



WIRE & WIRE PRODUCTS

ESTABLISHED IN 1964



## Quarterly Report

*March 31, 2022*

Since 1964, Tree Island Steel has been making products from steel wire for a diverse range of customers for industrial, construction, agricultural, and specialty 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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*Halsteel Collated Nails*

## TO OUR SHAREHOLDERS

### Letter to Shareholders

In the first quarter of 2022, we continued to experience increased demand in commercial construction activities in Canada and the United States. We supported multiple projects with supply of our concrete reinforcing products, particularly welded wire mesh. Our other market segments of agriculture, residential construction and industrial wire, experienced stable demand.

Inflationary cost increases continued in the quarter, led by key raw materials, namely steel wire rod and zinc, as well as freight, labour and utilities. Increased selling prices recovered these costs in the period. Given the significant and ongoing escalation in costs, which could impact future demand, we continue to closely manage inventory positions and raw materials purchases.

We are pleased with the results delivered in the quarter, and sincerely thank all of our employees, customers and stakeholders for their support of Tree Island Steel as a broadly diversified North American producer of premium quality steel wire and wire products.

Sincerely,

Remy Stachowiak  
President and COO, Tree Island Steel

## MANAGEMENT DISCUSSION AND ANALYSIS

March 31, 2022

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 May 4, 2022 and should be read in conjunction with the unaudited interim condensed consolidated financial statements for the three months ended March 31, 2022. 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, 2021, can be found at [www.sedar.com](http://www.sedar.com) or on Tree Island Steel's website at [www.treeisland.com](http://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, 2021.

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 COVID-19 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 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 making 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 28,434,188 Shares outstanding as of May 4, 2022.

### 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 from 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:

<b>Markets</b>	<b>Brand</b>	<b>Key Product Groups</b>	<b>Specific End-Use Market</b>	<b>Regions</b>
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®, TI Wire®	Welded wire mesh Concrete reinforcing products	Commercial construction, mining, infrastructure projects	North America and International
Residential Construction	Tree Island®, Halsteel®, K-Lath®, TrueSpec®, ToughPanel®	Collated, bulk and packaged nails Stucco reinforcing mesh Welded wire panels	Construction and renovation for new and existing homes	North America

### 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 2021 BUSINESS OVERVIEW AND DEVELOPMENT**

### **4.1 BUSINESS OVERVIEW**

For the three months ended March 31, 2022, revenues increased by \$25.9 million to \$92.7 million when compared to 2021. The increase is primarily due to price increases in the current period, to recover escalating costs with revenue growth across all our segments. The increased pricing experienced during the quarter, along with ongoing cost and inventory management, resulted in a gross profit of \$20.8 million during the period, from \$12.6 million in 2021. The increased gross profit resulted in an Adjusted EBITDA for the first quarter of \$18.8 million, compared to \$10.7 million during the same period in 2021. The increase in net income in the first quarter of 2022, compared to 2021, is a result of the improved gross profit.

## 5 SUMMARY FINANCIAL INFORMATION

(\$'000 unless otherwise stated) Results from Operations:	Three Months Ended March 31,	
	2022	2021
Revenue	92,746	66,842
Cost of sales	(70,495)	(52,748)
Depreciation	(1,416)	(1,467)
Gross profit	20,835	12,627
Selling, general and administrative expenses	(3,364)	(3,327)
Operating income	17,471	9,300
Foreign exchange loss	(113)	(113)
Other expenses	(9)	-
Financing expenses	(494)	(566)
Income before income taxes	16,855	8,621
Income tax expense	(4,128)	(2,157)
Net income	12,727	6,464
Net income per share	0.45	0.22

Financial position as of:	March 31, 2022	December 31, 2021
Total assets	214,520	225,806
Total non-current financial liabilities	37,288	38,907

Adjusted EBITDA:	Three Months Ended March 31,	
	2022	2021
Operating income	17,471	9,300
Add back depreciation	1,416	1,467
Foreign exchange loss	(113)	(113)
Adjusted EBITDA	18,774	10,654



## 6 COMPARISON OF RESULTS FOR THE THREE MONTHS ENDED MARCH 31, 2022 AND 2021

<i>(\$'000 unless otherwise stated)</i>	<b>2022</b>	<b>2021</b>	<b>Variance Fav/(Unfav)</b>	
<b>REVENUE</b>	92,746	66,842	25,904	38.8%

The increase in revenue, over the prior year, by 38.8% is primarily due to increased demand and higher selling prices, from passing through increased raw materials and other operating costs.

