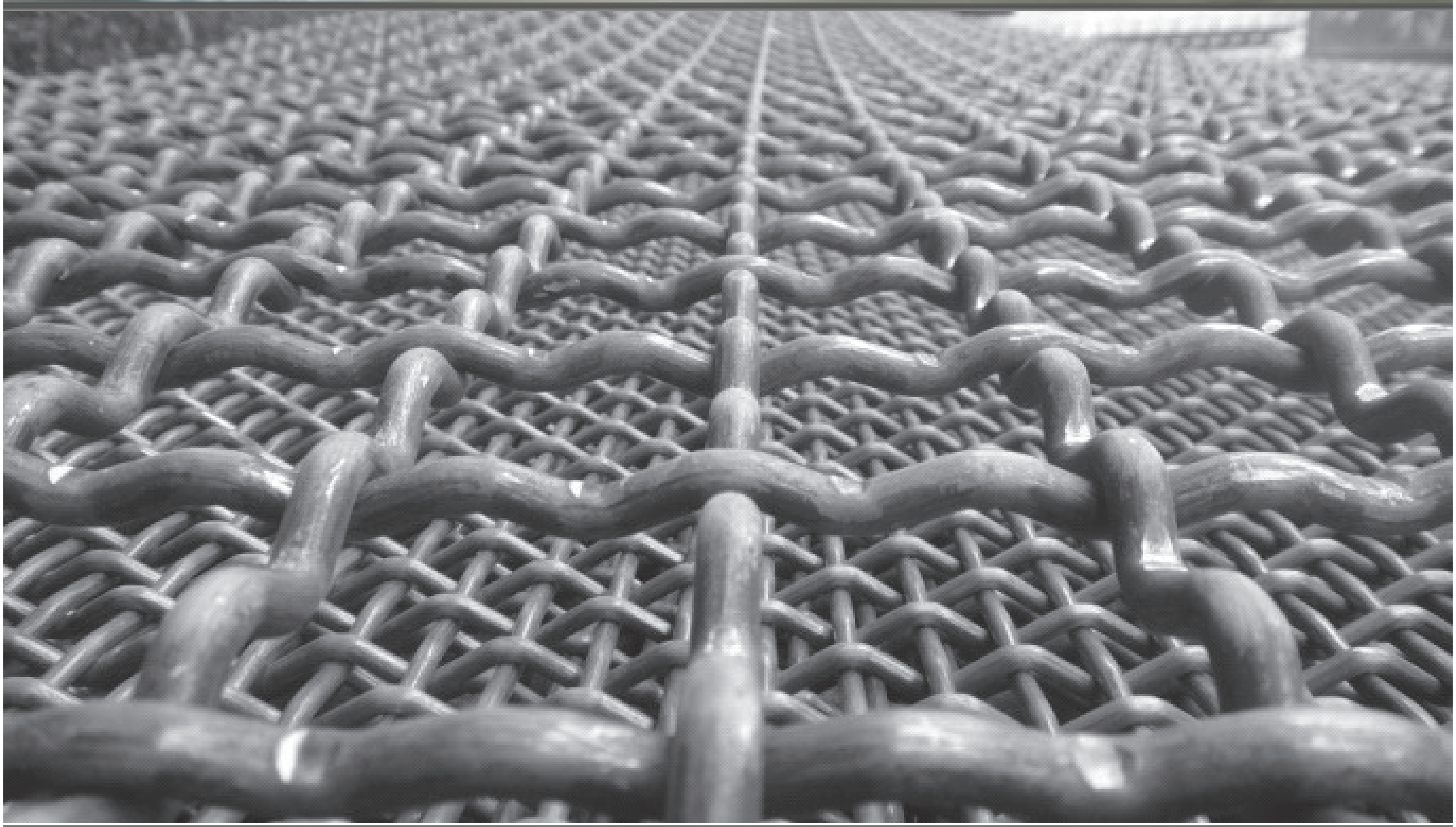
TREE ISLAND STEEL

WIRE & WIRE PRODUCTS

ESTABLISHED IN 1964



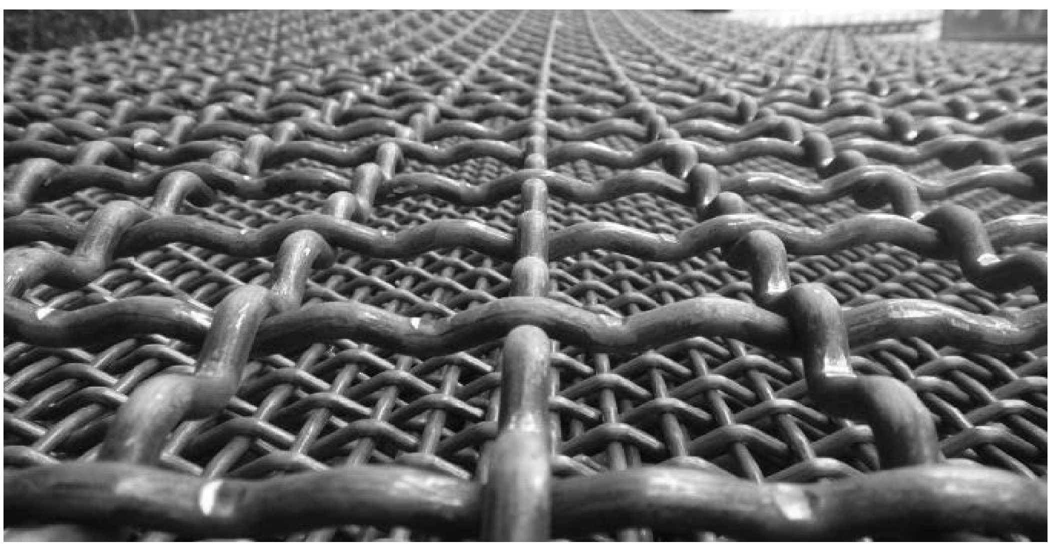
Consolidated Financial Statements

December 31, 2022

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

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

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



High Carbon, Bright Gravel Screen Wire (woven into an industrial screen)

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INDEPENDENT AUDITOR'S REPORT

To the Shareholders of Tree Island Steel Ltd.,

Opinion

We have audited the consolidated financial statements of Tree Island Steel Ltd. (the "Entity"), which comprise:

- the consolidated statements of financial position as at December 31, 2022 and December 31, 2021;
- the consolidated statements of operations for the years then ended;
- the consolidated statements of comprehensive income for the years then ended;
- the consolidated statements of shareholders' equity for the years then ended;
- the consolidated statements of cash flows for the years then ended;
- and notes to the consolidated financial statements, including a summary of significant accounting policies

(Hereinafter referred to as the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the consolidated financial position of the Entity as at December 31, 2022 and December 31, 2021, and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards (IFRS).

