



WIRE & WIRE PRODUCTS

ESTABLISHED IN 1964



Annual Report

December 31, 2021

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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Fixed Knot Agricultural Fencing

TO OUR SHAREHOLDERS

Letter to Shareholders

In 2021, we experienced strengthened demand in all the market segments we served, supported by the economic recovery. With increased construction in both residential and commercial sectors, along with agricultural and industrial growth driving demand for wire and wire products, 2021 total revenue reached \$301.8 million, an increase of 40% from 2020 achieved through higher selling prices, despite the seasonal slowdown in construction in Q4 2021.

Ongoing constraints in the availability of steel wire rod, our primary raw material, continue to keep wire rod costs at historic high levels. Combined with increased labour, freight, consumable and utility costs, selling prices climbed as these costs were passed through the supply chain. With ongoing and tightly controlled cost and inventory management, the higher selling prices have had a positive impact on gross profit in the quarter, as well as the full year.

We will continue to remain cautious regarding raw materials purchases given the current inflationary environment. In addition, labour shortages are having an impact on our ability to increase production levels. In addition, as we support our employees, customers and partners in this highly dynamic environment, we remain steadfastly focused on protecting the health and safety of our employees.

In November 2021, we purchased the building and land for the Calgary facility for \$11.2 million which removed the lease obligation for that operation.

In December 2021, we sold our Etiwanda property and building located in Rancho Cucamonga, California, for gross proceeds of approximately \$71.0 million. Upon this sale, we entered into a two-year commercial lease agreement with the purchaser to lease the facility.

We are very pleased with the results we achieved in 2021, and sincerely thank each of our employees, customers and stakeholders for continuing to support Tree Island Steel as a broadly diversified North American producer of premium quality wire and wire products.

Sincerely,

Remy Stachowiak
President and COO, Tree Island Steel

MANAGEMENT DISCUSSION AND ANALYSIS

December 31, 2021

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 March 2, 2022 and should be read in conjunction with the consolidated financial statements for the year ended December 31, 2021. Tree Island Steel's 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 28,434,188 Shares outstanding as of December 31, 2021.

On March 2, 2022 the Board of Directors declared a regular quarterly dividend of \$0.03 per share and an additional \$1.20 per share as a special dividend on the issued and outstanding Common Shares of the Company, both payable on April 14, 2022 to holders of record at the close of business on March 31, 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 year ended December 31, 2021, revenues increased by \$86 million to \$301.8 million when compared to 2020. The increase is primarily due to higher shipped volumes, with sales growth across all our segments (Agricultural, Industrial and Commercial & Residential Construction). The increased demand experienced during the year, along with ongoing cost and inventory management, resulted in a gross profit of \$68.6 million during the year, from \$25.9 million in 2020. The increased gross profit resulted in an EBITDA for the year of \$58.0 million, compared to \$17.8 million during the same period in 2020. The increase in net income in 2021, compared to 2022, is a result of the improved gross profit and the gain on the sale of the Etiwanda property.

4.2 COVID-19 DEVELOPMENT

We continue to align with health authority and government COVID-19 mandates in the jurisdictions we operate. With the most recent Omicron variant, additional reinforcement health and safety measures have been instituted to safeguard our employees, their families and our communities. We will continue to remain vigilant in following all local health requirements, given the uncertainty of the pandemic duration as well as the potential for localized outbreaks.

4.3 SALE OF ETIWANDA LAND AND BUILDING

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

4.4 PURCHASE OF CALGARY LAND AND BUILDING

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

5 SUMMARY FINANCIAL INFORMATION

Results from Operations:	Year Ended December 31,		
	2021	2020	2019
Revenue	301,848	215,894	200,405
Cost of sales	(227,378)	(184,008)	(176,407)
Depreciation	(5,843)	(6,036)	(6,227)
Gross profit	68,627	25,850	17,771
Selling, general and administrative expenses	(16,367)	(13,954)	(15,757)
Operating income	52,260	11,896	2,014
Foreign exchange loss	(140)	(173)	(676)
Gain on property, plant, and equipment	63,896	5	5
Other expenses	(6)	(217)	(1,902)
Financing expenses	(2,532)	(4,335)	(4,662)
Income (loss) before income taxes	113,478	7,176	(5,221)
Income tax (expense) recovery	(25,507)	(2,045)	31
Net income (loss)	87,971	5,131	(5,190)
Net income/ (loss) per share	3.09	0.18	(0.18)
Dividends per share	0.22	0.08	0.08