### Revenue by Market Segment

	Three Months Ended March 31,					
	2022		2021		Variance	
	Revenue	% of Total	Revenue	% of Total	Amount	%
Industrial	29,993	32.3%	22,429	33.5%	7,564	33.7%
Commercial	27,536	29.7%	12,829	19.2%	14,707	114.6%
Agricultural	14,628	15.8%	14,075	21.1%	553	3.9%
Residential	20,589	22.2%	17,509	26.2%	3,080	17.6%
<b>Total</b>	<b>92,746</b>	<b>100.0%</b>	<b>66,842</b>	<b>100.0%</b>	<b>25,904</b>	<b>38.8%</b>

Overall revenues increased over the comparative period, as a result of increased selling prices during the current quarter.

### Revenue by Location

	Three Months Ended March 31,					
	2022		2021		Variance	
	Revenue	% of Total	Revenue	% of Total	Amount	%
United States	55,170	59.5%	42,648	63.8%	12,522	29.4%
Canada	34,153	36.8%	22,995	34.4%	11,158	48.5%
International	3,423	3.7%	1,199	1.8%	2,224	185.5%
<b>Total</b>	<b>92,746</b>	<b>100.0%</b>	<b>66,842</b>	<b>100.0%</b>	<b>25,904</b>	<b>38.8%</b>

Average C\$/U.S.\$ 1.2659 1.2656

<i>(\$'000 unless otherwise stated)</i>	<b>2022</b>	<b>2021</b>	<b>Variance Fav/(Unfav)</b>	
<b>COST OF SALES</b>	70,495	52,748	(17,747)	(33.6%)

The cost of goods sold increased when compared to the comparative period, primarily due to higher raw materials and other conversion costs.

<i>(\$'000 unless otherwise stated)</i>	<b>2022</b>	<b>2021</b>	<b>Variance Fav/(Unfav)</b>	
<b>GROSS PROFIT</b>	20,835	12,627	8,208	65.0%

Gross profit increased to \$20.8 million, from \$12.6 million. The increased gross profit for the period is primarily the result of higher sell prices combined with ongoing cost and inventory management.

<i>(\$'000 unless otherwise stated)</i>	<b>2022</b>	<b>2021</b>	<b>Variance Fav/(Unfav)</b>	
<b>SG&amp;A</b>	3,364	3,327	(37)	(1.1%)

SG&A expenses are in line when compared to prior period.

<i>(\$'000 unless otherwise stated)</i>	<b>2022</b>	<b>2021</b>	<b>Variance Fav/(Unfav)</b>	
<b>FINANCING EXPENSES</b>	494	566	72	12.7%

Financing costs decreased primarily from reduced levels advanced on the senior credit facility.

### Financing Expenses

	Three Months Ended March 31,			
			Variance Fav/(Unfav)	
	2022	2021	Amount	%
Interest on senior credit facility	(14)	119	133	111.8%
Interest on senior term facility	69	74	5	6.8%
Interest on lease liability	253	312	59	18.9%
Other interest and financing costs	181	58	(123)	(212.1%)
Deferred financing costs	5	3	(2)	(66.7%)
<b>Total financing expenses</b>	<b>494</b>	<b>566</b>	<b>72</b>	<b>12.7%</b>

<i>(\$'000 unless otherwise stated)</i>	<b>2022</b>	<b>2021</b>	<b>Variance Fav/(Unfav)</b>	
<b>FOREIGN EXCHANGE LOSS</b>	113	113	-	0.0%

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 March 31, 2022, the Company did not have any U.S. dollar currency forward contracts outstanding.