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *"**Auditor's Responsibilities for the Audit of the Financial Statements**"* section of our auditor's report.

We are independent of the Entity in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements for the year ended December 31, 2022. These matters were addressed in the context of our audit of the financial statements, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

We have determined the matters described below to be the key audit matters to be communicated in our auditor's report.

Assessment of finished and semi-finished products inventory cost

Description of the Key Audit Matter

We draw attention to Notes 3.4 and 6 to the consolidated financial statements. The finished and semi-finished products inventory cost is $26.6 million. The Entity records finished and semi-finished products inventory at the lower of weighted average cost and net realizable value. The cost for finished and semi-finished products includes direct costs incurred in production including direct labour, materials, freight, depreciation and directly attributable overhead costs and indirect overhead costs based on normal operating capacity. The Entity uses the standard cost method to measure the cost of finished and semi-finished products as this method approximates the weighted average cost.

Why the matter is a Key Audit Matter

We identified the assessment of the finished and semi-finished products inventory cost as a key audit matter. This matter required significant auditor attention given the magnitude of the finished and semi-finished products inventory balance, number of products, and number of inputs used to determine the weighted average costs.

How the matter was addressed in the audit

The primary procedures we performed to address this key audit matter included the following:

- We evaluated the design and tested the operating effectiveness of certain controls over the:
  - (a) approval of inputs used in the determination of weighted average costs for finished and semi-finished products inventory on a product by product basis;
  - (b) calculation of the weighted average costs of finished and semi finished products; and
  - (c) comparison of standard costs to actual costs for finished and semi-finished products including testing the inputs used in the performance of the control.
- We compared the aggregate actual costs used to produce all the finished and semi-finished products inventory to the aggregate standard cost amount of the finished and semi-finished products inventory.

Other Information

Management is responsible for the other information. Other information comprises:

- the information included in Management's Discussion and Analysis filed with the relevant Canadian Securities Commissions.
- the information, other than the financial statements and the auditor's report thereon, included in a document titled "Annual Report" filed with the relevant Canadian Securities Commissions.

Our opinion on the financial statements does not cover the other information and we do not and will not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit and remain alert for indications that the other information appears to be materially misstated.

We obtained the information included in Management's Discussion and Analysis and the "Annual Report" filed with the relevant Canadian Securities Commissions as at the date of this auditor's report. If, based on the work we have performed on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact in the auditor's report.

We have nothing to report in this regard.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with International Financial Reporting Standards (IFRS), and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Entity's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Entity or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Entity's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion.

Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgement and maintain professional skepticism throughout the audit.

We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion.

  The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Entity's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Entity's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Entity to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair representation.

- Communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.
- Provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.
- Determine, from the matters communicated with those charged with governance, those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our auditor's report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

KPMG LLP

Chartered Professional Accountants

The engagement partner on the audit resulting in this auditor's report is Andrew James.

Vancouver, Canada
March 2, 2023

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

($'000 unless otherwise stated)	*Notes*	As at December 31, 2022	As at December 31, 2021
Cash		14,976	33,251
Accounts receivable	*5, 12.1*	30,445	38,054
Inventory	*6*	57,531	77,512
Prepaid expenses		5,223	6,785
Income taxes recoverable		1,142	-
Current assets		109,317	155,602
Property, plant and equipment	*7, 7.1*	46,296	49,042
Right of use assets	*8.1*	19,401	19,886
Other non-current assets		1,312	1,276
Total assets		176,326	225,806
Accounts payable and accrued liabilities	*21*	16,943	27,278
Income taxes payable	*14.1*	-	18,305
Other current liabilities		19	55
Dividends payable		1,415	2,275
Current portion of long-term borrowing	*9.2*	-	2,819
Current portion of ROU lease liabilities	*8.2*	2,296	3,546
Current liabilities		20,673	54,278
Senior term loans	*9.2*	-	10,363
ROU Lease liabilities	*8.2*	23,616	24,289
Other non-current liabilities		456	517
Deferred income tax liabilities	*14.2*	3,485	3,738
Total liabilities		48,230	93,185
Shareholders' equity		128,096	132,621
Total liabilities and shareholders' equity		176,326	225,806

See accompanying Notes to the Audited 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*	Year Ended December 31, 2022	2021
Revenue	*5, 12.1, 20.1*	338,434	301,848
Cost of sales	*6*	(267,604)	(227,378)
Depreciation	*7.1, 8.1*	(5,497)	(5,843)
Gross profit		65,333	68,627
Selling, general and administrative expenses		(14,851)	(16,367)
Operating income		50,482	52,260
Foreign exchange loss		(36)	(140)
Gain (loss) on sale of property, plant and equipment		(214)	63,897
Other expenses		(155)	(7)
Site closure provision	21	(2,229)	-
Equipment impairment	*7.1*	(1,363)	-
Financing expenses	*10*	(2,274)	(2,532)
Income before income taxes		44,211	113,478
Current income tax expense	*14.1*	(11,358)	(25,352)
Deferred income tax recovery (expense)	*14.2*	253	(155)
Net income		33,106	87,971
Net income per share	*18*	1.17	3.09
Dividends per share		1.38	0.22
Weighted average number of shares	*18*	28,396,993	28,453,485

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

($'000 unless otherwise stated)	Year Ended December 31, 2022	2021
Net income for the year	33,106	87,971
Unrealized gain on foreign exchange translation	2,130	38
Comprehensive income	35,236	88,009

