



WIRE & WIRE PRODUCTS

ESTABLISHED IN 1964



Quarterly Report

June 30, 2022

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

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

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

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Standard construction mesh being placed into position before concrete is poured (plastic supports are used to keep the mesh elevated).

TO OUR SHAREHOLDERS

Letter to Shareholders

In the second quarter of 2022, we continued to experience commercial construction demand strength over prior year second quarter. Shipments of a variety of agricultural products, also experienced growth over prior year second quarter, driven particularly by ongoing Canadian market demand. Combined with industrial wire sales, overall Canadian volume showed growth across our market segments in the quarter. A combination of labour availability and lower demand in certain product areas impacted United States shipments in the quarter. However, selling prices were higher in the quarter, recovering cost increases from escalations in raw materials, freight, labour and utilities.

We are maintaining a cautious view regarding the outlook for the steel wire and wire product market, considering the volatile economic environment. As such, inventory management and raw material purchases are a key focus.

The positive financial results delivered in the quarter speak to the team's ongoing focus at diligently managing the business through the volatility in the market while consistently delivering premium quality steel wire and wire products to all our customers. We sincerely appreciate all of the contributions of our staff and the continued support by our customers and stakeholders.

Sincerely,

Remy Stachowiak
President and COO, Tree Island Steel

MANAGEMENT DISCUSSION AND ANALYSIS

June 30, 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 July 27, 2022 and should be read in conjunction with the unaudited interim condensed consolidated financial statements for the six months ended June 30, 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 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, 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 28,425,649 Shares outstanding as of June 30, 2022 and 28,425,536 Shares outstanding as of July 27, 2022.

On July 27, 2022 the Board of Directors declared a regular quarterly dividend of \$0.03 per share and an additional \$0.02 per share as a special dividend, on the issued and outstanding Common Shares of the Company, both payable on October 14th, 2022 to holders of record at the close of business on September 30, 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:

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®, 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 June 30, 2022, revenues increased by \$23.9 million to \$98.4 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 \$21.6 million during the period, from \$16.8 million in 2021. The increased gross profit resulted in a net income for the second quarter of \$13.1 million, compared to \$9.1 million during the same period in 2021. The increase in net income in the second quarter of 2022 to \$13.1 million, compared to \$9.1 million in the same period in 2021, is a result of the improved gross profit.

For the six months ended June 30, 2022, revenues increased by \$49.9 million to \$191.1 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 \$42.4 million during the period, from \$29.5 million in 2021. The increased gross profit resulted in a net income for the first six months of \$25.8 million, compared to \$15.5 million during the same period in 2021. The increase in net income in the first two quarters of 2022 to \$25.8 million, compared to \$15.5 million in same same period in 2021, is a result of the improved gross profit.

5 SUMMARY FINANCIAL INFORMATION

(\$'000 unless otherwise stated) Results from Operations:	Three Months Ended June 30,		Six Months Ended June 30,	
	2022	2021	2022	2021
Revenue	98,370	74,410	191,116	141,252
Cost of sales	(75,477)	(56,115)	(145,972)	(108,865)
Depreciation	(1,305)	(1,456)	(2,721)	(2,921)
Gross profit	21,588	16,839	42,423	29,466
Selling, general and administrative expenses	(3,693)	(3,473)	(7,057)	(6,800)
Operating income	17,895	13,366	35,366	22,666
Foreign exchange gain (loss)	75	(99)	(38)	(212)
Other expenses	(21)	(3)	(30)	(3)
Financing expenses	(660)	(624)	(1,154)	(1,190)
Income before income taxes	17,289	12,640	34,144	21,261
Income tax expense	(4,170)	(3,572)	(8,298)	(5,729)
Net income	13,119	9,068	25,846	15,532
Net income per share	0.46	0.32	0.91	0.55

Financial position as of:	June 30, 2022	December 31, 2021
Total assets	196,088	225,806
Total non-current financial liabilities	45,334	38,907

Adjusted EBITDA:	Three Months Ended June 30,		Six Months Ended June 30,	
	2022	2021	2022	2021
Operating income	17,895	13,366	35,366	22,666
Add back depreciation	1,305	1,456	2,721	2,921
Foreign exchange gain (loss)	75	(99)	(38)	(212)
Adjusted EBITDA	19,275	14,723	38,049	25,375

<i>(\$'000 unless otherwise stated)</i>	2022	2021	Variance Fav/(Unfav)	
SG&A	3,693	3,473	(220)	(6.3%)

SG&A expenses are higher when compared to prior period as a result of the increased selling costs.