<i>(\$'000 unless otherwise stated)</i>	<b>2022</b>	<b>2021</b>	<b>Variance Fav/(Unfav)</b>	
<b>INCOME TAX</b>	4,128	2,157	(1,971)	(91.4%)

The income tax expense for 2022 has increased due to higher taxable income this year. Income tax expense is based on a statutory rate of 27.0% for Canadian taxable income and 29.8% for U.S. based taxable income applied to the income of the respective subsidiaries before taxes, with adjustments for permanent differences between accounting and taxable income.

<i>(\$'000 unless otherwise stated)</i>	<b>2022</b>	<b>2021</b>	<b>Variance Fav/(Unfav)</b>	
<b>NET INCOME</b>	12,727	6,464	6,263	96.9%

The net income increase over the comparative period is attributable to higher gross profits.

## 7 FINANCIAL CONDITION AND LIQUIDITY

### 7.1 WORKING CAPITAL

A summary of the composition of our working capital as at March 31, 2022 compared to 2021 is provided below:

(\$'000 unless otherwise stated)	As at March 31,	
	2022	2021
Cash	14,695	2,929
Accounts receivable	50,062	32,035
Inventories	74,152	48,695
Other current assets	6,624	3,879
	<u>145,533</u>	<u>87,538</u>
Accounts payable and accrued liabilities	(19,533)	(17,652)
Dividends payable	(34,974)	(854)
Other current liabilities	(6,478)	(1,613)
	<u>(60,985)</u>	<u>(20,119)</u>
<b>Net balance</b>	<b>84,548</b>	<b>67,419</b>

We define Working Capital as the current assets less current liabilities. Current assets include Cash, Accounts Receivable, Inventories and other current assets. Current liabilities includes accounts payable and accrue liabilities, dividends payable and other current liabilities and excludes income taxes payable and 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. The construction and agricultural markets are seasonal in nature. As a result, sales and working capital requirements may be higher in the first three quarters when demand is historically highest.

Accounts receivable as at March 31, 2022 were higher than the same period last year, reflecting the increase in sales in Q1 2022 compared to the same quarter last year.

Inventories levels were higher as at March 31, 2022, when compared to the same period in 2021, as a result of higher raw material costs.

Our objective for managing the investment in working capital is to maximize the turnover of productive current assets, being 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, such as the pandemic, 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.

## 7.2 CASH FLOW

### Summary Cash Flow

	Three months ended	
	March 31,	
	2022	2021
<i>(\$'000 unless otherwise stated)</i>		
Cash provided by operating activities before working capital adjustments	14,520	8,382
Working capital adjustments	(28,615)	(9,594)
<b>Net cash used in operating activities</b>	<b>(14,095)</b>	<b>(1,212)</b>
<b>Net cash used in investing activities</b>	<b>(394)</b>	<b>(277)</b>
Advance on (repayment of) senior team loans	(704)	(705)
Lease interest paid	(253)	(312)
Lease principal payments	(584)	(393)
Other interest paid	(241)	(252)
Repayment of senior revolving facility	-	5,550
Dividend paid	(2,275)	(570)
Share buyback	-	(139)
<b>Net cash provided by (used in) financing activities</b>	<b>(4,057)</b>	<b>3,179</b>
Exchanging rate changes on foreign cash balances	(10)	(6)
<b>Increase (decrease) in cash balances</b>	<b>(18,556)</b>	<b>1,684</b>

For the first quarter of 2022, net cash from operating activities has decreased compared to prior year, as a result of a working capital increases required to support sales. The net cash used in investing activities was mainly the result of capital investments which are further described in Section 8. The net cash used by financing activities was mainly due to the payment of dividends.

### **7.3 SENIOR CREDIT FACILITY**

The Company's senior secured committed banking facility matures in June of 2023. The facility enables the Company to borrow up to \$80.0 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 \$60.0 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, accounts receivable, machinery and equipment, and real estate, less certain reserves. In addition, up to \$20.0 million may be borrowed as term debt, in Canadian and/or U.S. dollars for financing existing machinery and equipment and future capital expenditures.

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 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.