See accompanying Notes to the Audited Consolidated Financial Statements

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

($'000 unless otherwise stated)	Shareholders' Capital *Note 11*	Retained Earnings	Accumulated Other Comprehensive Loss	Total
Balance as at December 31, 2021	223,163	(88,012)	(2,530)	132,621
Repurchase of shares	(534)	-	-	(534)
Net Income	-	33,106	-	33,106
Dividends	-	(39,227)	-	(39,227)
Other comprehensive income	-	-	2,130	2,130
Balance as at December 31, 2022	222,629	(94,133)	(400)	128,096
Balance as at December 31, 2020	223,363	(169,726)	(2,568)	51,069
Repurchase of shares	(200)	-	-	(200)
Net Income	-	87,971	-	87,971
Dividends	-	(6,257)	-	(6,257)
Other comprehensive income	-	-	38	38
Balance as at December 31, 2021	223,163	(88,012)	(2,530)	132,621

See accompanying Notes to the Audited Consolidated Financial Statements

CONSOLIDATED STATEMENTS OF CASH FLOWS

($'000 unless otherwise stated)	*Notes*	Year Ended December 31, 2022	2021
Net income		33,106	87,971
Depreciation	*7.1, 8.1*	5,497	5,843
Equipment impairment	*7.1*	1,363	-
Unrealized foreign exchange loss on revaluation of lease liability		1,714	(70)
Gain (loss) on sale of property, plant and equipment		(214)	(63,896)
Net financing costs		2,274	2,532
Deferred income tax expense (recovery)		(253)	155
Exchange revaluation of foreign denominated debt	*9.2*	474	(55)
Working capital adjustments			
Accounts receivable		7,609	(13,236)
Inventories		19,981	(30,704)
Accounts payable and accrued liabilities		(10,230)	9,642
Prepaid expenses		1,527	(3,432)
Income and other taxes		(19,448)	16,922
Other		(25)	201
Net cash provided by operating activities		43,375	11,873
Proceeds on disposal of property plant and equipment		-	69,244
Purchase of property, plant and equipment		(1,456)	(12,131)
Net cash provided by (used in) investing activities		(1,456)	57,113
Term loans - repayment, net	*9.2*	(13,656)	(2,803)
Lease interest paid		(1,025)	(1,199)
Lease principal payments		(3,784)	(1,573)
Other interest paid		(1,166)	(1,319)
Repayment of senior revolving facility		-	(25,340)
Dividend paid		(40,087)	(4,552)
Repurchase of common shares		(534)	(200)
Net cash used in financing activities		(60,252)	(36,986)
Effect of exchange rate change on cash		58	6
Increase (decrease) in cash		(18,275)	32,006
Cash - beginning of year		33,251	1,245
Cash - end of year		14,976	33,251

See accompanying Notes to the Audited Consolidated Financial Statements

1 NATURE OF BUSINESS

These audited consolidated financial statements of Tree Island Steel ("Tree Island" or the "Company") for the years ended December 31, 2022 and 2021 were authorized for issue in accordance with a resolution of the Board of Directors on March 2, 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 audited consolidated financial statements as at and for the years ended December 31, 2022 and 2021 have been prepared in accordance with the International Financial Reporting Standards ("IFRS"). Certain comparative information has been reclassified to conform to the presentation adopted during the current year.

These audited 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 audited condensed consolidated financial statements have been prepared using the accrual basis of accounting.

2.2 BASIS OF CONSOLIDATION

The consolidated financial statements include the accounts of the Company, TI Canada, and TI Canada's wholly-owned subsidiaries, Tree Island Wire Holdings. ("TIWH") and Tree Island Wire. ("TI USA"). Intercompany accounts and transactions have been eliminated on consolidation.

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 applied in the preparation of these consolidated financial statements are set out below:

3.1 CHANGES IN ACCOUNTING POLICIES

Tree Island prepares its audited consolidated financial statements in accordance with IFRS. 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.

3.2 REVENUE RECOGNITION

Tree Island recognizes revenue on the sale of goods when control passes to the buyer, which is typically when the product is shipped. Revenue related to contract manufacturing (also known as tolling) is recognized at the point at which the items are ready to ship to the customer. For both the sale of goods and contract manufacturing, revenue is stated net of early payment discounts, freight where applicable, and rebates granted.

Early payment discounts are recognized on an invoice-by-invoice basis (not in aggregate) prior to the early payment date, and if the early payment date lapses without payment being made, the early discount amount forfeited will be recognized as revenue.

Volume rebates discounts are recognized separately for each customer by first estimating the rebate payable for the year based on the most likely amount method and allocating the expected rebates proportionately to each performance obligation.

3.3 CASH

Cash is comprised of bank balances from operating accounts and also includes outstanding items in deposit and net of outstanding disbursement accounts, cash balances in excess of amounts outstanding on the senior revolving facility (as defined in Note 9.1), short term market securities, with maturities less than three months, and cash on hand.

3.4 INVENTORIES

Raw materials and consumable supplies and spare parts inventories are stated at the lower of weighted average cost and net realizable value. Finished and semi-finished products are stated at the lower of weighted average cost and net realizable value. Cost for finished and semi-finished products includes direct costs incurred in production including direct labour, materials, freight, depreciation and directly attributable overhead costs and indirect overhead costs based on normal operating capacity. The standard cost method is used to measure the cost of finished and semi-finished products as this method approximates the weighted average cost. Net realizable value is the estimated selling price in the ordinary course of business less estimated costs to sell. Consumable supplies and spare parts are inventories that are expected to be consumed in operations.

3.5 PROPERTY, PLANT AND EQUIPMENT AND DEPRECIATION

No depreciation is charged on capital projects during the period of construction. Costs are recognized net of government incentives. Regular repair and maintenance costs are recognized in the consolidated statement of operations as incurred. Depreciation is determined using the straight-line method over the estimated useful lives of the depreciable assets. When parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items of property, plant and equipment. Depreciation methods, asset residual values and useful lives are reviewed annually and adjusted prospectively as required.

Depreciation is calculated over the following rates:

Land	not depreciated
Buildings and improvements	19 to 30 years
Leasehold improvements	based on the term of the respective lease
Machinery and equipment	3 to 20 years

An item of property, plant and equipment and any significant part initially recognized is derecognized upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the consolidated statement of operations when the asset is derecognized.