Financial position as of:	December 31,		
	2021	2020	2019
Total assets	225,806	146,549	159,122
Total non-current financial liabilities	38,907	71,236	85,627

Adjusted EBITDA:	Year Ended December 31,		
	2021	2020	2019
Operating income	52,260	11,896	2,014
Add back depreciation	5,843	6,036	6,227
Foreign exchange loss	(140)	(173)	(676)
Adjusted EBITDA	57,963	17,759	7,565

6 COMPARISON OF RESULTS FOR THE YEARS ENDED DECEMBER 31, 2021 AND 2020

	2021	2020	Variance Fav/(Unfav)	
SALES	301,848	215,894	85,954	39.8%

The increase in revenue, over the prior year, by 39.8% is primarily due to increased demand and higher selling prices, from passing through increased raw material and other costs.

Revenue by Market Segment

	Year Ended December 31,					
	2021		2020		Variance	
	Revenue	% of Total	Revenue	% of Total	Amount	%
Industrial	112,067	37.1%	77,359	35.8%	34,708	44.9%
Commercial	74,576	24.7%	47,102	21.8%	27,474	58.3%
Agricultural	39,004	13.0%	32,068	14.9%	6,936	21.6%
Residential	76,201	25.2%	59,365	27.5%	16,836	28.4%
Total	301,848	100.0%	215,894	100.0%	85,954	39.8%

Overall revenues increased, over the prior year, as a result of the higher demand and increased selling prices experienced during the current year.

Revenue by Location

	Year Ended December 31,					
	2021		2020		Variance	
	Revenue	% of Total	Revenue	% of Total	Amount	%
United States	205,019	67.9%	138,022	63.9%	66,997	48.5%
Canada	89,974	29.8%	70,207	32.5%	19,767	28.2%
International	6,855	2.3%	7,665	3.6%	(810)	(10.6%)
Total	301,848	100.0%	215,894	100.0%	85,954	39.8%

Average C\$/U.S.\$ 1.2530 1.3395

	2021	2020	Variance Fav/(Unfav)	
COST OF SALES	227,378	184,008	(43,370)	(23.6%)

The cost of goods sold increased when compared to prior year, due to higher sales volume and raw material price increases, which were offset by lower Canadian dollar currency transaction costs for purchases denominated in U.S. dollars and improved operating leverage from higher volumes.

	2021	2020	Variance Fav/(Unfav)	
GROSS PROFIT	68,627	25,850	42,777	165.5%

Gross profit increased to \$68.6 million, from \$25.9 million, and gross margin was higher at 22.7%, as compared to 12.0% in 2020. The increased gross profit for the period is primarily the result of higher sales volume, higher sell prices and ongoing cost and inventory management.

	<u>2021</u>	<u>2020</u>	<u>Variance Fav/(Unfav)</u>	
SG&A	16,367	13,954	(2,413)	(17.3%)

SG&A expenses are higher when compared to prior year, as a result of compensation related items.

	<u>2021</u>	<u>2020</u>	<u>Variance Fav/(Unfav)</u>	
FINANCING EXPENSES	2,532	4,335	1,803	41.6%

Financing expenses decreased mainly due to settlement of the long-term debt in the prior year.

