



WIRE & WIRE PRODUCTS

ESTABLISHED IN 1964



Management's Discussion and Analysis

June 30, 2023

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

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

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

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TO OUR SHAREHOLDERS

Letter to Shareholders

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

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

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

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

Sincerely,

Nancy Davies

Chief Operating Officer, Tree Island Steel

MANAGEMENT DISCUSSION AND ANALYSIS

June 30, 2023

The following is a discussion of the financial condition and results of operations of Tree Island Steel ("Tree Island" or the "Company") and its wholly owned operating subsidiary Tree Island Industries (together with Tree Island Steel, referred to as "Tree Island"). This discussion is current to July 27, 2023 and should be read in conjunction with the interim unaudited condensed consolidated financial statements for the six months ended June 30, 2023. Tree Island Steel's unaudited interim condensed consolidated financial statements are prepared in accordance with International Financial Reporting Standards ("IFRS") and are reported in Canadian dollars. Additional information relating to Tree Island Steel, including the audited consolidated financial statements and Annual Information Form ("AIF") for the year ended December 31, 2022, can be found at www.sedar.com or on Tree Island Steel's website at www.treeisland.com.

1 FORWARD LOOKING STATEMENTS AND RISK

This management's discussion and analysis ("MD&A") includes forward-looking information with respect to Tree Island Steel, including our business, operations and strategies, as well as financial performance and conditions. The use of forward-looking words such as, "may," "will," "expect" or similar variations generally identify such statements. Any statements that are not statements of historical fact should be considered to be forward-looking statements. Although we believe that the forward-looking statements are reasonable, they involve risks and uncertainties, including the risks and uncertainties discussed under the heading "Risks Relating to the Company's Business" in the Company's AIF for the year ended December 31, 2022.

The forward-looking statements contained herein reflect management's current beliefs and are based upon certain assumptions that management believes to be reasonable based on the information currently available to management. By their very nature, forward-looking statements involve inherent risks and uncertainties, both general and specific, and a number of factors could cause actual events or results to differ materially from the results discussed in the forward-looking statements. In evaluating these statements, prospective investors should specifically consider various factors including the risks outlined in the Company's most recent annual information form and management discussion and analysis which may cause actual results to differ materially from any forward-looking statement. Such risks and uncertainties include, but are not limited to: general economic, market and business conditions, the impact of global health pandemics on the Company, its customers and vendors, the cyclical nature of our business and demand for our products, financial condition of our customers, competition, volume and price pressure from import competition, deterioration in the Company's liquidity, disruption in the supply of raw materials, volatility in the costs of raw materials, transportation costs and availability, foreign exchange fluctuations, leverage and restrictive covenants, labour relations, trade actions, dependence on key personnel and skilled workers, intellectual property risks, energy costs, un-insured loss, credit risk, operating risk, relocation of certain production equipment from the Etiwanda operations, management of growth, changes in tax, environmental and other legislation, and other risks and uncertainties set forth in our publicly filed materials.

This MD&A has been reviewed by the Board of Directors of Tree Island Steel and its Audit Committee, and contains information that is current as of the date of this MD&A, unless otherwise noted. Events occurring after that date could render the information contained herein inaccurate or misleading in a material respect. Readers are cautioned not to place undue reliance on this forward-looking information and management of Tree Island undertakes no obligation to update publicly or revise any forward-looking information, whether as a result of new information, future events or otherwise except as required by applicable securities law.

2 NON-IFRS MEASURES

References in this MD&A to “EBITDA” are to provide an adjusted EBITDA that we define as operating income adjusted by adding back total depreciation and foreign exchange gains or losses. EBITDA is not a measure recognized by IFRS and does not have a standardized meaning prescribed by IFRS. We believe that providing an EBITDA is an important supplemental measure for evaluating our performance. You are cautioned that our definition of EBITDA should not be construed as an alternative to net income or loss determined in accordance with IFRS, nor should it be used as an indicator of performance, cash flows from operating, investing and financing activities, as a measure of liquidity or cash flows. Our method of calculating EBITDA may differ from methods used by other issuers and, accordingly, our definition of EBITDA may not be comparable to similar measures presented by other issuers.