3.6 LEASES

3.6.1 RIGHT-OF-USE-ASSETS

Tree Island recognizes a right-of-use (ROU) asset and a lease liability at the commencement date of the lease. The right-of-use asset is initially measured at cost on the lease commencement date which comprises of:

- The initial amount of the lease liability;
- Any lease payments made at or before the commencement date, less any lease incentive received;
- Any initial direct costs incurred by Tree Island; and
- Any estimated costs to dismantle and remove the underlying asset or to restore the underlying asset to the conditions required by the lease contracts.

ROU assets are subsequently depreciated using the straight-line method from the commencement date to the earlier of the end of the useful lives of the ROU assets or the end of the lease term. The estimated useful lives of the ROU assets are determined on the same basis as those of property and equipment. Subsequent to the initial measurement, Tree Island will measure the ROU assets at cost less any accumulated depreciation and impairment losses and adjusted for any remeasurement of the lease liability.

3.6.2 LEASE LIABILITY

The lease liability is initially measured at the present value of the lease payments, that are not paid at the commencement date, discounted using the interest rate implicit in the lease, or, if that rate cannot be readily determined, Tree Island's incremental borrowing rate. Generally, Tree Island uses its incremental borrowing rate as the discount rate. Determining the discount rate (incremental borrowing rate) requires significant judgment and may have a significant quantitative impact on the lease liability valuations. Many of the lease liabilities contain one or several lease extension clauses, and could reasonably be extended beyond the lease extensions outlined in the contract. Determining the length of the lease to be used in the present value calculation of the lease obligation requires significant judgement and may have a significant impact on lease liability valuations.

The lease liability is subsequently increased by the interest cost on the lease liability and decreased by lease payment made. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, a change in the estimate of the amount expected to be payable under a residual value guarantee, or as appropriate, changes in the assessment of whether a purchase or extension option is reasonably certain to be exercised or a termination option is reasonably certain not to be exercised.

Tree Island has applied judgment to determine the lease term for some lease contracts in which it is a lessee that include renewal options. The assessment of whether Tree Island is reasonably certain to exercise such options impacts the lease term, which significantly affects the amount of lease liabilities and right-of-use assets recognized.

3.6.3 SHORT-TERM LEASES AND LEASES OF LOW-VALUE

Tree Island applies the short-term lease recognition exemption to its short-term leases of machinery and equipment which have a lease term of 12 months or less from the commencement date and do not contain a purchase option. Tree Island also applies the lease of low-value assets recognition exemption to leases of office equipment that are considered of low value, with a threshold of below $5 thousand. Lease payments on short-term leases and leases of low-value assets are recognized as expense on a straight-line basis over the lease term.

3.7 IMPAIRMENT OF NON-FINANCIAL ASSETS

3.7.1 IMPAIRMENT CHARGES

Tree Island performs impairment tests on property, plant and equipment when events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss, if any, is determined as the excess of the carrying value of the asset over its recoverable amount, and is recognized in the consolidated statement of operations.

Tree Island assesses at each reporting date whether there is an indication that an asset may be impaired. If any indication exists Tree Island estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating unit's ("CGU") fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. Where the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

In determining fair value less costs to sell, fair value is based on quoted market prices, prices for similar assets or other valuation techniques. The impairment analysis contains estimates due to the inherently speculative nature of forecasting long-term estimated cash flows and determining the ultimate useful lives of assets. If any of these estimates change, future net cash flows from the assets could be lower, which would result in additional impairment. As well, as much as practicable, third-party valuators are used to provide fair values which also contain assumptions concerning current market information for similar or same assets and if applicable functional and economic obsolescence.

Impairment losses of continuing operations are recognized in the consolidated statement of operations.

3.8 FAIR VALUE MEASUREMENT

The Company measures financial instruments such as derivatives at fair value at each statement of financial position date.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability, or
- In the absence of a principal market, in the most advantageous market for the asset or liability.

The principal or the most advantageous market must be accessible by the Company. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Company uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs.

All financial assets and liabilities for which fair value is measured or disclosed in the consolidated financial statements are categorized within the fair value hierarchy (Note 15.2).

For assets and liabilities that are measured at fair value on a recurring basis, the Company determines whether transfers have occurred between levels in the hierarchy by re-assessing categorization (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

3.9 FINANCIAL INSTRUMENTS AND RISKS

3.9.1 FINANCIAL ASSETS

Financial assets initially measured at fair value and thereafter at amortized cost include account receivables. The financial assets are classified depending on the business model for which the financial assets were acquired.

Financial assets measured at amortized costs are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are classified as current assets or non-current assets based on their maturity date.

Tree Island assesses impairment of financial assets at each reporting date, using the expected credit loss model. The Company applies the simplified approach permitted by IFRS 9. Under this approach, lifetime expected credit losses are recognized and are calculated using a provision matrix based on historical impairment rates, which is adjusted based on current conditions and future expectations. To measure the expected credit losses, financial assets are grouped based on the shared credit risk characteristics and the days past due. Accounts receivable and loans receivable are subject to the impairment requirements of IFRS 9.

3.9.2 FINANCIAL LIABILITIES

Financial liabilities initially measured at fair value and thereafter at amortized cost include the senior revolving facility, accounts payable and other accrued liabilities, senior term loans and long-term debt.

Financial liabilities are classified as current or non-current based on their maturity date and recognized initially at fair value, net of transaction costs incurred and are subsequently stated at amortized cost. Any difference between the amounts originally received, net of transaction costs, and the redemption value is recognized in the consolidated statement of operations over the period to maturity using the effective interest method.

A financial liability is derecognized when the obligation under the liability is discharged or cancelled or expires.

3.9.3 FINANCIAL INSTRUMENTS AT FAIR VALUE THROUGH PROFIT AND LOSS

Financial instruments at fair value through profit and loss are initially recognized at their fair value on the date the contract or transaction is entered into and are subsequently re-measured at their fair value at each reporting period with changes in the fair value recognized through the consolidated statement of operations. Financial instruments at fair value through profit and loss include the change in purchase agreements for zinc and foreign exchange forward contracts.