<i>(\$'000 unless otherwise stated)</i>	2022	2021	Variance Fav/(Unfav)	
FINANCING EXPENSES	660	624	(36)	(5.8%)

Financing costs are in line with the comparative period.

Financing Expenses

	Three Months Ended June 30,			
	2022	2021	Variance Fav/(Unfav)	
			Amount	%
Interest on senior credit facility	149	116	(33)	(28.4%)
Interest on senior term facility	97	70	(27)	(38.6%)
Interest on lease liability	252	302	50	16.6%
Other interest and financing costs	154	133	(21)	(15.8%)
Deferred financing costs	8	3	(5)	(166.7%)
Total financing expenses	660	624	(36)	(5.8%)

<i>(\$'000 unless otherwise stated)</i>	2022	2021	Variance Fav/(Unfav)	
FOREIGN EXCHANGE GAIN (LOSS)	75	(99)	174	175.8%

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

<i>(\$'000 unless otherwise stated)</i>	2022	2021	Variance Fav/(Unfav)	
INCOME TAX	4,170	3,572	(598)	(16.7%)

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>	2022	2021	Variance Fav/(Unfav)	
NET INCOME	13,119	9,068	4,051	44.7%

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

<i>(\$'000 unless otherwise stated)</i>	2022	2021	Variance Fav/(Unfav)	
SG&A	7,057	6,800	(257)	(3.8%)

SG&A expenses are higher when compared to prior period as a result of higher selling and recruitment costs.

<i>(\$'000 unless otherwise stated)</i>	2022	2021	Variance Fav/(Unfav)	
FINANCING EXPENSES	1,154	1,190	36	3.0%

Financing costs are in line with the comparative period.

Financing Expenses

	Six Months Ended June 30,			
	2022	2021	Variance Fav/(Unfav)	
			Amount	%
Interest on senior credit facility	134	234	100	42.7%
Interest on senior term facility	165	144	(21)	(14.6%)
Interest on lease liability	504	614	110	17.9%
Other interest and financing costs	338	192	(146)	(76.0%)
Deferred financing costs	13	6	(7)	(116.7%)
Total financing expenses	1,154	1,190	36	3.0%

<i>(\$'000 unless otherwise stated)</i>	2022	2021	Variance Fav/(Unfav)	
FOREIGN EXCHANGE LOSS	38	212	174	82.1%

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

<i>(\$'000 unless otherwise stated)</i>	2022	2021	Variance Fav/(Unfav)	
INCOME TAX	8,298	5,729	(2,569)	(44.8%)

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>	2022	2021	Variance Fav/(Unfav)	
NET INCOME	25,846	15,532	10,314	66.4%

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

8 FINANCIAL CONDITION AND LIQUIDITY

8.1 WORKING CAPITAL

A summary of the composition of our working capital as at June 30, 2022 compared to 2021 is provided below:

<i>(\$'000 unless otherwise stated)</i>	As at June 30,	
	2022	2021
Cash	3,185	3,585
Accounts receivable	51,801	36,040
Inventories	65,995	58,690
Other current assets	6,152	6,458
	<u>127,133</u>	<u>104,773</u>
Accounts payable and accrued liabilities	(16,743)	(20,112)
Dividends payable	(1,421)	(853)
Other current liabilities	(3,209)	(4,502)
	<u>(21,373)</u>	<u>(25,467)</u>
Net balance	105,760	79,306

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 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. Sales and working capital requirements may be higher during seasonal peaks.

Accounts receivable as at June 30, 2022 were higher than the same period last year, reflecting the increase in revenue in Q2 2022 compared to the same quarter last year.

