($23.7 million as at December 31, 2023).

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 13.1.

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.

7 INVENTORIES

Tree Island had the following categories of inventory:

	As at March 31, 2024	As at December 31, 2023
Raw materials	9,719	14,868
Finished and semi-finished products	21,777	21,071
Consumable supplies and spare parts	14,974	16,132
Total inventory	46,470	52,071

For the three months ended March 31, 2024 and 2023, Tree Island recognized, in income, inventory costs for the following:

	Three Months Ended March 31, 2024	2023
Opening inventory	52,071	57,531
Material purchases	29,379	46,243
Conversion costs	15,429	15,669
Closing inventory	(46,470)	(57,286)
Cost of sales	50,409	62,157

The reserves for slow moving inventory as at March 31, 2024 were $1.3 million ($1.2 million at December 31, 2023).

8 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 March 31, 2024.

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, 2022	13,338	47,328	45,275	956	106,897
Additions	-	437	4,127	1,204	5,768
Disposals	-	-	(2,724)	-	(2,724)
Foreign exchange translation	-	(100)	(134)	-	(234)
As at December 31, 2023	13,338	47,665	46,544	2,160	109,707
Additions	-	311	2,154	(1,781)	684
Foreign exchange translation	-	101	94	(1)	194
As at March 31, 2024	13,338	48,077	48,792	378	110,585
Depreciation and impairment					
As at December 31, 2022	-	33,964	26,637	-	60,601
Depreciation for the period	-	1,346	1,842	-	3,188
Disposals	-	-	(2,273)	-	(2,273)
Foreign exchange translation	-	(38)	(63)	-	(101)
As at December 31, 2023	-	35,272	26,143	-	61,415
Depreciation for the period	-	338	544	-	882
Foreign exchange translation	-	38	68	-	106
As at March 31, 2024	-	35,648	26,755	-	62,403
Net book value as at					
December 31, 2023	13,338	12,393	20,401	2,160	48,292
March 31, 2024	13,338	12,429	22,037	378	48,182

9 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:

9.1 RIGHT OF USE ASSETS

	Land & buildings	Machinery & equipment	Total right-of-use assets
Cost			
As at December 31, 2022	25,853	2,084	27,937
Additions	348	1,031	1,379
Disposals	(1,217)	(494)	(1,711)
Foreign exchange translation	(579)	(19)	(598)
As at December 31, 2023	24,403	2,552	26,955
Additions	95	105	200
Disposals	(348)	(620)	(968)
Foreign exchange translation	590	13	603
As at March 31, 2024	24,740	2,050	26,790
Depreciation and impairment			
As at December 31, 2022	(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, 2023	(7,150)	(1,460)	(8,610)
Depreciation for period	(337)	(98)	(435)
Disposals	348	620	968
Foreign exchange translation	(168)	(4)	(172)
As at March 31, 2024	(7,307)	(942)	(8,249)
Carrying value as at:			
December 31, 2023	17,253	1,092	18,345
March 31, 2024	17,433	1,108	18,541

9.2 LEASE LIABILITY

	Land & buildings	Machinery & equipment	Total lease liabilities
Lease liability			
As at December 31, 2022	25,121	791	25,912
New contracts and renewals	348	979	1,327
Contract disposal	-	(176)	(176)
Interest expense	1,018	40	1,058
Payment of lease liability	(3,264)	(494)	(3,758)
Foreign exchange translation	(548)	(19)	(567)
Lease liability as at December 31, 2023	22,675	1,121	23,796
New contracts and renewals	95	107	202
Interest expense	250	18	268
Payment of lease liability	(459)	(112)	(571)
Foreign exchange translation	555	9	564
As at March 31, 2024	23,116	1,143	24,259
Less: current portion	(905)	(268)	(1,173)
Total As at March 31, 2024	22,211	875	23,086

10 SENIOR CREDIT FACILITY

The Company's senior secured committed banking facility with current lender Wells Fargo Capital Finance Corporation Canada ("WellsFargo") matures on July 1, 2026 and is comprised of:

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

10.1 SENIOR REVOLVING CREDIT FACILITY

The Senior Credit Facility is secured by a first charge over the Company's assets supported by the appropriate guarantees and pledges and assignments, and requires that certain covenants be met by Tree Island. The Senior Credit Facility has defined covenants, the primary one being that a certain amount of credit availability be maintained. Only if this amount falls below a certain threshold, then other covenants, which include a defined fixed charge coverage ratio, are tested. In addition, there are other restrictive covenants that limit the discretion of management with respect to certain business matters.