3.10 PROVISIONS

3.10.1 GENERAL

Provisions are recognized when Tree Island has an obligation (legal or constructive) as a result of a past event, when it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made on the amount of the obligation. Where Tree Island expects some or all of a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognized as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in the consolidated statement of operations, net of any reimbursement.

3.10.2 ASSET DECOMISSIONING AND RETIREMENT OBLIGATIONS

Tree Island recognizes obligations associated with the retirement of property, plant and equipment that result from the acquisition, construction, development or normal operations of the assets. These obligations are recorded in the period in which the obligations are incurred, if a reasonable estimate can be made. In general, the present value of the estimated future expenditures is added to the carrying amount of the associated asset and the resulting asset retirement cost is depreciated over the estimated useful life of the asset. The present value is determined with a discount rate that equates to the Company's credit-adjusted risk-free rate. Where an asset is no longer in service when an asset retirement obligation is recorded, the asset retirement cost is recorded in results of operations.

3.11 POST-RETIREMENT BENEFITS

Tree Island contributes to a group registered retirement savings plan for Canadian employees and a 401K plan for U.S. employees. The cost of these plans are expensed as earned by employees.

3.12 TAXES

3.12.1 CURRENT INCOME TAX

Current income tax assets and liabilities for the current period are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted, at the reporting date in the countries where Tree Island operates and generates taxable income.

Management periodically evaluates positions taken in the tax returns with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions where appropriate.

3.12.2 DEFERRED TAX

Deferred tax is provided using the liability method on temporary differences between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes at the reporting date.

Deferred tax assets and liabilities are recognized for all taxable temporary differences, except in respect of taxable temporary differences associated with investments in subsidiaries when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognized for all deductible temporary difference to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry-forward of unused tax losses can be utilized, except in respect of deductible temporary differences associated with investments in subsidiaries.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilized. Unrecognized deferred tax assets are reassessed at each reporting date and are recognized to the extent that it has become probable that future taxable profits will allow the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date.

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current income tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

3.12.3 SALES TAX

Revenues, expenses and assets are recognized net of the amount of sales tax, except when the sales tax incurred on a purchase of assets or services is not recoverable from the taxation authority, in which case, the sales tax is recognized as part of the cost of acquisition of the asset or as part of the expense item, as applicable.

Receivables and payables are stated with the amount of sales tax included.

The net amount of sales tax recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the consolidated statement of financial position.

3.13 NET INCOME (LOSS) PER SHARE

Basic net income (loss) per Share is calculated by dividing net income (loss) by the weighted-average number of Shares outstanding during the period. Diluted net income (loss) per Share is calculated by factoring in the impact of dilutive instruments, if applicable.

3.14 FOREIGN EXCHANGE

Transactions in currencies other than the functional currency are recorded at the rate of exchange prevailing on the date of the transaction. Monetary assets and liabilities that are denominated in foreign currencies are translated at the rate prevailing at each reporting date. Non-monetary assets and liabilities denominated in foreign currencies are translated to the functional currency at the exchange rate at the date of the transaction. Non-monetary items that are measured at historical cost in a foreign currency are translated at the exchange rate on the date of the transaction.

On consolidation the assets and liabilities of foreign operations are translated into Canadian dollars at the rate of exchange prevailing at the reporting date and their consolidated statement of operations are translated at exchange rates prevailing at the dates of the transactions. The exchange differences arising on translation for consolidation are recognized in other comprehensive income.

3.15 CRITICAL ACCOUNTING JUDGMENTS AND ESTIMATES

The preparation of consolidated financial statements in accordance with IFRS requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingencies as at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Significant areas that involve estimates are listed below:

3.15.1 INVENTORY VALUATION

Inventories are recognized at the lower of cost or their Net Realizable Value ("NRV"), which is the estimated selling price in the ordinary course of business less the estimated costs of completion and estimated costs necessary to make the sale. IFRS requires that the estimated NRV be based on the most reliable evidence available at the time the estimates are made of the amounts that inventories are expected to realize.

The measurement of an inventory write-down to NRV is based on our best estimate of the NRV and of our expected future sale or consumption of our inventories. Due to market driven fluctuations in certain product group sales prices and the commodity nature of our significant raw materials, there is uncertainty as to whether the NRV of the inventories will remain consistent with those used in our assessment of NRV at period end. As a result there is the risk that a write-down of on-hand and unconsumed inventories could occur in future periods. Also, a certain portion of inventory may become damaged or obsolete. A slow moving reserve is recorded, as required, based on an analysis of the length of time product has been in inventory and historical rates of damage and obsolescence. Refer to Note 6 for the inventory provision as at December 31, 2022 and 2021.

3.15.2 ALLOWANCE FOR DOUBTFUL ACCOUNTS

It is possible that a certain portion of required customer payments will not be made, and as such an allowance for these doubtful accounts is maintained. The allowance is based on estimation of the potential of recovering the accounts receivable and incorporates current and expected collection trends. The estimates will change, as necessary, to reflect market or specific industry risks, as well as known or expected changes in the customers' financial position. Refer to Note 5 for the carrying amount of allowance for doubtful accounts as at December 31, 2022 and 2021.

3.15.3 PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment comprises a large component of the total assets of Tree Island and as such the capitalization of costs, the determination of estimated recoverable amounts and the estimates of useful lives of these assets have a significant effect on Tree Island's financial results.

During the repair and maintenance of an asset, the useful life of the respective asset may be reviewed and revised as appropriate.

The carrying value of plant, property and equipment is reviewed at the end of each reporting period. The impairment analysis contains estimates that can change due to the inherently speculative nature of forecasting long-term estimated cash flows and determining the ultimate useful lives of assets. If any of these estimates change significantly, future net cash flows from the property, plant and equipment could be lower or higher, which would result in impairments or reversal of impairments recognized in prior periods. As well, as much as practicable, third-party valuators are used to provide fair values that also contain assumptions concerning current market information for similar or same assets and if applicable functional and economic obsolescence.