### **8 CAPITAL EXPENDITURES AND CAPACITY**

For the three months ended March 31 2022, we made capital expenditures of \$394 thousand. These expenditures were for capital maintenance activities.

### **9 CONTRACTUAL OBLIGATIONS AND COMMITMENTS**

As of March 31, 2022, 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 materials are to be delivered prior to the end of Q3, 2022.

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 March 31, 2022, 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 March 31, 2022, the Company did not have any U.S. dollar currency forward contracts outstanding.

### Contractual Obligations and Commitments

<i>(\$'000 unless otherwise stated)</i>	<u>2022</u>	<u>2023</u>	<u>2024</u>	<u>2025</u>	<u>2026</u>	<u>Thereafter</u>	<u>Total</u>
Production materials	54,089	-	-	-	-	-	54,089
AP and accrued liabilities	19,533	-	-	-	-	-	19,533
Other current liabilities	25	-	-	-	-	-	25
Dividends	34,974	-	-	-	-	-	34,974
Lease liabilities	3,826	4,673	1,481	1,457	1,485	27,902	40,824
Senior term loans (principal)	2,099	2,799	2,799	2,237	859	1,575	12,368
Senior term loans (interest)	271	283	193	112	69	48	976
<b>Total obligations and commitments</b>	<b>114,817</b>	<b>7,755</b>	<b>4,473</b>	<b>3,806</b>	<b>2,413</b>	<b>29,525</b>	<b>162,789</b>

## 10 SUMMARY OF QUARTERLY FINANCIAL RESULTS

The table below provides selected quarterly financial information for the eight most recent fiscal quarters to March 31, 2022. 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

	Mar 31, <u>2022</u>	Dec 31, <u>2021</u>	Sep 30, <u>2021</u>	Jun 30, <u>2021</u>	Mar 31, <u>2021</u>	Dec 31, <u>2020</u>	Sep 30, <u>2020</u>	Jun 30, <u>2020</u>
<i>(\$'000 unless otherwise stated)</i>								
Revenue	92,746	75,954	84,642	74,410	66,842	54,199	53,236	50,466
Gross profit	20,835	17,323	21,838	16,839	12,627	6,607	6,684	5,945
Foreign exchange gain (loss)	(113)	(373)	445	(99)	(113)	(226)	(383)	(294)
Net income	12,727	59,041	13,398	9,068	6,464	1,682	520	1,100
Net income per unit - basic	0.45	2.08	0.47	0.32	0.22	0.06	0.02	0.04

#### Commentary:

- During the first half of 2021, sales and gross profit increased as a result of the economic recovery experienced in the markets we serve amid a rising price environment.
- 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 2022, increased pricing to offset increased raw material costs resulted in improved gross profits earned.

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

## **11 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, 2021 Consolidated Financial Statements and in the Annual Information Form for the year ended December 31, 2021.

### **11.1 CRITICAL ACCOUNTING ESTIMATES**

The areas that we considered to have critical accounting estimates are: inventory valuation, allowance for doubtful accounts, 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, 2021.

## **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 May 4, 2022, Futura owns 34.5% 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, 2022, Tree Island sold, net of rebates, approximately \$1.1 million (\$0.9 million in 2021) of goods to DBM and trade accounts receivable owing from DBM as at March 31, 2022 is approximately \$0.2 million (approximately \$0.3 million in 2021). Outstanding trade accounts receivable from DBM at period end are unsecured, interest free and settlement occurs in cash.

### **12.2 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 months ended March 31, 2022 were approximately \$0.3 million (\$0.3 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 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 “2021 Business Overview and Development”. A detailed discussion of our significant business risks is provided in the 2021 Annual Information Form under the heading “Risk Factors” which can be found at [www.sedar.com](http://www.sedar.com).

## **14 LITIGATIONS AND CLAIMS**

From time to time Tree Island is party to certain legal actions, claims and tax audits. In the period there are no known claims which individually, or in the aggregate, are expected to have a material adverse effect on its financial position, consolidated statement of operations or cash flows. As more information becomes known with respect to any claims, actions or tax audits, the Company then establishes provisions in the period.

