



WIRE & WIRE PRODUCTS

ESTABLISHED IN 1964



Consolidated Financial Statements
March 31, 2023

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

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

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

INTERIM UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS	3
SHAREHOLDER INFORMATION	back cover

INTERIM UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2023 and 2022

NOTICE OF NO AUDITOR REVIEW OF INTERIM FINANCIAL STATEMENTS

Under National Instrument 51-102 “Continuous Disclosure Obligation”, Part 4, Subsection 4.3(3a), if an auditor has not performed a review of the interim financial statements, they must be accompanied by a notice indicating that the financial statements have not been reviewed by an auditor.

The accompanying interim condensed consolidated financial statements of Tree Island Steel have been prepared by and are the responsibility of Tree Island Steel’s management.

Tree Island Steel’s independent auditor, KPMG LLP, has not performed a review of these financial statements in accordance with standards established by the Chartered Professional Accountants of Canada for a review of interim financial statements by an entity’s auditor.

May 4, 2023

INTERIM UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
March 31, 2023 and 2022

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

(\$'000 unless otherwise stated)

	<i>Notes</i>	As at March 31, 2023	As at December 31, 2022
Cash		23,442	14,976
Accounts receivable	5, 12.1	36,508	30,445
Inventory	6	57,286	57,531
Prepaid expenses		4,011	5,223
Income taxes recoverable		175	1,142
Current assets		121,422	109,317
Property, plant and equipment	7, 7.1	46,034	46,296
Right of use assets	8.1	19,275	19,401
Other non-current assets		1,307	1,312
Total assets		188,038	176,326
Accounts payable and accrued liabilities		25,426	16,943
Other current liabilities		-	19
Dividends payable		1,411	1,415
Current portion of ROU lease liabilities	8.2	1,723	2,296
Current liabilities		28,560	20,673
ROU Lease liabilities	8.2	23,387	23,616
Other non-current liabilities		456	456
Deferred income tax liabilities	14.2	3,368	3,485
Total liabilities		55,771	48,230
Shareholders' equity		132,267	128,096
Total liabilities and shareholders' equity		188,038	176,326

See accompanying Notes to the Unaudited Condensed Consolidated Financial Statements

Approved on behalf of Tree Island Steel.

[Signed]

"Amar S. Doman"

Executive Chairman of the Board of Directors

INTERIM UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
March 31, 2023 and 2022

CONSOLIDATED STATEMENTS OF OPERATIONS

(\$'000 unless otherwise stated)	Notes	Three Months Ended March 31,	
		2023	2022
Revenue	5, 12.1, 20.1	75,271	92,746
Cost of sales	6	(62,157)	(70,495)
Depreciation	8.1	(1,329)	(1,416)
Gross profit		11,785	20,835
Selling, general and administrative expenses		(3,484)	(3,364)
Operating income		8,301	17,471
Foreign exchange gain (loss)		141	(113)
Loss on sale of property, plant and equipment		(66)	-
Other expenses		-	(9)
Reorganization costs	21	(300)	-
Financing expenses	10	(299)	(494)
Income before income taxes		7,777	16,855
Income tax expense	14.1	(1,927)	(4,128)
Net income		5,850	12,727
Net income per share	18	0.21	0.45
Dividends per share		0.05	1.23
Weighted average number of shares	18	28,259,968	28,434,188

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(\$'000 unless otherwise stated)	Three Months Ended March 31,	
	2023	2022
Net income for the year	5,850	12,727
Unrealized loss on foreign exchange translation	(15)	(409)
Comprehensive income	5,835	12,318

See accompanying Notes to the Unaudited Condensed Consolidated Financial Statements

INTERIM UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
March 31, 2023 and 2022

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

<i>(\$'000 unless otherwise stated)</i>	Shareholders' Capital <i>Note 11</i>	Retained Earnings	Accumulated Other Comprehensive Loss	Total
Balance as at December 31, 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
Balance as at December 31, 2021	223,163	(88,012)	(2,530)	132,621
Net Income	-	12,727	-	12,727
Dividends	-	(34,974)	-	(34,974)
Other comprehensive loss	-	-	(409)	(409)
Balance as at March 31, 2022	223,163	(110,259)	(2,939)	109,965