3.15.4 LEASES

Lease liabilities are measured at the present value of the lease payments discounted using the applicable incremental borrowing rate or rate implicit in the lease. Determining the discount rate (incremental borrowing rate) requires significant judgment and may have a significant quantitative impact on lease liability valuations. Many of the lease liabilities contain one or several lease extension clauses, and could reasonably be extended beyond the lease extensions outlined in the contract. Determining the length of the lease to be used in the present value calculation of the lease obligation requires significant judgement and may have significant impact on lease liability valuations.

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 year ended December 31, 2022, freight cost amounts to $21.1 million ($17.6 million in 2021).

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

	As at December 31, 2022	As at December 31, 2021
Current	28,351	35,911
Over 30 days past due	2,524	2,629
Total accounts receivable	30,875	38,540
Allowance for doubtful accounts	(430)	(486)
Net accounts receivable	30,445	38,054

Accounts receivable are non-interest bearing and are generally due on 30-day to 90-day terms. The credit risk that Tree Island is exposed to by way of its accounts receivable is equal to the net amount of $30.4 million as at December 31, 2022 ($38.1 million as at December 31, 2021).

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

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

	As at December 31, 2022	As at December 31, 2021
Opening balance - beginning of year	486	331
Additions during the year	-	232
Payments	-	(77)
Write-offs during the year	(60)	-
Foreign exchange revaluation	4	-
Closing balance - end of year	430	486

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 December 31, 2022	As at December 31, 2021
Raw materials	15,901	30,397
Finished and semi-finished products	26,554	33,006
Consumable supplies and spare parts	15,076	14,109
Total inventory	57,531	77,512

For the year ended December 31, 2022 and 2021, Tree Island recognized, in income, inventory costs for the following:

	Year Ended December 31, 2022	2021
Opening inventory	77,512	46,808
Material purchases	186,266	201,609
Conversion costs	61,357	56,473
Closing inventory	(57,531)	(77,512)
Cost of sales	267,604	227,378

At each year end, the ending inventories on hand are reviewed to determine if a write down to net realizable value is required. Based on this review, it was determined that no write-downs were necessary in 2022 and 2021. The reserves for slow moving inventory as at December 31, 2022 were $1.5 million ($1.4 million at December 31, 2021).

7 PROPERTY, PLANT AND EQUIPMENT

The carrying value of property, plant and equipment is reviewed each reporting period. For the purposes of testing for impairment, or the reversal of impairment, Tree Island Steel's assets are grouped and tested at the Cash Generating Unit level. Tree Island considers both qualitative and quantitative factors when determining whether an asset may be impaired, or when a reversal of impairment is required. Where the carrying value of the assets is not expected to be recoverable from future cash flows, they are written down to their recoverable amount. Tree Island has noted no indicators of impairment as at December 31, 2022.

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

On December 16, 2021 Tree Island closed the sale of its Etiwanda facility, located in Rancho Cucamonga, California, U.S., to a third party for gross proceeds of $71.0 million, recognizing a gain before tax of $63.2 million. As of the closing date, Tree Island entered into a 24 month (2 years) commercial lease agreement with the purchaser for the land and building and a Right of Use Asset and Lease Liability have been recorded (see Note 8.1 and 8.2). The Lease Liability is based on an 18 month, non-cancellable term. Cash proceeds from the sale were used in part to pay down the outstanding balance on the revolving credit facility and the remainder was held as cash at year end.

On November 25, 2021 Tree Island purchased the Calgary facility it was previously leasing. Total purchase price was $11.3 million, which was allocated equally between land and building. At the time of purchase, the previously recorded Right of Use Asset and corresponding Lease Liability were derecognized (see Note 8.1 and 8.2). At the time of derecognition, a gain before tax of $0.7 million was realized.

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 part of the planned site closure, certain equipment will be relocated to other sites to replace less efficient, lower performing equipment. Any remaining equipment that is not relocated will be disposed off to extract the most value for the Company.

7.1 IMPAIRMENT OF PRODUCTION EQUIPMENT

The Company has reviewed certain of its machinery and equipment at its operations in Etiwanda that will be relocated as part of the closure and concluded that the costs for the amortized carrying value of the initial implementation of the equipment is impaired. As a result, the Company has recognized an impairment charge to income in 2022 of $1.4 million.

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

	Land & Improvement	Building & Improvement	Machinery & Equipment	Capital in Progress	Total
Cost					
As at December 31, 2020	9,748	46,960	43,029	744	100,481
Additions	5,625	5,816	1,142	(313)	12,270
Disposals	(2,026)	(5,693)	(309)	(19)	(8,047)
Foreign exchange translation	(9)	(41)	(61)	(1)	(112)
As at December 31, 2021	13,338	47,042	43,801	411	104,592
Additions	-	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
Depreciation and impairment					
As at December 31, 2020	70	36,194	21,150	-	57,414
Depreciation for the period	16	1,408	2,155	-	3,579
Disposals	-	(5,121)	(272)	-	(5,393)
Foreign exchange translation	(86)	68	(32)	-	(50)
As at December 31, 2021	-	32,549	23,001	-	55,550
Depreciation for the period	-	1,333	2,129	-	3,462
Disposals	-	-	(308)	-	(308)
Equipment impairment (Note 7.1)	-	-	1,363	-	1,363
Foreign exchange translation	-	82	452	-	534
As at December 31, 2022	-	33,964	26,637	-	60,601
Net book value as at					
December 31, 2021	13,338	14,493	20,800	411	49,042
December 31, 2022	13,338	13,364	18,638	956	46,296

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.