The 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 March 31, 2024.

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.

	As at March 31, 2024	As at December 31, 2023
Revolving portion of the senior credit facility	14	-
Deferred financing costs	(97)	(107)
Total	(83)	(107)

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 March 31, 2024 the Company was in compliance with its financial covenants on the Senior Credit Facility.

10.2 SENIOR TERM FACILITY

Under the terms of the Senior Term Facility, the Company has designated portions up to a total of $10 million denominated in either Canadian or U.S. dollars. There is no balance outstanding as of March 31, 2024.

11 FINANCING EXPENSES

		Three Months Ended March 31,	
	Notes	2024	2023
Fees on senior credit facility	*10.1*	3	10
Interest on lease liability		268	265
Other interest and financing costs		279	153
Amortization of deferred financing costs		11	8
Total		561	436

12 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, 2022	28,286,889	234,029	11,400	222,629
Repurchase of common shares	(1,159,463)	(3,653)	-	(3,653)
Shareholders' capital - December 31, 2023	27,127,426	230,376	11,400	218,976
Repurchase of common shares	(27,092)	(92)	-	(92)
Shareholders' capital - March 31, 2024	27,100,334	230,284	11,400	218,884

12.1 NORMAL COURSE ISSUER BID

Total assets

The Company has an ongoing normal course issuer bid (the "Bid"). The current Bid is effective November 9, 2023 to November 8, 2024. The Bid allows the Company to purchase up to 1,360,000 Shares over the term. Tree Island has no obligation to purchase any Shares under the Bid.

For the period January 1, 2024 to March 31, 2024 the Company canceled 27,092 Shares purchased under the Bid at a total cost of $92 thousand (at an average price of $3.40 per Share). Subsequent to March 31, 2024, the Company purchased 358,696 shares at a total cost of $1.1 million (at an average price of $3.19 per share).

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 March 31, 2024, Futura owns 36.2% 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 months ended March 31, 2024, Tree Island sold, net of rebates, approximately $0.7 million ($0.6 million in 2023) of goods to DBM and trade accounts receivable owing from DBM as at March 31, 2024 is approximately $0.3 million ($46 thousand in 2023). Outstanding trade accounts receivable from DBM at period end are unsecured, interest free and settlement occurs in cash (Note 6).

13.2 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 months ended March 31, 2024 were approximately $0.3 million ($0.3 million in 2023) 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 March 31, 2024	2023
Current tax expense	(803)	(2,045)
Deferred tax recovery	(37)	118
Total in the Consolidated Statement of Operations	(840)	(1,927)

TII Canada has entered into a payment plan with the Canada Revenue Agency to pay 50% of the Tax Amount over the course of 14 months through April 2025. Included in the Income Tax Recoverable amount on the Statement of Financial Position is a deposit amount of $1.7 million paid as of March 31, 2024.

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, cash equivalents, accounts receivable and accounts payable and accrued liabilities approximate their carrying amounts largely due to the short-term nature of these instruments;
- 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 March 31, 2024		As at December 31, 2023	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Cash	5,352	5,352	7,551	7,551
Cash equivalents	14,853	14,853	12,789	12,789
Accounts receivable	28,878	28,878	23,748	23,748
Total financial assets	49,083	49,083	44,088	44,088
Senior revolving facility	14	14	-	-
Accounts payable, accrued & other current liabilities	15,573	15,573	15,110	15,110
Lease liabilities	24,259	24,259	23,796	23,796
Total financial liabilities	39,846	39,846	38,906	38,906

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. As of March 31, 2024, the Company did not hold any of these 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.