See accompanying Notes to the Unaudited Condensed Consolidated Financial Statements

INTERIM UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
March 31, 2023 and 2022

CONSOLIDATED STATEMENTS OF CASH FLOWS

(\$'000 unless otherwise stated)	Notes	Three Months Ended	
		March 31,	
		2023	2022
Net income		5,850	12,727
Depreciation	7, 8.1	1,329	1,416
Unrealized foreign exchange loss on revaluation of lease liability		22	(379)
Loss on sale of property, plant and equipment		66	-
Net financing costs		299	494
Deferred income tax expense		(118)	-
Exchange revaluation of foreign denominated debt	9.2	-	(117)
Working capital adjustments			
Accounts receivable		(6,062)	(12,007)
Inventories		245	3,360
Accounts payable and accrued liabilities		8,494	(7,749)
Prepaid expenses		1,216	(20)
Income and other taxes		967	(11,853)
Other		(80)	33
Net cash provided by operating activities		12,228	(14,095)
Purchase of property, plant and equipment		(709)	(394)
Net cash used in investing activities		(709)	(394)
Term loans - repayment, net	9.2	-	(704)
Lease interest paid		(265)	(253)
Lease principal payments		(1,111)	(584)
Other interest paid		(62)	(241)
Dividend paid		(1,415)	(2,275)
Repurchase of common shares		(253)	-
Net cash used in financing activities		(3,106)	(4,057)
Effect of exchange rate change on cash		53	(10)
Increase (decrease) in cash		8,466	(18,556)
Cash - beginning of period		14,976	33,251
Cash - end of period		23,442	14,695

See accompanying Notes to the Unaudited Condensed Consolidated Financial Statements

NOTES TO THE INTERIM UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2023 and 2022

1 NATURE OF BUSINESS

These audited consolidated financial statements of Tree Island Steel ("Tree Island" or the "Company") for the three months ended March 31, 2023 and 2022 were authorized for issue in accordance with a resolution of the Board of Directors on May 4, 2023.

The Company is headquartered at 3933 Boundary Road, Richmond, British Columbia, Canada and the Shares are publicly traded on the Toronto Stock Exchange ("TSX") under the symbol TSL.

Tree Island Steel owns 100% of the shares of Tree Island Industries ("TI Canada") (collectively "Tree Island"). TI Canada supplies a diverse range of steel wire and fabricated steel wire products to customers in Canada, the United States, and internationally.

2 BASIS OF PREPARATION

2.1 BASIS OF PREPARATION

The interim unaudited condensed consolidated financial statements as at and for the three months ended March 31, 2023 and 2022 have been prepared in accordance with the International Accounting Standard ("IAS" 34, "Interim Financial Reporting"). They should be read in conjunction with the annual consolidated financial statements and the notes thereto for the year ended December 31, 2022 and do not include all the information required for the full annual financial statements. Certain comparative information has been reclassified to conform to the presentation adopted during the period.

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

2.2 FUNCTIONAL CURRENCY AND PRESENTATION CURRENCY

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

3 SIGNIFICANT ACCOUNTING POLICIES, CRITICAL ACCOUNTING JUDGMENTS AND ESTIMATES

The accounting policies, methods of application and critical judgements and estimates used in the preparation of these interim unaudited condensed consolidated financial statements are consistent with those disclosed in the annual consolidated financial statements as at December 31, 2022.

4 FUTURE IFRS STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE

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

5 REVENUE AND ACCOUNTS RECEIVABLE

Revenue is net of the cost of freight associated with those sales to customers where the Company arranges the freight. For the three months ending March 31, 2023, freight cost amounts to \$4.5 million (\$5.6 million in 2022).

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

	As at March 31, 2023	As at December 31, 2022
Current	35,514	28,351
Over 30 days past due	1,424	2,524
Total accounts receivable	36,938	30,875
Allowance for doubtful accounts	(430)	(430)
Net accounts receivable	36,508	30,445

Accounts receivable are non-interest bearing and are generally due on 30-day to 90-day terms. The credit risk that Tree Island was exposed to by way of its accounts receivable is equal to the net amount of \$36.5 million as at March 31, 2023 (\$30.4 million as at December 31, 2022).