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

8.1 RIGHT OF USE ASSETS

	Land & buildings	Machinery & equipment	Total right-of-use assets
Cost			
As at December 31, 2020	31,475	2,197	33,672
Additions	157	336	493
Disposals	(7,099)	(273)	(7,372)
Foreign exchange translation	(99)	5	(94)
As at December 31, 2021	24,434	2,265	26,699
Additions	-	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
Depreciation and impairment			
As at December 31, 2020	(6,653)	(1,037)	(7,690)
Additions	(1,850)	(414)	(2,264)
Disposals	2,887	251	3,138
Foreign exchange translation	6	(3)	3
As at December 31, 2021	(5,610)	(1,203)	(6,813)
Depreciation for period	(1,401)	(634)	(2,035)
Disposals	167	375	542
Foreign exchange translation	(370)	140	(230)
As at December 31, 2022	(7,214)	(1,322)	(8,536)
Carrying value as at:			
December 31, 2021	18,824	1,062	19,886
December 31, 2022	18,639	762	19,401

8.2 LEASE LIABILITY

	Land & buildings	Machinery & equipment	Total lease liabilities
Lease liability			
As at December 31, 2020	28,975	1,173	30,148
New contracts and renewals	3,994	342	4,336
Contract disposal	(4,952)	(22)	(4,974)
Interest expense	1,160	39	1,199
Payment of lease liability	(2,327)	(445)	(2,772)
Foreign exchange translation	(99)	(3)	(102)
Lease liability as at December 31, 2021	26,751	1,084	27,835
New contracts and renewals	-	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
As at December 31, 2022	25,121	791	25,912
Less: current portion	(1,906)	(390)	(2,296)
Total as at December 31, 2022	23,215	401	23,616

9 SENIOR CREDIT FACILITY

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

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

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

9.1 SENIOR REVOLVING CREDIT FACILITY

The amount advanced under the Senior Credit Facility at any time is limited to a defined percentage of inventories, accounts receivable, machinery and equipment, and real estate, less certain reserves. The Senior Credit Facility is secured by a first charge over Tree Island's assets supported by the appropriate guarantees, pledges and assignments, and requires that certain covenants be met by Tree Island.

The Senior Credit Facility includes a $10.0 million Letter of Credit sub-facility which enables TI Canada and TI USA to open documentary and standby letters of credit for raw material purchases. There was a $718 thousand Letter of Credit outstanding as at December 31, 2022.

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

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

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

	As at December 31, 2022	As at December 31, 2021
Deferred financing costs	(15)	(44)
Total	(15)	(44)

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

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

As at December 31, 2022 the Company was in compliance with its financial covenants on the Senior Credit Facility.

9.2 SENIOR TERM FACILITY

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

The following amounts are outstanding under the Senior Term Facility:

	As at December 31, 2022	As at December 31, 2021
Senior term loans - beginning of period	13,182	16,040
Foreign exchange revaluation	474	(55)
Payments	(13,656)	(2,803)
Senior term loans - end of period	-	13,182
Less: current portion	-	(2,819)
Total	-	10,363

During the year, the outstanding balance on the Senior Term Loan was paid in full.

10 FINANCING EXPENSES

	Notes	Year Ended December 31, 2022	Year Ended December 31, 2021
Interest on senior credit facility	*9.1*	221	462
Interest on senior term facility	*9.2*	297	278
Interest on lease liability		1,025	1,199
Other interest and financing costs		703	581
Amortization of deferred financing costs		28	12
Total		2,274	2,532

11 SHAREHOLDERS' CAPITAL

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

Shares issued and outstanding are as follows:

	Shares	Gross	Issuance Cost	Net
Shareholders' capital - December 31, 2020	28,503,514	234,763	11,400	223,363
Repurchase of common shares	(69,326)	(200)	-	(200)
Shareholders' capital - December 31, 2021	28,434,188	234,563	11,400	223,163
Repurchase of common shares	(147,299)	(534)	-	(534)
Shareholders' capital - December 31, 2022	28,286,889	234,029	11,400	222,629

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, 2022 to December 31, 2022 the Company canceled 147,299 Shares purchased under the Bid at a total cost of $534 thousand (at an average price of $3.63 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, and Mr. Rosenfeld, the Executive Vice President of Futura, sit on the Board of Directors.

Based on Tree Island Steel’s outstanding Shares as at March 2, 2023, Futura owns 34.7% 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 twelve months ended December 31, 2022, Tree Island sold, net of rebates, approximately $3.2 million ($3.5 million in 2021) of goods to DBM and trade accounts receivable owing from DBM as at December 31, 2022 is approximately $0.1 million ($0.3 million in 2021). Outstanding trade accounts receivable from DBM at period end are unsecured, interest free and settlement occurs in cash (Note 5).

12.2 TRANSACTION WITH KEY MANAGEMENT PERSONNEL

Included in the definition of key management for purposes of disclosure of related party transactions are members of Board of Directors and officers of Tree Island Steel. Amounts for key management personnel for the year ended December 31, 2022 were approximately $1.7 million ($2.7 million approximately in 2021) which includes wages, salaries and retirement contributions, paid annual and sick leave, vehicle costs and also includes directors’ fees paid to members of the Board.

13 POST RETIREMENT BENEFITS

Tree Island contributes to a group registered retirements savings plan for all eligible Canadian employees and a 401K for all eligible U.S. employees. Contributions made by Tree Island’s subsidiaries in 2022 amounted to $1.4 million ($1.4 million in 2021). Funding obligations are satisfied upon making contributions.

14 INCOME TAXES

14.1 INCOME TAX EXPENSE

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

	Year Ended December 31, 2022	2021
Current tax expense	(11,358)	(25,352)
Deferred tax expense	253	(155)
Total in the Consolidated Statement of Operations	(11,105)	(25,507)

The expense or recovery of income taxes varies from the amount that would be expected if computed by applying the Canadian federal and provincial and U.S. federal and state statutory income tax rates to the income before income taxes as shown in the following table:

	As at December 31, 2022	2021
Income before provision for income taxes	44,211	113,478
Tax Rate	27.0%	27.0%
Expected income tax expense	(11,937)	(30,639)
Items not deductible for tax	(45)	(26)
Foreign exchange on intercompany loans	-	(62)
Change in unrecognized deferred tax benefits	226	4,802
Foreign withholding taxes	(155)	-
Non-taxable capital gain	546	-
Deferred state tax carryforward	695	-
Other	(435)	418
Total in the Consolidated Statement of Operations	(11,105)	(25,507)

14.2 DEFERRED INCOME TAX ASSETS AND LIABILITIES

The components of deferred income tax assets and liabilities as at December 31 are as follows:

	As at December 31, 2022	2021
Non-capital tax loss-carry forwards	1,581	1,390
Property, plant and equipment	(6,185)	(6,263)
Capital losses	886	886
Reserves and other liabilities	5	11
Interest and other	228	238
Deferred tax asset (liability)	(3,485)	(3,738)
Deferred tax (liability) beginning of year	(3,738)	(3,583)
Deferred tax recovery (expense) during the year	253	(155)
Deferred tax asset (liability) end of year	(3,485)	(3,738)