The table below summarizes the future undiscounted contractual cash flow requirements for financial liabilities (including scheduled interest payments on interest bearing liabilities) as at March 31, 2024.

	Carrying Amount	Contractual Cash Flow	Less Than 1 Year	1 - 2 Years	Greater Than 2
Senior revolving facility	14	14	14	-	-
Accounts payable, accrued and other liabilities	15,573	15,573	15,573	-	-
Lease liability	24,259	37,801	2,305	2,323	33,173
As at March 31, 2024	39,846	53,388	17,892	2,323	33,173
Accounts payable, accrued and other liabilities	15,110	15,110	15,110	-	-
Lease liability	23,796	35,187	1,770	1,744	31,673
As at December 31, 2023	38,906	50,297	16,880	1,744	31,673

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 March 31, 2024, the Company had no outstanding U.S. dollar currency forward contracts.

For the three months ended March 31, 2024, 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 there was no outstanding balance under the Senior Term Loan as of March 31, 2024.

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 March 31, 2024, 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 10.1 and 10.2.

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 March 31, 2024	As at December 31, 2023
Total shareholders' equity	127,242	126,877
Lease liabilities	24,259	23,796
Total capital	151,515	150,673

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 March 31, 2024, 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 March 31,	
	2024	2023
Net income for the period	625	5,850
Weighted average number of shares outstanding:	27,109,265	28,259,968
Net income per share ($/share)	0.02	0.21

19 PROVISIONS AND COMMITMENTS

19.1 CRA REASSESSMENT NOTICE

TI Canada received Notices of Reassessment (NORs) from the Minister of National Revenue under the Income Tax Act (Canada) and from Alberta Corporate Tax Act for the tax years 2015 through 2018. These NORS indicate that the tax liability, including interest, for the 2015 to 2018 taxation years is approximately $11.8 million (the “Tax Amount”) under the NORs and approximately $680,000 under the Alberta NORs. The Company disagrees with the disallowance of the bad debt deductions and capital losses and has contested the NORs and the Alberta NORs by filing notices of objection to start the appeals process. TII Canada has entered into a payment plan with the Canada Revenue Agency to pay 50% of the Tax Amount over the course of 14 months through April 2025. TI Canada has also entered into a payment plan with Alberta Tax and Revenue Administration (TRA) to pay 50% of the amounts reassessed over a period of six months starting in May 2024. Should TI Canada be successful in defending some or all of its tax filing position, any amounts paid to the CRA and TRA in relation to the Tax Amount in respect of which such defence was successful will be payable to the Company by the CRA and TRA with interest. If TI Canada is not successful, then any remaining federal or provincial taxes payable plus interest would have to be remitted by TI Canada, less the amounts already submitted to the CRA and TRA under the payment plan. There can be no assurance regarding the outcome of the appeals process or when a resolution may be reached. The Company has not recorded accruals in connection with the NORs or the Alberta NORs. See financial statement note 14.

19.2 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, other than as disclosed in Note 19.1, 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.

19.3 PURCHASE COMMITMENTS

As at Mar 31, 2024, Tree Island's wholly owned subsidiaries have committed to material purchases (including finished goods) totaling $39.9 million ($29.2 million in 2023).

20 SEGMENTED INFORMATION

20.1 MARKET SEGMENTS

Revenues, net of freight and distribution costs, for each group for the three months ended March 31, 2024 and 2023 were as follows:

	Three Months Ended March	
	2024	2023
Industrial	19,200	25,214
Commercial	11,956	20,099
Agricultural	10,422	12,672
Residential	14,975	17,286
Total revenue, net of freight and distribution costs	56,553	75,271

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.

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 March	
	2024	2023
United States	32,570	42,053
Canada	23,172	32,113
International	811	1,105
Total revenue, net of freight and distribution costs	56,553	75,271

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 March 31, 2024	As at December 31, 2023
United States	22,090	21,680
Canada	47,829	47,775
Total non-current assets	69,919	69,455

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.

Corporate Head Office:

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Richmond, B.C.
Canada, V6V 1T8

Website:

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Investor Relations*:*

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(416)-962-3300
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Auditors:

KPMG LLP Vancouver, B.C.