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

NOTES TO THE INTERIM UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**March 31, 2023 and 2022**

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

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

See Note 16.1 on credit risk of trade receivables to understand how credit quality of accounts receivable that are neither past due nor impaired are managed and measured.

6 INVENTORIES

Tree Island had the following categories of inventory:

	As at March 31, 2023	As at December 31, 2022
Raw materials	16,739	15,901
Finished and semi-finished products	25,054	26,554
Consumable supplies and spare parts	15,493	15,076
Total inventory	57,286	57,531

For the three months ended March 31, 2023 and 2022, Tree Island recognized, in income, inventory costs for the following:

	Three Months Ended March 31,	
	2023	2022
Opening inventory	57,531	77,512
Material purchases	46,243	51,642
Conversion costs	15,669	15,493
Closing inventory	(57,286)	(74,152)
Cost of sales	62,157	70,495

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

7 PROPERTY, PLANT AND EQUIPMENT

The carrying value of property, plant and equipment is reviewed each reporting period. For the purposes of testing for impairment, or the reversal of impairment, Tree Island Steel's assets are grouped and tested at the Cash Generating Unit level. Tree Island considers both qualitative and quantitative factors when determining whether an asset may be impaired, or when a reversal of impairment is required. Where the carrying value of the assets is not expected to be recoverable from future cash flows, they are written down to their recoverable amount. Tree Island has noted no indicators of impairment as at March 31, 2023.

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

In the first quarter of 2023 the Company gave formal notice that it will elect to exercise the early termination provision of the lease for the Etiwanda facility, which it sold on December 16, 2021. As 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. In 2023 the company will be incurring approximately \$2.8 million to relocate and install the targeted equipment at other sites, of which \$390 thousand has already been spent in the current quarter.

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

	Land & Improvement	Building & Improvement	Machinery & Equipment	Capital in Progress	Total
Cost					
As at December 31, 2021	13,338	47,042	43,801	411	104,592
Additions	-	18	1,011	537	1,566
Disposals	-	-	(508)	-	(508)
Foreign exchange translation	-	268	971	8	1,247
As at December 31, 2022	13,338	47,328	45,275	956	106,897
Additions	-	72	170	480	722
Disposals	-	-	(690)	-	(690)
Foreign exchange translation	-	(4)	(13)	(1)	(18)
As at March 31, 2023	13,338	47,396	44,742	1,435	106,911
Depreciation and impairment					
As at December 31, 2021	-	32,549	23,001	-	55,550
Depreciation for the period	-	1,333	2,129	-	3,462
Disposals	-	-	(308)	-	(308)
Equipment impairment	-	-	1,363	-	1,363
Foreign exchange translation	-	82	452	-	534
As at December 31, 2022	-	33,964	26,637	-	60,601
Depreciation for the period	-	336	510	-	846
Disposals	-	-	(563)	-	(563)
Foreign exchange translation	-	(1)	(6)	-	(7)
As at March 31, 2023	-	34,299	26,578	-	60,877
Net book value as at					
December 31, 2022	13,338	13,364	18,638	956	46,296
March 31, 2023	13,338	13,097	18,164	1,435	46,034

NOTES TO THE INTERIM UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2023 and 2022

8 LEASES

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

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

8.1 RIGHT OF USE ASSETS

	Land & buildings	Machinery & equipment	Total right-of-use assets
Cost			
As at December 31, 2021	24,434	2,265	26,699
Additions	-	194	194
Disposals	(167)	(479)	(646)
Foreign exchange translation	1,586	104	1,690
As at December 31, 2022	25,853	2,084	27,937
Additions	348	-	348
Disposals	(1,217)	(13)	(1,230)
Foreign exchange translation	(20)	-	(20)
As at March 31, 2023	24,964	2,071	27,035
Depreciation and impairment			
As at December 31, 2021	(5,610)	(1,203)	(6,813)
Additions	(1,401)	(634)	(2,035)
Disposals	167	375	542
Foreign exchange translation	(370)	140	(230)
As at December 31, 2022	(7,214)	(1,322)	(8,536)
Depreciation for period	(330)	(129)	(459)
Disposals	1,217	-	1,217
Foreign exchange translation	4	14	18
As at March 31, 2023	(6,323)	(1,437)	(7,760)
Carrying value as at:			
December 31, 2022	18,639	762	19,401
March 31, 2023	18,641	634	19,275