3 TREE ISLAND STEEL

Since 1964, Tree Island has been manufacturing products from steel wire for a diverse range of customers and applications. Tree Island Steel, following a conversion from an income trust to a corporate entity, was incorporated under the laws of Canada on August 2, 2012, and the units of the income fund were converted to common shares in Tree Island Steel. There were 27,679,418 Shares outstanding as of June 30, 2023.

3.1 ORGANIZATIONAL STRUCTURE

Our corporate structure has the following primary entities: Tree Island Industries (“TI Canada”), which is our Canadian operating company as well as the ultimate parent company to our operations in the United States, which are managed through our U.S. operating subsidiary, Tree Island Wire (“TI USA”).

3.2 PRODUCTS

Tree Island is a manufacturer and supplier of premium quality wire products for a broad range of applications. Our goal is to match the appropriate wire product with our customers’ needs. We achieve this by manufacturing most of our products at our own manufacturing facilities, while outsourcing others to qualified manufacturers. We market these products to customers in Canada, the United States and internationally.

We market our products under the following brands:



We offer consistent, high quality wire and wire products which meet or exceed customers' needs, ASTM standards and applicable codes, as well as a broad range of applications, short lead times, technical support and excellent customer service.

The products we source from other suppliers are generally limited to commodity items, or items we do not produce. Products within this group meet general industry specifications, but are not customized to individual customer requirements. Outsourced products allow us to enhance our relationship with those customers that require competitively priced commodity products. These products typically create complementary pull-through for our manufactured products.

3.3 MARKETS

The following summarizes the markets, key product groups, the specific end-use markets, and regions we serve with our products:

Markets	Brand	Key Product Groups	Specific End-Use Market	Regions
Industrial	Tree Island® TI Wire®	Bright/galvanized/annealed low and high carbon wire	Wire fabricating, industrial applications, OEM manufacturing	North America and International
Agricultural	Tree Island®, ToughStrand®, ToughPanel®	Game fence and farm fence Vineyard wire and barbed wire Livestock panels	Agriculture, farming	North America
Commercial Construction	Tree Island®	Welded wire mesh Concrete reinforcing products	Commercial construction, mining, infrastructure projects	North America and International
Residential Construction	Tree Island®, Halsteel®, TrueSpec®, K-Lath®, ToughPanel®	Collated, bulk and packaged nails Stucco reinforcing mesh Welded wire panels	Construction and renovation for new and existing homes	North America and International

3.4 SEASONALITY

Our operations are impacted by the seasonal nature of the various industries we serve, primarily the construction and agriculture industries. Accordingly, revenues, sales volumes and operating results for interim quarters are not necessarily indicative of the results that may be expected for the full fiscal year.

4 2023 BUSINESS OVERVIEW AND DEVELOPMENT

4.1 BUSINESS OVERVIEW

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

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

4.2 APPOINTMENT OF OFFICERS

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

4.3 SITE CLOSURE AND REORGANIZATION COSTS

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

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

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

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

5 SUMMARY FINANCIAL INFORMATION

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

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

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

6 COMPARISON OF RESULTS FOR THE THREE MONTHS ENDED JUNE 30, 2023 AND 2022

(\$'000 unless otherwise stated)	2023	2022	Variance Fav/(Unfav)
REVENUE	63,591	98,370	(34,779) (35.4%)

The decrease in revenue over the comparative period by 35.4% is primarily due to a reduction in steel pricing, macroeconomic conditions and lower shipped volume from the previously announced closure of our Etiwanda facility.

Revenue by Market Segment

	Three Months Ended June 30,					
	2023		2022		Variance	
	Revenue	% of Total	Revenue	% of Total	Amount	%
Industrial	23,811	37.5%	37,088	37.7%	(13,277)	(35.8%)
Commercial	16,660	26.2%	28,832	29.3%	(12,172)	(42.2%)
Agricultural	6,761	10.6%	11,094	11.3%	(4,333)	(39.1%)
Residential	16,359	25.7%	21,356	21.7%	(4,997)	(23.4%)
Total	63,591	100.0%	98,370	100.0%	(34,779)	-35.4%