Inventories levels were higher as at June 30, 2022, when compared to the same period in 2021, as a result of higher raw material costs we incurred during the period.

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, 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,	
	2022	2021	2022	2021
<i>(\$'000 unless otherwise stated)</i>				
Cash provided by operating activities				
before working capital adjustments	15,122	11,016	29,642	19,396
Working capital adjustments	1,641	(11,289)	(27,004)	(20,874)
Net cash provided by (used in) operating activities	16,763	(273)	2,638	(1,478)
Net cash used in investing activities	(518)	(278)	(912)	(556)
Repayment of senior term loans	(707)	(693)	(1,411)	(1,402)
Lease interest paid	(252)	(302)	(504)	(614)
Lease principal payments	(1,049)	(393)	(1,604)	(786)
Other interest paid	(302)	(314)	(543)	(566)
Advance on senior revolving facility	9,544	3,803	9,544	9,353
Dividend paid	(34,974)	(853)	(37,249)	(1,424)
Share buyback	(34)	(29)	(34)	(168)
Net cash provided by (used in) financing activities	(27,774)	1,219	(31,801)	4,393
Exchange rate impact on foreign cash balances	19	(12)	9	(19)
Increase (decrease) in cash balances	(11,510)	656	(30,066)	2,340

For the second quarter of 2022, net cash from operating activities has increased compared to prior year, as a result of increased income. The net cash used in investing activities was the result of maintenance capital which is further described in Section 9. The net cash used by financing activities was mainly due to the payment of the special dividends in 2022.

8.3 SENIOR CREDIT FACILITY

The Company's senior secured committed banking facility matures in July 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. The Company will begin the process of renewing the credit facilities in the upcoming quarters.

As at June 30, 2022 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 2022, we made capital expenditures of \$912 thousand. These expenditures were for capital maintenance activities.

10 CONTRACTUAL OBLIGATIONS AND COMMITMENTS

As of June 30, 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 Q4 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 June 30, 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 June 30, 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	54,275	-	-	-	-	-	54,275
AP and accrued liabilities	16,743	-	-	-	-	-	16,743
Other current liabilities	101	-	-	-	-	-	101
Dividends	1,421	-	-	-	-	-	1,421
Lease liabilities	2,618	4,714	1,524	1,502	1,531	28,772	40,661
Senior revolving facility	-	9,544	-	-	-	-	9,544
Senior term loans (principal)	1,421	2,841	2,841	2,277	886	1,625	11,891
Senior term loans (interest)	219	351	239	137	83	58	1,087
Total obligations and commitments	76,798	17,450	4,604	3,916	2,500	30,455	135,723

11 SUMMARY OF QUARTERLY FINANCIAL RESULTS

The table below provides selected quarterly financial information for the eight most recent fiscal quarters to June 30, 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

	Jun 30, <u>2022</u>	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>
<i>(\$'000 unless otherwise stated)</i>								
Revenue	98,370	92,746	75,954	84,642	74,410	66,842	54,199	53,236
Gross profit	21,588	20,835	17,323	21,838	16,839	12,627	6,607	6,684
Foreign exchange gain (loss)	75	(113)	(373)	445	(99)	(113)	(226)	(383)
Net income	13,119	12,727	59,041	13,398	9,068	6,464	1,682	520
Net income per unit - basic	0.46	0.45	2.08	0.47	0.32	0.22	0.06	0.02

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 and Q2 2022, increased pricing offset increased raw material costs which resulted in improved gross profits.

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

12.1 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.

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, 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 July 27, 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 and six months ended June 30, 2022, Tree Island sold, net of rebates, approximately \$0.6 million and \$1.6 million (\$1.1 and \$1.9 million in 2021) of goods to DBM and trade accounts receivable owing from DBM as at June 30, 2022 is approximately \$0.2 million (approximately \$0.5 million in 2021). 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, 2022 were approximately \$0.4 million and \$0.7 million (\$0.5 million and \$0.8 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.

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 “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.

15 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.

16 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 June 30, 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 June 30, 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 June 30, 2022 unaudited condensed consolidated financial statements and this MD&A prior to its release.

INTERIM UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

June 30, 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.