## **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.

Our 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 three months ended March 31, 2022. 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 quarter ended March 31, 2022, 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 March 31, 2022 unaudited condensed consolidated financial statements and this MD&A prior to its release.



**INTERIM UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**March 31, 2022 and 2021**

**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, 2022

**INTERIM UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
**March 31, 2022 and 2021**

**CONSOLIDATED STATEMENTS OF FINANCIAL POSITION**

*(\$'000 unless otherwise stated)*

	<i>Notes</i>	As at March 31, 2022	As at December 31, 2021
Cash		14,695	33,251
Accounts receivable	5, 12.1	50,062	38,054
Inventory	6	74,152	77,512
Prepaid expenses		6,624	6,785
<b>Current assets</b>		<b>145,533</b>	<b>155,602</b>
Property, plant and equipment	7	48,435	49,042
Right of use assets	8.1	19,097	19,886
Other non-current assets		1,455	1,276
<b>Total assets</b>		<b>214,520</b>	<b>225,806</b>
Accounts payable and accrued liabilities		19,533	27,278
Income taxes payable	13.1	6,453	18,305
Other current liabilities		25	55
Dividends payable		34,974	2,275
Current portion of long-term borrowing	9.2	2,799	2,819
Current portion of ROU lease liabilities	8.2	3,483	3,546
<b>Current liabilities</b>		<b>67,267</b>	<b>54,278</b>
Senior term loans	9.2	9,569	10,363
ROU Lease liabilities	8	23,468	24,289
Other non-current liabilities		513	517
Deferred Income tax liabilities		3,738	3,738
<b>Total liabilities</b>		<b>104,555</b>	<b>93,185</b>
<b>Shareholders' equity</b>		<b>109,965</b>	<b>132,621</b>
<b>Total liabilities and shareholders' equity</b>		<b>214,520</b>	<b>225,806</b>

*See accompanying Notes to the Interim 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, 2022 and 2021**

**CONSOLIDATED STATEMENTS OF OPERATIONS**

*(\$'000 unless otherwise stated)*

	<i>Notes</i>	Three Months Ended March 31,	
		2022	2021
Revenue	5, 12.1, 19.1	92,746	66,842
Cost of sales	6	(70,495)	(52,748)
Depreciation	7, 8.1	(1,416)	(1,467)
Gross profit		20,835	12,627
Selling, general and administrative expenses		(3,364)	(3,327)
Operating income		17,471	9,300
Foreign exchange loss		(113)	(113)
Other expenses		(9)	-
Financing expenses	10	(494)	(566)
Income before income taxes		16,855	8,621
Income tax expense	13.1	(4,128)	(2,157)
<b>Net income</b>		<b>12,727</b>	<b>6,464</b>
Net income per share	17	0.45	0.22
Weighted average number of shares	17	28,434,188	28,816,136

**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**

*(\$'000 unless otherwise stated)*

	Three Months Ended March 31,	
	2022	2021
Net income for the year	12,727	6,464
Unrealized gain (loss) on foreign exchange translation	(409)	8
<b>Comprehensive income</b>	<b>12,318</b>	<b>6,472</b>

*See accompanying Notes to the Interim Unaudited Condensed Consolidated Financial Statements*

**INTERIM UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
**March 31, 2022 and 2021**

**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, 2021	223,163	(88,012)	(2,530)	132,621
Net Income	-	12,727	-	12,727
Dividends	-	(34,974)	-	(34,974)
Other comprehensive income	-	-	(409)	(409)
<b>Balance as at March 31, 2022</b>	<b>223,163</b>	<b>(110,259)</b>	<b>(2,939)</b>	<b>109,965</b>
Balance as at December 31, 2020	223,363	(169,726)	(2,568)	51,069
Repurchase of shares	(139)	-	-	(139)
Net Income	-	6,464	-	6,464
Dividends	-	(854)	-	(854)
Other comprehensive income	-	-	8	8
<b>Balance as at March 31, 2021</b>	<b>223,224</b>	<b>(164,116)</b>	<b>(2,560)</b>	<b>56,548</b>