Revenue by Location

	Three Months Ended June 30,					
	2023		2022		Variance	
	Revenue	% of Total	Revenue	% of Total	Amount	%
United States	39,793	62.6%	65,291	66.4%	(25,498)	(39.1%)
Canada	23,078	36.3%	30,616	31.1%	(7,538)	(24.6%)
International	720	1.1%	2,463	2.5%	(1,743)	(70.8%)
Total	63,591	100.0%	98,370	100.0%	(34,779)	-35.4%

Average C\$/U.S.\$ 1.34 1.28

(\$'000 unless otherwise stated)	2023	2022	Variance Fav/(Unfav)
COST OF SALES	53,304	75,477	22,173 29.4%

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

(\$'000 unless otherwise stated)	2023	2022	Variance Fav/(Unfav)
GROSS PROFIT	9,082	21,588	(12,506) (57.9%)

Gross profit decreased to \$9.1 million, from \$21.6 million. The decreased gross profit for the period is primarily the result of lower volumes and the return of margins to more historic levels.

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

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

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

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

Financing Expenses

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

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

Our Canadian operation, whose functional currency is the Canadian dollar, has a portion of its assets, liabilities, sales and expenses denominated in currencies other than the Canadian dollar, in particular the U.S. dollar. With raw material costs being denominated in U.S. dollars, having a significant portion of our sales also being denominated in U.S. dollars creates a natural partial hedge. Foreign currency forward contracts are used to manage a portion of the remaining currency risk. Foreign exchange gains and losses are unpredictable in nature and therefore can vary significantly over time. As at June 30, 2023, the Company did not have any U.S. dollar currency forward contracts outstanding.

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

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

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

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

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

The income tax expense for 2023 has decreased due to lower taxable income this year. Income tax expense is based on a statutory rate of 27.0% for Canadian taxable income and 29.8% for U.S. based taxable income applied to the income of the respective subsidiaries before taxes, with adjustments for permanent differences between accounting and taxable income.

(\$'000 unless otherwise stated)	2023	2022	Variance Fav/(Unfav)	
NET INCOME	1,651	13,119	(11,468)	(87.4%)

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

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

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

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

Revenue by Market Segment

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

Revenue by Location

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

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

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

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

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

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

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

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

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

Our Canadian operation, whose functional currency is the Canadian dollar, has a portion of its assets, liabilities, sales and expenses denominated in currencies other than the Canadian dollar, in particular the U.S. dollar. With raw material costs being denominated in U.S. dollars, having a significant portion of our sales also being denominated in U.S. dollars creates a natural partial hedge. Foreign currency forward contracts are used to manage a portion of the remaining currency risk. Foreign exchange gains and losses are unpredictable in nature and therefore can vary significantly over time. As at June 30, 2023, the Company did not have any U.S. dollar currency forward contracts outstanding.

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

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

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

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

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

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

Financing Expenses

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

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

The income tax expense for the period has decreased due to lower taxable income. Income tax expense is based on a statutory rate of 27.0% for Canadian taxable income and 29.8% for U.S. based taxable income applied to the income of the respective subsidiaries before taxes, with adjustments for permanent differences between accounting and taxable income.

(\$'000 unless otherwise stated)	2023	2022	Variance Fav/(Unfav)	
NET INCOME	7,501	25,846	(18,345)	(71.0%)

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

8 FINANCIAL CONDITION AND LIQUIDITY

8.1 WORKING CAPITAL

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

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

We define working capital as current assets less current liabilities. Current assets include cash, accounts receivable, inventories and other current assets. Current liabilities includes accounts payable and accrued liabilities, dividends payable and other current liabilities and excludes current portions of long-term borrowings and ROU lease liabilities.

Our business requires an ongoing investment in working capital, comprised primarily of accounts receivable and inventories, financed primarily by credit in the form of accounts payable and accrued liabilities. Our largest investment in working capital is in our inventories. We have arrangements with our key suppliers to provide us with financing or trade credit for the purchase of the raw materials needed for our operations.

Our investment in working capital fluctuates from quarter-to-quarter, based on factors such as seasonal sales demand, strategic purchasing decisions taken by management, and the timing of collections from customers and payments made to our suppliers. Sales and working capital requirements may be higher during seasonal peaks.

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

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

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

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

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

Our objective for managing the investment in working capital is to maximize the turnover of productive current assets, specifically accounts receivable and inventories. We work with our key vendors to use vendor credit when available on advantageous terms.