July 27, 2022

INTERIM UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2022 and 2021

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

(\$'000 unless otherwise stated)

	<i>Notes</i>	As at June 30, 2022	As at December 31, 2021
Cash		3,185	33,251
Accounts receivable	5, 12.1	51,801	38,054
Inventory	6	65,995	77,512
Prepaid expenses		6,152	6,785
Current assets		127,133	155,602
Property, plant and equipment	7	48,393	49,042
Right of use assets	8.1	19,237	19,886
Other non-current assets		1,325	1,276
Total assets		196,088	225,806
Accounts payable and accrued liabilities		16,743	27,278
Income taxes payable		3,108	18,305
Other current liabilities		101	55
Dividends payable		1,421	2,275
Current portion of long-term borrowing	9.2	2,841	2,819
Current portion of ROU lease liabilities	8.2	4,035	3,546
Current liabilities		28,249	54,278
Senior revolving facility	9.1	9,544	-
Senior term loans	9.2	9,050	10,363
ROU Lease liabilities	8	22,669	24,289
Other non-current liabilities		531	517
Deferred Income tax liabilities		3,540	3,738
Total liabilities		73,583	93,185
Shareholders' equity		122,505	132,621
Total liabilities and shareholders' equity		196,088	225,806

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
June 30, 2022 and 2021

CONSOLIDATED STATEMENTS OF OPERATIONS

(\$'000 unless otherwise stated)	Notes	Three Months Ended		Six Months Ended	
		June 30,		June 30,	
		2022	2021	2022	2021
Revenue	5, 12.1, 19.1	98,370	74,410	191,116	141,252
Cost of sales	6	(75,477)	(56,115)	(145,972)	(108,865)
Depreciation	7, 8.1	(1,305)	(1,456)	(2,721)	(2,921)
Gross profit		21,588	16,839	42,423	29,466
Selling, general and administrative expenses		(3,693)	(3,473)	(7,057)	(6,800)
Operating income		17,895	13,366	35,366	22,666
Foreign exchange gain (loss)		75	(99)	(38)	(212)
Other expenses		(21)	(3)	(30)	(3)
Financing expenses	10	(660)	(624)	(1,154)	(1,190)
Income before income taxes		17,289	12,640	34,144	21,261
Income tax expense	13.1	(4,170)	(3,572)	(8,298)	(5,729)
Net income		13,119	9,068	25,846	15,532
Net income per share	17	0.46	0.32	0.91	0.55
Weighted average number of shares	17	28,433,107	28,447,938	28,433,645	28,471,815

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(\$'000 unless otherwise stated)	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2022	2021	2022	2021
Net income for the year	13,119	9,068	25,846	15,532
Unrealized gain on foreign exchange translation	876	155	467	163
Comprehensive income	13,995	9,223	26,313	15,695

See accompanying Notes to the Interim Unaudited Condensed Consolidated Financial Statements

INTERIM UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
June 30, 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
Repurchase of shares	-	-	-	-
Net Income	-	12,727	-	12,727
Dividends	-	(34,974)	-	(34,974)
Other comprehensive loss	-	-	(409)	(409)
Balance as at March 31, 2022	223,163	(110,259)	(2,939)	109,965
Repurchase of shares	(34)	-	-	(34)
Net Income	-	13,119	-	13,119
Dividends	-	(1,421)	-	(1,421)
Other comprehensive income	-	-	876	876
Balance as at June 30, 2022	223,129	(98,561)	(2,063)	122,505
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
Balance as at March 31, 2021	223,224	(164,116)	(2,560)	56,548
Repurchase of shares	(29)	-	-	(29)
Net Income	-	9,068	-	9,068
Dividends	-	(853)	-	(853)
Other comprehensive income	-	-	155	155
Balance as at June 30, 2021	223,195	(155,901)	(2,405)	64,889

See accompanying Notes to the Interim Unaudited Condensed Consolidated Financial Statements

INTERIM UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2022 and 2021
CONSOLIDATED STATEMENTS OF CASH FLOWS