*See accompanying Notes to the Interim Unaudited Condensed Consolidated Financial Statements*

**INTERIM UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
**March 31, 2022 and 2021**

**CONSOLIDATED STATEMENTS OF CASH FLOWS**

*(\$'000 unless otherwise stated)*

	Notes	Three Months Ended March 31,	
		2022	2021
Net income		12,727	6,464
Depreciation		1,416	1,467
Net financing costs		494	566
Deferred income tax expense		-	(2)
Exchange revaluation of foreign denominated debt	9	(117)	(113)
Working capital adjustments			
Accounts receivable		(12,007)	(7,216)
Inventories		3,360	(1,887)
Accounts payable and accrued liabilities		(7,749)	(86)
Prepaid expenses		(20)	(454)
Income and other taxes		(11,853)	140
Other		(346)	(91)
<b>Net cash provided by operating activities</b>		<b>(14,095)</b>	<b>(1,212)</b>
<b>Purchase of property, plant and equipment</b>		<b>(394)</b>	<b>(277)</b>
<b>Net cash provided by (used in) investing activities</b>		<b>(394)</b>	<b>(277)</b>
Term loans - advances (repayment), net	9.2	(704)	(705)
Lease interest paid		(253)	(312)
Lease principal payments		(584)	(393)
Other interest paid		(241)	(252)
Advance of senior revolving facility		-	5,550
Dividend paid		(2,275)	(570)
Repurchase of common shares		-	(139)
<b>Net cash used in financing activities</b>		<b>(4,057)</b>	<b>3,179</b>
Effect of exchange rate change on cash		(10)	(6)
Increase (decrease) in cash		(18,556)	1,684
Cash - beginning of year		33,251	1,245
<b>Cash - end of year</b>		<b>14,695</b>	<b>2,929</b>

*See accompanying Notes to the Interim Unaudited Condensed Consolidated Financial Statements*

## **1 NATURE OF BUSINESS**

These interim unaudited condensed consolidated financial statements of Tree Island Steel ("Tree Island" or the "Company") for the three months ended March 31, 2022 and 2021 were authorized for issue in accordance with a resolution of the Board of Directors on May 4, 2022.

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, 2022 and 2021 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, 2021 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, 2021.

## **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, 2022, this amounts to \$5.6 million (\$4.4 million in 2021).

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

	As at March 31, 2022	As at December 31, 2021
Current	48,043	35,911
Over 30 days past due	2,503	2,629
Total accounts receivable	50,546	38,540
Allowance for doubtful accounts	(484)	(486)
Net accounts receivable	50,062	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 was exposed to by way of its accounts receivable is equal to the net amount of \$50.1 million as at March 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 March 31, 2022	As at December 31, 2021
Opening balance - beginning of period	486	331
Additions during the period	-	232
Payments	-	(77)
Foreign exchange revaluation	(2)	-
Closing balance - end of period	484	486

See Note 15.1 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.

**NOTES TO THE INTERIM UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

March 31, 2022 and 2021

**6 INVENTORIES**

Tree Island had the following categories of inventory:

	As at March 31, 2022	As at December 31, 2021
Raw materials	30,318	30,397
Finished and semi-finished products	28,540	33,006
Consumable supplies and spare parts	15,294	14,109
<b>Total inventory</b>	<b>74,152</b>	<b>77,512</b>

For the three months ended March 31, 2022 and 2021, Tree Island recognized, in income, inventory costs for the following:

	Three Months Ended March 31,	
	2022	2021
Opening inventory	77,512	46,808
Material purchases	51,802	40,199
Conversion costs	15,333	14,436
Closing inventory	(74,152)	(48,695)
<b>Cost of sales</b>	<b>70,495</b>	<b>52,748</b>

The reserves for slow moving inventory as at March 31, 2022 were \$1.4 million (\$1.3 million at December 31, 2021).



**NOTES TO THE INTERIM UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**March 31, 2022 and 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 March 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.