Financing Expenses

	Year Ended December 31,			
			<u>Variance Fav/(Unfav)</u>	
	<u>2021</u>	<u>2020</u>	<u>Amount</u>	<u>%</u>
Long term debt accretion	-	1,679	1,679	100.0%
Interest on senior credit facility	462	703	241	34.3%
Interest on senior term facility	278	289	11	3.8%
Interest on lease liability	1,199	1,347	148	11.0%
Other interest and financing costs	581	298	(283)	(95.0%)
Deferred financing costs	12	19	7	36.8%
Total financing expenses	2,532	4,335	1,803	41.6%

	<u>2021</u>	<u>2020</u>	<u>Variance Fav/(Unfav)</u>	
FOREIGN EXCHANGE LOSS	140	173	33	19.1%

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 December 31, 2021, the Company did not have any U.S. dollar currency forward contracts outstanding.

	<u>2021</u>	<u>2020</u>	<u>Variance Fav/(Unfav)</u>	
INCOME TAX RECOVERY	25,507	2,045	(23,462)	(1,147.3%)

The income tax expense for 2021 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.

	<u>2021</u>	<u>2020</u>	<u>Variance Fav/(Unfav)</u>	
NET INCOME	87,971	5,131	82,840	1,614.5%

The net income increase over the comparative period is attributable to higher gross profits, the realized gain recognized on the sale of the Etiwanda property and the lower financing expenses.

ETIWANDA TRANSACTION IMPACT

On December 16, 2021 upon the close of the sale of the Etiwanda facility, Tree Island had gross proceeds of \$71.0 million and recognized a gain before tax of \$63.2 million. As of the closing date, Tree Island entered into a 24 month commercial lease agreement with the purchaser for the land and building and a Right of Use Asset and Lease Liability have been recorded as at December 31, 2021. The Lease Liability is based on an 18 month, non-cancellable term. Cash proceeds from the sale were used in part to pay down the outstanding balance on the revolving credit facility and the remainder is held as cash at year end.

CALGARY TRANSACTION IMPACT

On November 25, 2021 at the time of purchase of the Calgary land and building, which were formerly leased assets, the previously recorded Right of Use Asset and corresponding Lease Liability were derecognized and replaced with a new plant addition. At the time of the lease derecognition, a gain before tax of \$0.7 million was realized.

7 FINANCIAL CONDITION AND LIQUIDITY

7.1 WORKING CAPITAL

A summary of the composition of our working capital as at December 31, 2021 compared to 2020 is provided below:

	As at December 31,	
	2021	2020
Cash	33,251	1,245
Accounts receivable	38,054	24,819
Inventories	77,512	46,808
Other current assets	6,785	3,209
	<u>155,602</u>	<u>76,081</u>
Accounts payable and accrued liabilities	(27,278)	(17,770)
Dividends payable	(2,275)	(570)
Other current liabilities	(18,360)	(1,480)
	<u>(47,913)</u>	<u>(19,820)</u>
Net balance	107,689	56,261

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.

Cash proceeds from the sale of the Etiwanda facility were used in part to pay down the outstanding balance of the revolving credit facility and the remainder is held as cash at year end.

Accounts receivable as at December 31, 2021 were higher than the same period last year, reflecting the increase in sales in Q4 2021 compared to the same period in the prior year.

Inventories levels were higher as at December 31, 2021, when compared to the same period in 2020, as a result of higher volumes and 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

Cash Flow

	Year Ended December 31,	
	2021	2020
Cash provided by operating activities before working capital adjustments	32,550	15,734
Working capital adjustments	(20,677)	8,941
Net cash provided by operating activities	11,873	24,675
Net cash provided by (used in) investing activities	57,113	(1,922)
Advance on (repayment of) senior team loans	(2,803)	5,245
Repayment of long-term debt	-	(7,896)
Lease interest paid	(1,199)	(1,347)
Lease principal payments	(1,573)	(1,607)
Other interest paid	(1,319)	(1,416)
Repayment of senior revolving facility	(25,340)	(12,451)
Dividend paid	(4,552)	(2,297)
Share buyback	(200)	(631)
Net cash used in financing activities	(36,986)	(22,400)
Exchanging rate changes on foreign cash balances	6	(15)
Increase (decrease) in cash balances	32,006	338

For the 2021 year, net cash from operating activities has decreased compared to prior year, as a result of a working capital increases required to support the sales volumes. The net cash provided by investing activities was mainly the result of the sale of the Etiwanda facility less the purchase of the Calgary facility. The net cash used by financing activities was mainly due to repayments on the senior revolving facility, dividends and lease obligations.