No deferred tax assets have been recognized on the consolidated statements of financial position where Tree Island has concluded that it is not probable that the benefits of recognized deferred income tax assets will be realized prior to their expiry. As such, Tree Island has not recognized a deferred tax asset on the following items:

	As at December 31,	
	2022	2021
Non-capital tax loss carry-forwards	(735)	2,131
Goodwill and intangibles	36	39
Unrealized foreign exchange losses	-	-
Reserves and other liabilities	-	-
Capital losses	2,640	2,640
Interest and other	2,479	2,201
Unrecognized deferred tax asset	4,420	7,011

14.3 INCOME TAX LOSS CARRY-FORWARD

As at December 31, 2022, Tree Island had income tax loss carry forward available to offset future taxable income with expirations as shown in the table below:

Year of Expiration	Canada	U.S. - Federal	U.S. - State
2030	-	-	-
2031	-	-	-
2032	10	-	-
2033	-	-	5,767
2034	-	-	500
2035	-	-	1,336
2037	-	-	2,653
2038	21	-	-
2039	68	-	1,870
2040	-	-	-
Total	99	-	17,776

As at December 31, 2022, the Company had capital losses of $26.1 million in addition to the non-capital loss carry forwards listed above. The capital losses can be carried forward indefinitely to offset against future capital gains in Canada.

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 December 31, 2022		As at December 31, 2021	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Cash and cash equivalent	14,976	14,976	33,251	33,251
Accounts receivable	30,445	30,445	38,054	38,054
Total financial assets	45,421	45,421	71,305	71,305
Accounts payable, accrued & other current liabilities	16,943	16,943	27,278	27,278
Senior term loans	-	-	13,182	13,182
Lease liabilities	25,912	25,912	27,835	27,835
Total financial liabilities	42,855	42,855	68,295	68,295

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.

The table below summarizes the future undiscounted contractual cash flow requirements for financial liabilities (including scheduled interest payments on interest bearing liabilities) as at December 31, 2022:

	Carrying Amount	Contractual Cash Flow	Less Than 1	1 - 2 Years	Greater Than 2
Accounts payable, accrued and other liabilities	16,962	16,962	16,962	-	-
Senior term loans (principal)	-	-	-	-	-
Senior term loans (interest)	-	-	-	-	-
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
Accounts payable, accrued and other liabilities	27,333	27,333	27,333	-	-
Senior term loans (principal)	13,182	13,182	2,819	5,638	4,725
Senior term loans (interest)	-	911	300	242	369
Lease liability	27,835	41,982	2,918	2,573	36,491
As at December 31, 2021	68,350	83,408	33,370	8,453	41,585

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 December 31, 2022, the Company had no outstanding U.S. dollar currency forward contracts.

For the year ended December 31, 2022, a $0.01 increase (decrease) in the Canadian dollar to U.S. dollar exchange rate would have increased (decreased) net comprehensive income by $0.3 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 year end 2022, the Senior Term Loan was fully paid off.

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 December 31, 2022, 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 December 31, 2022	As at December 31, 2021
Total shareholders' equity	128,096	132,621
Senior term loans	-	13,182
Lease liabilities	25,912	27,835
Total capital	154,008	173,638

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 December 31, 2022 the Company does not have any instruments issued that could be dilutive.

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

	Year Ended December 31, 2022	2021
Net income for the period	33,106	87,971
Weighted average number of shares outstanding:	28,396,993	28,453,485
Net income per share ($/share)	1.17	3.09

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 December 31, 2022, Tree Island's wholly owned subsidiaries have committed to material purchases (including finished goods) totalling $35.2 million ($63.2 million in 2021).

20 SEGMENTED INFORMATION

20.1 MARKET SEGMENTS

Revenues for each group for the twelve months ended December 31, 2022 and 2021 were as follows:

	Year Ended December 31, 2022	Year Ended December 31, 2021
Industrial	119,221	112,067
Commercial	99,300	74,576
Agricultural	39,415	39,004
Residential	80,498	76,201
Total revenue	338,434	301,848

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:

	Year Ended December 31, 2022	Year Ended December 31, 2021
United States	220,354	205,019
Canada	112,190	89,974
International	5,890	6,855
Total revenue	338,434	301,848

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 December 31, 2022	As at December 31, 2021
United States	29,870	31,085
Canada	37,139	39,119
Total non-current assets	67,009	70,204

21 SITE CLOSURE PROVISION

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.

Throughout fiscal 2022, Management reviewed the options for relocation of the operations and equipment. As part of its ongoing activities to improve efficiencies, operating leverage and cost structure, the Company determined that the most attractive option was to relocate certain higher performing equipment to its other locations and to permanently close the Etiwanda operations.

Any remaining equipment not relocated, will to be dismantled and disposed. The value for the remaining equipment is nominal, and the net book value of these assets is not significant.

Due to the closure of the Etiwanda operations, the Company has recorded a provision of $2.2 million in 2022 for the costs to dismantle and property-related costs as summarized below.

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. The estimated cost of the severance is $0.5 million and will be recorded as an expense in fiscal 2023.

	Year Ended December 31,	
($'000 unless otherwise stated)	2022	2021
Dismantling and disposal costs[1]	1,089	-
Property related expenses	1,140	-
Total	2,229	-

[1] Included in Accounts Payable and Accrued Liabilities as at December 31, 2022

SHAREHOLDER INFORMATION

TREE ISLAND STEEL

Board of Directors:

Amar S. Doman – Executive Chairman of the Board

Peter Bull

Harry Rosenfeld

Sam Fleiser

Theodore A. Leja

Joe Downes

Executive Officers:

Remy Stachowiak
President,
Chief Operating Officer

Nancy Davies
Chief Financial Officer and Vice President, Finance

Shares:

Market Information

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

Registrar and Transfer Agent

Computershare Investor Services Inc.

Corporate Head Office:

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Richmond, B.C.
Canada, V6V 1T8

Website:

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Investor Relations:

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Investor Relations
(416)-962-3300
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Auditors:

KPMG LLP Vancouver, B.C.