We manage our inventories with an emphasis on a continuous inflow of raw materials to meet our production needs balanced with strategic purchases, barring unforeseen events, impacting potential end markets. We have also established processes to regularly adjust the production levels of finished goods stocked in our warehouses so that we can both satisfy customer needs, growth requirements and meet our objective of maintaining adequate inventories on hand.

We manage our accounts receivable and the related credit risk by focusing on the credit worthiness of customers, by assigning credit scores supplied by a third party and through direct monitoring of their financial well-being on a continual basis. We have established guidelines for customer credit, and appropriate precautions are taken to improve collectability or limit increasing credit exposure. We maintain provisions for potential credit losses (allowance for doubtful accounts) and such losses to date have been within our expectations.

8.2 CASH FLOW

Summary Cash Flow

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

8.3 SENIOR CREDIT FACILITY

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

The facility enables the Company to borrow up to \$35.0 million in Canadian and/or U.S. funds. Interest payable on funds borrowed in Canadian and U.S. currency is at variable rates. For the revolving facility, up to \$25.0 million may be borrowed at any time in Canadian and/or U.S. dollars with the amount advanced under the revolving facility limited to a defined percentage of inventories and accounts receivable less certain reserves. In addition, up to \$10.0 million may be borrowed as term debt, in Canadian and/or U.S. dollars.

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

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

9 CAPITAL EXPENDITURES AND CAPACITY

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

10 CONTRACTUAL OBLIGATIONS AND COMMITMENTS

As of June 30, 2023, we were committed to the contracts, operating leases and debt repayments (including scheduled interest payments on interest bearing debt) set out below, which will be financed through working capital and our Senior Credit Facility.

The production materials include raw materials, such as wire rod and zinc, and finished goods. These raw materials are used in the day-to-day operations of our manufacturing facilities, and are in the normal course of our business activities. Finished goods are purchased for resale without further processing and are also in the normal course of our business activities. All committed production material purchases are to be delivered over the next two quarters.

From time to time, we make investments to update, replace or make additions to our existing capital assets, which includes, but is not limited to, the buildings we occupy and capital equipment. These investments are in the normal course of our business activity. For the capital assets we have committed to purchase but have not yet received, amounts remaining to be paid are disclosed as purchase commitments. As of June 30, 2023, the Company did not have any capital equipment commitments outstanding.

From time to time, the Company enters into U.S. dollar currency forward contracts for periods consistent with a portion of U.S. dollar currency transaction exposures, generally from one to three months. These are not designated as cash flow, fair value or net investment hedges. As of June 30, 2023, the Company did not have any U.S. dollar currency forward contracts outstanding.

Contractual Obligations and Commitments

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

11 SUMMARY OF QUARTERLY FINANCIAL RESULTS

The table below provides selected quarterly financial information for the eight most recent fiscal quarters to June 30, 2023. Sales volumes in the fourth quarter of the year are traditionally lower in the year due to the seasonality of our business. Quarter-over-quarter results may also be impacted by unusual or infrequently occurring items.

Summary of Quarterly Financial Results

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

Commentary:

- In Q3 and Q4 2021 demand continued to remain strong across our geographic regions, with increased pricing and ongoing cost discipline supporting improved results.
- In Q4 2021 we recognised a gain before tax on the sale of the Etiwanda property of \$63.2 million which further increased the net income generated by operations.
- During Q1 and Q2 2022, increased pricing offset increased raw material costs which resulted in improved gross profits.
- During Q3 and Q4 2022, slower demand resulted in decreased gross profits from lower volumes. The decrease was partially offset by higher prices in the period.
- Net income decreased in Q4 2022 from lower gross profit and the additional costs incurred as a result of the Etiwanda facility site closure provision and equipment impairment related to the Etiwanda site closure.
- During the first half of 2023, margins were impacted from lower volumes and margins returning to pre-pandemic levels.

These financial results are not necessarily indicative of results for any future period and should not be relied upon to predict future performance.

12 ACCOUNTING POLICIES AND STATEMENTS

Certain of our accounting policies involve critical accounting estimates that require us to make subjective or complex judgments about matters that are inherently uncertain and because of the likelihood that materially different amounts could be reported under differing conditions or using different assumptions. We evaluate these estimates and assumptions regularly.