NOTES TO THE INTERIM UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
March 31, 2023 and 2022

8.2 LEASE LIABILITY

	Land & buildings	Machinery & equipment	Total lease liabilities
Lease liability			
As at December 31, 2021	26,751	1,084	27,835
New contracts and renewals	-	251	251
Contract disposal	-	(79)	(79)
Interest expense	994	31	1,025
Payment of lease liability	(4,321)	(488)	(4,809)
Foreign exchange translation	1,697	(8)	1,689
Lease liability as at December 31, 2022	25,121	791	25,912
New contracts and renewals	348	-	348
Interest expense	259	6	265
Payment of lease liability	(1,252)	(124)	(1,376)
Foreign exchange translation	(26)	(13)	(39)
As at March 31, 2023	24,450	660	25,110
Less: current portion	(1,372)	(351)	(1,723)
Total as at March 31, 2023	23,078	309	23,387

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 is in 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 \$717 thousand Letter of Credit outstanding as at March 31, 2023.

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

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

NOTES TO THE INTERIM UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2023 and 2022

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

	As at March 31, 2023	As at December 31, 2022
Deferred financing costs	(8)	(15)
Total	(8)	(15)

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

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

As at March 31, 2023 the Company was in compliance with its financial covenants on the Senior Credit Facility.

9.2 SENIOR TERM FACILITY

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

The following amounts are outstanding under the Senior Term Facility:

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

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

10 FINANCING EXPENSES

	<i>Notes</i>	Three Months Ended March 31,	
		2023	2022
Interest (income) on senior credit facility	9.1	(71)	(14)
Interest on senior term facility	9.2	-	69
Interest on lease liability		265	253
Other interest and financing costs		97	181
Amortization of deferred financing costs		8	5
Total		299	494

11 SHAREHOLDERS' CAPITAL

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

Shares issued and outstanding are as follows:

	Shares	Gross	Issuance Cost	Net
Shareholders' capital - December 31, 2021	28,434,188	234,563	11,400	223,163
Repurchase of common shares	(147,299)	(534)	-	(534)
Shareholders' capital - December 31, 2022	28,286,889	234,029	11,400	222,629
Repurchase of common shares	(73,708)	(253)	-	(253)
Shareholders' capital - March 31, 2023	28,213,181	233,776	11,400	222,376

11.1 NORMAL COURSE ISSUER BID

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

For the period January 1, 2023 to March 31, 2023 the Company canceled 73,708 Shares purchased under the Bid at a total cost of \$253 thousand (at an average price of \$3.43 per Share).

12 RELATED PARTY TRANSACTIONS

12.1 TRANSACTIONS WITH ASSOCIATED COMPANIES

The Futura Corporation (“Futura”) is considered to be a related party to the Company because of its share ownership interest and the fact that Mr. Doman, the sole shareholder and president of Futura, sits on the Board of Directors.

Based on Tree Island Steel’s outstanding Shares as at May 4, 2023, Futura owns 34.8% 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, 2023, Tree Island sold, net of rebates, approximately \$0.6 million (\$1.1 million in 2022) of goods to DBM and trade accounts receivable owing from DBM as at March 31, 2023 is approximately \$46 thousand (\$0.2 million in 2022). Outstanding trade accounts receivable from DBM at period end are unsecured, interest free and settlement occurs in cash (Note 5).

12.2 TRANSACTION WITH KEY MANAGEMENT PERSONNEL

Included in the definition of key management for purposes of disclosure of related party transactions are members of Board of Directors and officers of Tree Island Steel. Amounts for key management personnel for the three months ended March 31, 2023 were approximately \$0.3 million (\$0.3 million approximately in 2022) which includes wages, salaries and retirement contributions, paid annual and sick leave, vehicle costs and also includes directors’ fees paid to members of the Board. During the second quarter of the fiscal year, the Company anticipates incurring severance costs in the amount of \$1.7 million related to the former President.