(\$'000 unless otherwise stated)	Notes	Three Months Ended		Six Months Ended	
		June 30,		June 30,	
		2022	2021	2022	2021
Net income		13,119	9,068	25,846	15,532
Depreciation		1,305	1,456	2,721	2,921
Net financing costs		660	624	1,154	1,190
Deferred income tax expense		(199)	-	(199)	(2)
Exchange revaluation of foreign denominated debt	9	237	(132)	120	(245)
Working capital adjustments					
Accounts receivable		(1,740)	(4,005)	(13,747)	(11,221)
Inventories		8,157	(9,995)	11,517	(11,882)
Accounts payable and accrued liabilities		(2,801)	2,455	(10,550)	2,368
Prepaid expenses		602	(2,640)	584	(3,094)
Income and other taxes		(3,344)	2,892	(15,197)	3,032
Other		767	4	389	(77)
Net cash provided by (used in) operating activities		16,763	(273)	2,638	(1,478)
Purchase of property, plant and equipment		(518)	(278)	(912)	(556)
Net cash used in investing activities		(518)	(278)	(912)	(556)
Term loans - repayment, net	9.2	(707)	(693)	(1,411)	(1,402)
Lease interest paid		(252)	(302)	(504)	(614)
Lease principal payments		(1,049)	(393)	(1,604)	(786)
Other interest paid		(302)	(314)	(543)	(566)
Advance on senior revolving facility		9,544	3,803	9,544	9,353
Dividend paid		(34,974)	(853)	(37,249)	(1,424)
Repurchase of common shares		(34)	(29)	(34)	(168)
Net cash provided by (used in) financing activities		(27,774)	1,219	(31,801)	4,393
Effect of exchange rate change on cash		19	(12)	9	(19)
Increase (decrease) in cash		(11,510)	656	(30,066)	2,340
Cash - beginning of period		14,695	2,929	33,251	1,245
Cash - end of period		3,185	3,585	3,185	3,585

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 six months ended June 30, 2022 and 2021 were authorized for issue in accordance with a resolution of the Board of Directors on July 27, 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 six months ended June 30, 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 interim unaudited condensed 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 unaudited condensed 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 six months ending June 30, 2022, this amounts to \$12.7 million (\$8.9 million in 2021).

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

	As at June 30, 2022	As at December 31, 2021
Current	49,726	35,911
Over 30 days past due	2,562	2,629
Total accounts receivable	52,288	38,540
Allowance for doubtful accounts	(487)	(486)
Net accounts receivable	51,801	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 \$51.8 million as at June 30, 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 June 30, 2022	As at December 31, 2021
Opening balance - beginning of period	486	331
Additions during the period	-	232
Payments	-	(77)
Foreign exchange revaluation	1	-
Closing balance - end of period	487	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

June 30, 2022 and 2021

6 INVENTORIES

Tree Island had the following categories of inventory:

	As at June 30, 2022	As at December 31, 2021
Raw materials	23,194	30,397
Finished and semi-finished products	26,827	33,006
Consumable supplies and spare parts	15,974	14,109
Total inventory	65,995	77,512

For the three and six months ended June 30, 2022 and 2021, Tree Island recognized, in income, inventory costs for the following:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2022	2021	2022	2021
Opening inventory	74,152	48,695	77,512	46,808
Material purchases	52,052	51,559	103,854	91,760
Conversion costs	15,268	14,551	30,601	28,987
Closing inventory	(65,995)	(58,690)	(65,995)	(58,690)
Cost of sales	75,477	56,115	145,972	108,865

The reserves for slow moving inventory as at June 30, 2022 were \$1.5 million (\$1.4 million at December 31, 2021).