Our significant accounting policies are described in Note 3 of the December 31, 2022 Consolidated Financial Statements and in the Annual Information Form for the year ended December 31, 2022.

12.1 CRITICAL ACCOUNTING ESTIMATES

The areas that we considered to have critical accounting estimates are: inventory valuation, allowance for doubtful accounts, assessment of impairment related to property, plant and equipment, lease discount rates applied and useful life. These critical estimates and the judgments involved are discussed further in Note 3 to the Consolidated Financial Statements for December 31, 2022.

13 RELATED PARTY TRANSACTIONS

13.1 TRANSACTIONS WITH ASSOCIATED COMPANIES

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

Based on Tree Island Steel's outstanding Shares as at June 30, 2023, Futura owns 35.4% of the fully diluted Shares of the Company.

In addition, Mr. Doman is Chairman and CEO of Doman Building Materials Group Ltd. ("DBM"). For the three and six months ended June 30, 2023, Tree Island sold, net of rebates, approximately \$0.6 million and \$1.2 million (\$0.6 and \$1.6 million in 2022) of goods to DBM and trade accounts receivable owing from DBM as at June 30, 2023 is approximately \$0.3 million (\$0.2 million in 2022). Outstanding trade accounts receivable from DBM at period end are unsecured, interest free and settlement occurs in cash.

13.2 TRANSACTIONS WITH KEY MANAGEMENT PERSONNEL

Included in the definition of key management for purposes of disclosure of related party transactions are members of Board of Directors and officers of Tree Island Steel. Amounts for key management personnel for the three and six months ended June 30, 2023 were approximately \$0.3 million and \$0.6 million (\$0.4 million and \$0.7 approximately in 2022) which includes wages, salaries and retirement contributions, paid annual and sick leave, vehicle costs and also includes directors' fees paid to members of the Board.

14 RISKS AND UNCERTAINTIES

Investment in Tree Island Steel is subject to a number of risks. Our income is dependent upon the wire products business, which is susceptible to a number of risks. Risks pertaining to current economic conditions are discussed in the section above under the heading “2023 Business Overview and Development”. A detailed discussion of our significant business risks is provided in the 2022 Annual Information Form under the heading “Risk Factors” which can be found at www.sedar.com.

15 DISCLOSURE CONTROLS AND PROCEDURES AND INTERNAL CONTROL OVER FINANCIAL REPORTING

Our management is responsible for designing disclosure controls and procedures that: (a) provide reasonable assurance that material information required to be disclosed by us is accumulated and communicated to management to allow timely decisions regarding required disclosure; and (b) ensure that information required to be disclosed by us is recorded, processed, summarized, and reported within the time periods specified in applicable securities legislation.

Our management is responsible for designing, establishing, and maintaining an adequate system of internal control over financial reporting. Our internal control system was designed based on the 2013 Internal Control – Integrated Framework (“2013 COSO Framework”) published by the Committee of Sponsoring Organizations of the Treadway Commission to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes, in accordance with IFRS.

The Interim President and Chief Operating Officer, in the capacity of chief executive officer, and Chief Financial Officer certified the appropriateness of the financial disclosures in the interim financial report together with the other financial information included in the interim filings for the six months ended June 30, 2023. These executives also certified that they are responsible for the design and effectiveness of disclosure controls and procedures and internal control over financial reporting. There have been no changes in internal control over financial reporting during the six months ended June 30, 2023, that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

The Company’s Board of Directors and Audit Committee reviewed and approved the June 30, 2023 unaudited condensed consolidated financial statements and this MD&A prior to its release.

SHAREHOLDER INFORMATION

TREE ISLAND STEEL

Board of Directors:

Amar S. Doman –
Executive Chairman of
the Board

Peter Bull

Harry Rosenfeld

Sam Fleiser

Theodore A. Leja

Joe Downes

Executive Officers:

Nancy Davies
Chief Operating Officer

Brian Liu
Vice President,
Finance and *CFO*

Shares:

Market Information

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

Registrar and Transfer Agent

Computershare Investor
Services Inc.

Corporate Head Office:

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.