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
<b>Cost</b>					
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	-	-	77	316	393
Foreign exchange translation	-	(56)	(204)	(3)	(263)
As at March 31, 2022	13,338	46,986	43,674	724	104,722
<b>Depreciation and impairment</b>					
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	-	332	511	-	843
Foreign exchange translation	-	(16)	(90)	-	(106)
As at March 31, 2022	-	32,865	23,422	-	56,287
<b>Net book value as at</b>					
December 31, 2021	13,338	14,493	20,800	411	49,042
March 31, 2022	13,338	14,121	20,252	724	48,435

**NOTES TO THE INTERIM UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

March 31, 2022 and 2021

**8 LEASES**

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

**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	-	126	126
Disposals	(155)	(170)	(325)
Foreign exchange translation	(331)	(11)	(342)
As at March 31, 2022	23,948	2,210	26,158
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	(459)	(114)	(573)
Disposals	154	95	249
Foreign exchange translation	70	6	76
As at March 31, 2022	(5,845)	(1,216)	(7,061)
Carrying value as at:			
December 31, 2021	18,824	1,062	19,886
March 31, 2022	18,103	994	19,097

**NOTES TO THE INTERIM UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

March 31, 2022 and 2021

**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	-	126	126
Contract disposal	-	(76)	(76)
Interest expense	244	9	253
Payment of lease liability	(596)	(120)	(716)
Foreign exchange translation	(465)	(6)	(471)
Lease liability as at March 31, 2022	25,934	1,017	26,951
Less: current portion	(3,021)	(462)	(3,483)
Total as at March 31, 2022	22,913	555	23,468

**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 June of 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.

**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 \$287 thousand Letter of Credit outstanding as at March 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 are no amounts outstanding under the Senior Revolving Credit portion of the Senior Credit Facility.

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, 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 March 31, 2022	As at December 31, 2021
Senior term loans - beginning of period	13,182	16,040
Foreign exchange revaluation	(110)	(55)
Payments	(704)	(2,803)
Senior term loans - end of period	12,368	13,182
Less: current portion	(2,799)	(2,819)
<b>Total</b>	<b>9,569</b>	<b>10,363</b>

**NOTES TO THE INTERIM UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

March 31, 2022 and 2021

**10 FINANCING EXPENSES**

	<i>Notes</i>	Three Months Ended March 31,	
		2022	2021
Interest on senior credit facility	9.1	(14)	119
Interest on senior term facility	9.2	69	74
Interest on lease liability		253	312
Other interest and financing costs		181	58
Amortization of deferred financing costs		5	3
<b>Total</b>		<b>494</b>	<b>566</b>

**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	-	-	-	-
Shareholders' capital - March 31, 2022	28,434,188	234,563	11,400	223,163

**11.1 NORMAL COURSE ISSUER BID**

The Company has an ongoing normal course issuer bid (the "Bid"). The current Bid is effective November 9, 2021 to November 8, 2022. The Bid allows the Company to purchase up to 1,421,000 Shares over the term. Tree Island has no obligation to purchase any Shares under the Bid.

For the period January 1, 2022 to March 31, 2022 the Company did not repurchase any shares.

## 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 May 4, 2022, Futura owns 34.5% 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, 2022, Tree Island sold, net of rebates, approximately \$1.1 million (\$0.9 million in 2021) of goods to DBM and trade accounts receivable owing from DBM as at March 31, 2022 is approximately \$0.2 million (approximately \$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 three months ended March 31, 2022 were approximately \$0.3 million (\$0.3 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 INCOME TAXES

### 13.1 INCOME TAX EXPENSE

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

	Three Months Ended March 31,	
	2022	2021
Current tax expense	(4,128)	(2,159)
Deferred tax expense	-	2
<b>Total in the Consolidated Statement of Operations</b>	<b>(4,128)</b>	<b>(2,157)</b>

**14 FINANCIAL INSTRUMENTS**

**14.1 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 change the fair value of Senior Term Facility by \$0.1 million.
- 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, 2022		As at December 31, 2021	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Cash and cash equivalent	14,695	14,695	33,251	33,251
Accounts receivable	50,062	50,062	38,054	38,054
<b>Total financial assets</b>	<b>64,757</b>	<b>64,757</b>	<b>71,305</b>	<b>71,305</b>
Accounts payable, accrued & other current liabilities	19,533	19,533	27,278	27,278
Senior term loans	12,368	12,368	13,182	13,182
Lease Liabilities	26,951	26,951	27,835	27,835
<b>Total financial liabilities</b>	<b>58,852</b>	<b>58,852</b>	<b>68,295</b>	<b>68,295</b>

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**14.2 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.