NOTES TO THE INTERIM UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

June 30, 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 June 30, 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
Cost					
As at December 31, 2020	9,748	46,960	43,029	744	100,481
Additions	5,625	5,816	1,142	(313)	12,270
Disposals	(2,026)	(5,693)	(309)	(19)	(8,047)
Foreign exchange translation	(9)	(41)	(61)	(1)	(112)
As at December 31, 2021	13,338	47,042	43,801	411	104,592
Additions	-	26	250	625	901
Foreign exchange translation	-	38	260	1	299
As at June 30, 2022	13,338	47,106	44,311	1,037	105,792
Depreciation and impairment					
As at December 31, 2020	70	36,194	21,150	-	57,414
Depreciation for the period	16	1,408	2,155	-	3,579
Disposals	-	(5,121)	(272)	-	(5,393)
Foreign exchange translation	(86)	68	(32)	-	(50)
As at December 31, 2021	-	32,549	23,001	-	55,550
Depreciation for the period	-	664	1,060	-	1,724
Foreign exchange translation	-	19	106	-	125
As at June 30, 2022	-	33,232	24,167	-	57,399
Net book value as at					
December 31, 2021	13,338	14,493	20,800	411	49,042
June 30, 2022	13,338	13,874	20,144	1,037	48,393

NOTES TO THE INTERIM UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

June 30, 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	(159)	(314)	(473)
Foreign exchange translation	382	(32)	350
As at June 30, 2022	24,657	2,045	26,702
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	(767)	(230)	(997)
Disposals	159	280	439
Foreign exchange translation	(88)	(6)	(94)
As at June 30, 2022	(6,306)	(1,159)	(7,465)
Carrying value as at:			
December 31, 2021	18,824	1,062	19,886
June 30, 2022	18,351	886	19,237

NOTES TO THE INTERIM UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

June 30, 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	488	16	504
Payment of lease liability	(1,865)	(243)	(2,108)
Foreign exchange translation	421	2	423
As at June 30, 2022	25,795	909	26,704
Less: current portion	(3,598)	(437)	(4,035)
Total as at June 30, 2022	22,197	472	22,669

9 SENIOR CREDIT FACILITY

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

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

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 \$296 thousand Letter of Credit outstanding as at June 30, 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.

NOTES TO THE INTERIM UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2022 and 2021

The following amounts are outstanding under the Senior Revolving Credit portion of the Senior Credit Facility:

	As at June 30, 2022	As at December 31, 2021
Revolving portion of the senior credit facility	9,544	-
Deferred financing costs	(30)	(44)
Total	9,514	(44)

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

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

As at June 30, 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 June 30, 2022	As at December 31, 2021
Senior term loans - beginning of period	13,182	16,040
Foreign exchange revaluation	120	(55)
Payments	(1,411)	(2,803)
Senior term loans - end of period	11,891	13,182
Less: current portion	(2,841)	(2,819)
Total	9,050	10,363

June 30, 2022 and 2021

10 FINANCING EXPENSES

	<i>Notes</i>	Three Months Ended June 30,		Six Months Ended June 30,	
		2022	2021	2022	2021
Interest on senior credit facility	9.1	149	116	134	234
Interest on senior term facility	9.2	97	70	165	144
Interest on lease liability		252	302	504	614
Other interest and financing costs		154	133	338	192
Amortization of deferred financing costs		8	3	13	6
Total		660	624	1,154	1,190

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	(8,539)	(34)	-	(34)
Shareholders' capital - June 30, 2022	28,425,649	234,529	11,400	223,129

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 June 30, 2022 the Company canceled 8,539 Shares purchased under the Bid at a total cost of \$34 thousand (at an average price of \$3.94 per Share).

12 RELATED PARTY TRANSACTIONS

12.1 TRANSACTIONS WITH ASSOCIATED COMPANIES

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

Based on Tree Island Steel’s outstanding Shares as at July 27, 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 and six months ended June 30, 2022, Tree Island sold, net of rebates, approximately \$0.6 million and \$1.6 million (\$1.0 million and \$1.9 million in 2021) of goods to DBM and trade accounts receivable owing from DBM as at June 30, 2022 is approximately \$0.2 million (approximately \$0.5 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 and six months ended June 30, 2022 were approximately \$0.4 million and \$0.7 million (\$0.5 million and \$0.8 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		Six Months Ended	
	June 30,		June 30,	
	2022	2021	2022	2021
Current tax expense	(4,369)	(3,572)	(8,497)	(5,731)
Deferred tax expense	199	-	199	2
Total in the Consolidated Statement of Operations	(4,170)	(3,572)	(8,298)	(5,729)