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 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 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 full year ended December 31, 2021, we made capital expenditures of \$12.1 million. These expenditures were for capital maintenance activities, new manufacturing equipment, and the conversion of the Calgary facility from a leased to an owned asset as described below.

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

9 CONTRACTUAL OBLIGATIONS AND COMMITMENTS

As of December 31, 2021, 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 Q1 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 December 31, 2021, 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 December 31, 2021, the Company did not have any U.S. dollar currency forward contracts outstanding.

Contractual Obligations and Commitments

	<u>2022</u>	<u>2023</u>	<u>2024</u>	<u>2025</u>	<u>2026</u>	<u>Thereafter</u>	<u>Total</u>
Production materials	63,192	-	-	-	-	-	63,192
AP and accrued liabilities	27,278	-	-	-	-	-	27,278
Other current liabilities	55	-	-	-	-	-	55
Dividends	2,275	-	-	-	-	-	2,275
Lease liabilities	2,918	2,573	2,441	2,406	2,498	29,146	41,982
Senior term loans (principal)	2,819	2,819	2,819	2,256	872	1,597	13,182
Senior term loans (interest)	300	242	167	98	61	43	911
Total obligations and commitments	98,837	5,634	5,427	4,760	3,431	30,786	148,875

10 COMPARISON OF RESULTS FOR THE THREE MONTHS ENDED DECEMBER 31, 2021 AND 2020

Results from Operations:	Three Months Ended December 31,	
	2021	2020
Revenue	75,954	54,199
Cost of sales	(57,191)	(46,105)
Depreciation	(1,440)	(1,487)
Gross profit	17,323	6,607
Selling, general and administrative expenses	(5,833)	(3,397)
Operating income	11,490	3,210
Foreign exchange loss	(373)	(226)
Gain on property, plant, and equipment	63,897	-
Other expenses	(4)	(20)
Financing expenses	(679)	(590)
Income before income taxes	74,331	2,374
Income tax expense	(15,290)	(682)
Net income	59,041	1,692
Net income per share	2.08	0.06
Dividends per share	0.08	0.02

Adjusted EBITDA:	Three Months Ended December 31,	
	2021	2020
Operating income	11,490	3,210
Add back depreciation	1,440	1,487
Foreign exchange loss	(373)	(226)
Adjusted EBITDA	12,557	4,471

	Q4 2021	Q4 2020	Variance Fav/(Unfav)	
SALES	75,954	54,199	21,755	40.1%

Revenue for the quarter increased by 40.1% primarily due to higher demand, particularly in commercial construction, and increased selling prices compared to the same period in 2020.

	Q4 2021	Q4 2020	Variance Fav/(Unfav)	
COST OF SALES	57,191	46,105	(11,086)	(24.0%)

The cost of goods sold increased in Q4 2021 when compared to the same period last year, primarily due to raw material price increases, which were offset by lower Canadian dollar currency transaction costs for purchases denominated in U.S. dollars and improved operating leverage.

	<u>Q4 2021</u>	<u>Q4 2020</u>	<u>Variance Fav/(Unfav)</u>	
GROSS PROFIT	17,323	6,607	10,716	162.2%

Gross profit for the fourth quarter increased to \$17.3 million, from \$6.6 million in the same period in 2020, predominantly from increased sales and ongoing cost management.

	<u>Q4 2021</u>	<u>Q4 2020</u>	<u>Variance Fav/(Unfav)</u>	
SG&A	5,833	3,397	(2,436)	(71.7%)

SG&A expenses are higher than the comparative period, as a result of compensation related items.

	<u>Q4 2021</u>	<u>Q4 2020</u>	<u>Variance Fav/(Unfav)</u>	
FINANCING EXPENSES	679	590	(89)	(15.1%)

Financing expenses for the quarter increased primarily due to the higher supply credit balances during the quarter, when compared to the prior period.