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,	
	2023	2022
Current tax expense	(2,045)	(4,128)
Deferred tax recovery	118	-
Total in the Consolidated Statement of Operations	(1,927)	(4,128)

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 March 31, 2023		As at December 31, 2022	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Cash and cash equivalent	23,442	23,442	14,976	14,976
Accounts receivable	36,508	36,508	30,445	30,445
Total financial assets	59,950	59,950	45,421	45,421
Accounts payable, accrued & other current liabilities	25,426	25,426	16,943	16,943
Lease liabilities	25,110	25,110	25,912	25,912
Total financial liabilities	50,536	50,536	42,855	42,855

15.2 FAIR VALUE HIERARCHY

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

The three levels of fair value estimation are:

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

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

16 RISK EXPOSURE AND MANAGEMENT

Tree Island is exposed to various risks associated with its financial instruments. These risks are categorized as credit risk, liquidity risk and market risk.

16.1 CREDIT RISK

Credit risk consists of credit losses arising in the event of non-payment of accounts receivable of customer accounts. However, the credit risk is minimized through selling to well-established customers of high-credit quality. The credit worthiness of customers is assessed using credit scores supplied by a third party and through direct monitoring of their financial well-being on a continual basis. Management establishes guidelines for customer credit and appropriate precautions are taken to manage credit risk. Provisions for potential credit losses (allowance for doubtful accounts) are maintained and any such losses to date have been within management's expectations. Cash is held by financial institutions with a superior-quality credit rating. Hence Tree Island considers that the risk of non-performance of such instruments is negligible.

16.2 LIQUIDITY RISK

Liquidity arises from our financial obligations and in the management of our assets, liabilities and capital structure. This risk is managed by regular evaluation of our liquid financial resources to fund current and long-term obligations and to meet its capital commitments in a cost-effective manner.

The main factors that affect liquidity include realized sales prices, production levels, cash production costs, working capital requirements, future capital expenditure requirements, scheduled payments on financial liabilities and lease obligations, credit capacity and expected future debt and equity capital market conditions.

NOTES TO THE INTERIM UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2023 and 2022

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, 2023:

	Carrying Amount	Contractual Cash Flow	Less Than 1	1 - 2 Years	Greater Than 2
Accounts payable, accrued and other liabilities	25,426	25,426	25,426	-	-
Lease liability	25,110	37,104	2,477	1,741	32,886
As at March 31, 2023	50,536	62,530	27,903	1,741	32,886
Accounts payable, accrued and other liabilities	16,962	16,962	16,962	-	-
Lease liability	25,912	38,423	3,342	1,626	33,455
As at December 31, 2022	42,874	55,385	20,304	1,626	33,455

16.3 FOREIGN CURRENCY RISK

Tree Island's U.S. dollar-denominated cash, accounts receivable, accounts payable and accrued liabilities and Senior Credit Facility are exposed to foreign currency exchange rate risk because the value of these financial instruments will fluctuate with the changes in the U.S./Canadian dollar exchange rate. The Company enters into U.S. dollar currency forward contracts for periods consistent with a portion of U.S. dollar currency transaction exposures, generally from one to three months. These are not designated as cash flow, fair value or net investment hedges. As of December 31, 2022, the Company had no outstanding U.S. dollar currency forward contracts.

For the three months ended March 31, 2023, a \$0.01 increase (decrease) in the Canadian dollar to U.S. dollar exchange rate would have increased (decreased) net comprehensive income by \$0.3 million.

16.4 INTEREST RATE RISK

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

Changes in interest rates would not have an impact on the Company, as at March 31, 2023, the Senior Term Loan was fully paid off.

NOTES TO THE INTERIM UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
March 31, 2023 and 2022

16.5 RAW MATERIAL PRICE RISK

Tree Island is exposed to changes in the price of the materials used in its production process and, from time to time, enters into forward contracts to purchase a portion of the zinc used. These are not designated as cash flow or fair value hedges. As at March 31, 2023, the Company had no outstanding zinc forward contracts.