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 June 30, 2022		As at December 31, 2021	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Cash and cash equivalent	3,185	3,185	33,251	33,251
Accounts receivable	51,801	51,801	38,054	38,054
Total financial assets	54,986	54,986	71,305	71,305
Senior revolving facility	9,544	9,544	-	-
Accounts payable, accrued & other current liabilities	16,743	16,743	27,278	27,278
Senior term loans	11,891	11,891	13,182	13,182
Lease Liabilities	26,704	26,704	27,835	27,835
Total financial liabilities	64,882	64,882	68,295	68,295

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**June 30, 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 June 30, 2022:

	Carrying Amount	Contractual Cash Flow	Less Than 1	1 - 2 Years	Greater Than 2
Senior revolving facility	9,544	9,544	-	9,544	-
Accounts payable, accrued and other liabilities	16,844	16,844	16,844	-	-
Senior term loans (principal)	11,891	11,891	2,135	2,135	7,621
Senior term loans (interest)	-	1,087	406	295	386
Lease liability	26,704	40,661	6,479	1,635	32,547
As at June 30, 2022	64,983	80,027	25,864	13,609	40,554
Accounts payable, accrued and other liabilities	27,333	27,333	27,333	-	-
Senior term loans (principal)	13,182	13,182	2,819	5,638	4,725
Senior term loans (interest)	-	911	300	242	369
Lease liability	27,835	41,982	2,918	2,573	36,491
As at December 31, 2021	68,350	83,408	33,370	8,453	41,585

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 June 30, 2022, the Company had no outstanding U.S. dollar currency forward contracts.

For the three months ended June 30, 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

June 30, 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 June 30, 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 June 30, 2022	As at December 31, 2021
Total shareholders' equity	122,505	132,621
Senior revolving facility	9,544	-
Senior term loans	11,891	13,182
Lease liabilities	26,704	27,835
Total capital	170,644	173,638

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 June 30, 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 June 30,		Six Months Ended June 30,	
	2022	2021	2022	2021
Net income for the period	13,119	9,068	25,846	15,532
Weighted average number of Shares outstanding:	28,433,107	28,447,938	28,433,645	28,471,815
Net income per share (\$/share)	0.46	0.32	0.91	0.55

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 June 30, 2022, Tree Island's wholly owned subsidiaries have committed to material purchases (including finished goods) totalling \$54.3 million (\$71.0 million in 2021).

19 SEGMENTED INFORMATION

19.1 MARKET SEGMENTS

Revenues for each group for the three and six months ended June 30, 2022 and 2021 were as follows:

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2022	2021	2022	2021
Industrial	37,088	26,292	67,081	48,721
Commercial	28,832	17,102	56,368	29,931
Agricultural	11,094	11,412	25,722	25,487
Residential	21,356	19,604	41,945	37,113
Total Revenue	98,370	74,410	191,116	141,252

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

NOTES TO THE INTERIM UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

June 30, 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		Six Months Ended	
	June 30,		June 30,	
	2022	2021	2022	2021
United States	65,291	49,959	122,037	92,607
Canada	30,616	22,618	64,770	45,613
International	2,463	1,833	4,309	3,032
Total revenue	98,370	74,410	191,116	141,252

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 June 30,	As at December 31,
	2022	2021
United States	29,412	31,085
Canada	39,543	39,119
Total non-current assets	68,955	70,204

20 SUBSEQUENT EVENTS

On July 27, 2022 the Board of Directors declared a regular quarterly dividend of \$0.03 per share and an additional \$0.02 per share as a special dividend, on the issued and outstanding Common Shares of the Company, both payable on October 14th, 2022 to holders of record at the close of business on September 30, 2022.

SHAREHOLDER INFORMATION

TREE ISLAND STEEL

Board of Directors:

Amar S. Doman –
Executive Chairman of
the Board

Peter Bull

Harry Rosenfeld

Sam Fleiser

Theodore A. Leja

Joe Downes

Executive Officers:

Remy Stachowiak
*President,
Chief Operating Officer*

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

Shares:

Market Information

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

Registrar and Transfer Agent

Computershare Investor
Services Inc.

Corporate Head Office:

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.