**15 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.

**15.1 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.

**15.2 LIQUIDITY RISK**

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

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

Liquidity requirements are met through a variety of sources including cash balances on hand, cash generated from operations, existing credit facilities, and debt and equity capital markets. Management monitors and manages liquidity risk by preparing annual budgets, monthly projections to the end of the fiscal year and regular monitoring of financial liabilities against the constraints of the available revolving credit facilities.



**NOTES TO THE INTERIM UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS****March 31, 2022 and 2021**

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, 2022:

	Carrying Amount	Contractual Cash Flow	Less Than 1	1 - 2 Years	Greater Than 2
Accounts payable, accrued and other liabilities	19,558	19,558	19,558	-	-
Senior term loans (principal)	12,368	12,368	2,099	5,598	4,671
Senior term loans (interest)	-	976	349	260	367
Lease liability	26,951	40,824	5,016	2,374	33,434
<b>As at March 31, 2022</b>	<b>58,877</b>	<b>73,726</b>	<b>27,022</b>	<b>8,232</b>	<b>38,472</b>
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	4,418	2,573	34,991
<b>As at December 31, 2021</b>	<b>68,350</b>	<b>83,408</b>	<b>34,870</b>	<b>8,453</b>	<b>40,085</b>

**15.3 FOREIGN CURRENCY RISK**

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

For the three months ended March 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 \$0.4 million.

**15.4 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.

A one percent increase in the interest rates charged on the Senior Term Loan would increase financing expenses by \$0.1 million annually. Tree Island does not use derivative instruments to manage the interest rate risk.

**NOTES TO THE INTERIM UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

March 31, 2022 and 2021

**15.5 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, 2022, the Company had no outstanding zinc forward contracts.

**16 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, 2022	As at December 31, 2021
Total shareholders' equity	109,965	132,621
Senior term loans	12,368	13,182
Lease liabilities	26,951	27,835
<b>Total capital</b>	<b>149,284</b>	<b>173,638</b>

**17 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, 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:

	Three Months Ended March 31,	
	2022	2021
Net income for the period	12,727	6,464
Weighted average number of Shares outstanding:	28,434,188	28,816,136
<b>Net income per share (\$/share)</b>	<b>0.45</b>	<b>0.22</b>

**18 PROVISIONS AND COMMITMENTS**

**18.1 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.

**18.2 PURCHASE COMMITMENTS**

As at March 31, 2022, Tree Island’s wholly owned subsidiaries have committed to material purchases (including finished goods) totalling \$54.1 million (\$44.0 million in 2021).

**19 SEGMENTED INFORMATION**

**19.1 MARKET SEGMENTS**

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

	Three Months Ended March 31,	
	2022	2021
Industrial	29,993	22,429
Commercial	27,536	12,829
Agricultural	14,628	14,075
Residential	20,589	17,509
<b>Total Revenue</b>	<b>92,746</b>	<b>66,842</b>

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, Agricultural, Construction, and Residential Construction. No one customer is more than 10% of total revenue.

**NOTES TO THE INTERIM UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

March 31, 2022 and 2021

**19.2 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,	
	2022	2021
United States	55,170	42,648
Canada	34,153	22,995
International	3,423	1,199
Total revenue	92,746	66,842

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,	As at December 31,
	2022	2021
United States	30,236	31,085
Canada	38,751	39,119
Total non-current assets	68,987	70,204

## 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:

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

### Website:

[www.treeisland.com](http://www.treeisland.com)

### Investor Relations:

Ali Mahdavi  
Investor Relations  
(416)-962-3300  
[amahdavi@treeisland.com](mailto:amahdavi@treeisland.com)

### Auditors:

KPMG LLP Vancouver, B.C.