17 MANAGEMENT OF CAPITAL

The Company's objectives when managing its capital are:

- To maintain a capital base so as to preserve and enhance investor, creditor, and market confidence and to sustain viability and future development of the business; and
- To manage capital in a manner that will comply with the financial covenants on the Senior Credit Facility and Senior Term Loan agreements as described further in Notes 9.1 and 9.2.

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

	As at March 31, 2023	As at December 31, 2022
Total shareholders' equity	132,267	128,096
Lease liabilities	25,110	25,912
Total capital	157,377	154,008

18 NET INCOME PER SHARE

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

Diluted earnings per Share amount is calculated by dividing the net income for the year by the weighted average number of Shares outstanding during the year plus the weighted average number of Shares that would be issued on conversion of all the dilutive potential units into Shares. As at March 31, 2023 the Company does not have any instruments issued that could be dilutive.

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

	Three Months Ended March 31,	
	2023	2022
Net income for the period	5,850	12,727
Weighted average number of shares outstanding:	28,259,968	28,434,188
Net income per share (\$/share)	0.21	0.45

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 March 31, 2023, Tree Island's wholly owned subsidiaries have committed to material purchases (including finished goods) totalling \$29.2 million (\$54.1 million in 2022).

20 SEGMENTED INFORMATION

20.1 MARKET SEGMENTS

Revenues for each group for the three months ended March 31, 2023 and 2022 were as follows:

	Three Months Ended March 31,	
	2023	2022
Industrial	25,214	29,993
Commercial	20,099	27,536
Agricultural	12,672	14,628
Residential	17,286	20,589
Total revenue	75,271	92,746

Tree Island operates primarily within one industry, the steel wire products industry, with no separately reportable operating segments. Tree Island groups its products into the following: Industrial, Commercial Construction, Agricultural and Residential Construction. No one customer is more than 10% of total revenue.

NOTES TO THE INTERIM UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
March 31, 2023 and 2022

20.2 GEOGRAPHIC SEGMENTS

The products are sold primarily to customers in the United States and Canada and are attributed to geographic areas based on the location of customers:

	Three Months Ended March 31,	
	2023	2022
United States	42,053	56,746
Canada	32,113	34,154
International	1,105	1,846
Total revenue	75,271	92,746

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, 2023	As at December 31, 2022
United States	27,912	29,870
Canada	38,704	37,139
Total non-current assets	66,616	67,009

21 SITE CLOSURE AND REORGANIZATION COSTS

21.1 DISMANTLING 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.

Below are the costs realized in the three months ended March 31, 2023.

	Dismantling and disposal costs
Accrued costs - beginning of period	1,089
Incurred in Q1 2023	(275)
Foreign Exchange Translation	(1)
Accrued costs - end of period	813

NOTES TO THE INTERIM UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2023 and 2022

21.2 REORGANIZATION COSTS

With the decision to permanently close the Etiwanda operations and relocate higher performing equipment to other locations and dispose of the remaining equipment, the Company announced in January 2023 that it would be permanently laying off impacted production staff and certain supervisory, sales and management staff. In 2023 the estimated cost of the severance is \$0.5 million.

During the three months ended March 31, 2023 the Company has recorded in the Statement of Operations the following:

	Three Months Ended March 31,	
	2023	2022
Other site exit costs	175	1,140
Severance costs	125	-
Total	300	1,140

22 SUBSEQUENT EVENTS

On April 18, 2023, the Company announced the appointment of Nancy Davies as Interim President and Chief Operating Officer, replacing Remy Stachowiak.

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
*Interim President,
Chief Operating Officer*

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

Shares:

Market Information

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

Registrar and Transfer Agent

Computershare Investor
Services Inc.

Corporate Head Office:

3933 Boundary Road
Richmond, B.C.
Canada, V6V 1T8

Website:

www.treeisland.com

Investor Relations:

Ali Mahdavi
Investor Relations
(416)-962-3300
amahdavi@treeisland.com

Auditors:

KPMG LLP Vancouver, B.C.