	<u>Q4 2021</u>	<u>Q4 2020</u>	<u>Variance Fav/(Unfav)</u>	
FOREIGN EXCHANGE LOSS	373	226	(147)	(65.0%)

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 December 31, 2021, the Company did not have any U.S. dollar currency forward contracts outstanding.

	<u>Q4 2021</u>	<u>Q4 2020</u>	<u>Variance Fav/(Unfav)</u>	
INCOME TAX EXPENSE	15,290	682	(14,608)	(2,141.9%)

The income tax expense for the quarter has increased due to higher income this year from the gain on the sale of the Etiwanda land and building, as well as higher operating income. Income tax expense is based on a statutory rate of 27.0% for Canadian taxable income and 29.8% for U.S. based taxable income applied to the income of the respective subsidiaries before taxes, with adjustments for permanent differences between accounting and taxable income.

	<u>Q4 2021</u>	<u>Q4 2020</u>	<u>Variance Fav/(Unfav)</u>	
NET INCOME	59,041	1,692	57,349	3,389.4%

The net income was higher in the current quarter compared to the prior period, due to higher operating income and the realized gain recognized on the sale of the Etiwanda property.

11 SUMMARY OF QUARTERLY FINANCIAL RESULTS

The table below provides selected quarterly financial information for the eight most recent fiscal quarters to December 31, 2021. 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

	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>	Mar 31, <u>2020</u>
Revenue	75,954	84,642	74,410	66,842	54,199	53,236	50,466	57,993
Gross profit	17,323	21,838	16,839	12,627	6,607	6,684	5,945	6,614
Foreign exchange gain (loss)	(373)	445	(99)	(113)	(226)	(383)	(294)	730
Net income	59,041	13,398	9,068	6,464	1,682	520	1,100	1,829
Net income per unit - basic	2.08	0.47	0.32	0.22	0.06	0.02	0.04	0.06

Commentary:

- During Q1 2020, increased demand resulted in improved gross profits earned.
- In Q2 2020 lower sales from the impact of COVID-19 were offset by proactive cost management measures, including decreases in expenditures and improved product mix.
- In Q3 and Q4 2020 sales increased as a result of improved demand after the initial pandemic related reductions in demand and temporary closures of certain customer and project sites.
- 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 again before tax on the sale of the Etiwanda property of \$63.2 million which further increased the net income generated by operations.

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.

12.2 CHANGES IN ACCOUNTING POLICIES

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 consolidated financial statements.

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 March 2, 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 twelve months ended December 31, 2021, Tree Island sold, net of rebates, approximately \$3.5 million (\$2.7 million in 2020) of goods to DBM and trade accounts receivable owing from DBM as at December 31, 2021 is approximately \$0.3 million (approximately \$0.2 million in 2020). 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 year ended December 31, 2021 were approximately \$2.7 million (\$1.2 million approximately in 2020) 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 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 management, with the participation of the Chief Financial Officer and President and Chief Operating Officer, in the capacity of chief executive officer, has conducted an evaluation of the effectiveness of our internal control over financial reporting as of December 31, 2021 based on the 2013 COSO Framework. Based on that evaluation, management concluded that our internal control over financial reporting, as defined by National Instrument 52-109 - Certification of Disclosure in Issuers' Annual and Interim Filings, is effective to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements 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 annual financial report together with the other financial information included in the annual filings for the year ended December 31, 2021. These executives also certified that they are responsible for the design and effectiveness of disclosure controls and procedures and internal control over financial reporting. The Company’s Board of Directors and Audit Committee reviewed and approved the December 31, 2021 consolidated financial statements and this MD&A prior to its release.



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INDEPENDENT AUDITORS' REPORT

To the Shareholders of Tree Island Steel Ltd.,

Opinion

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

- the consolidated statements of financial position as at December 31, 2021 and December 31, 2020;
- the consolidated statements of operations for the years then ended;
- the consolidated statements of comprehensive income for the years then ended;
- the consolidated statements of shareholders' equity for the years then ended;
- the consolidated statements of cash flows for the years then ended;
- and notes to the consolidated financial statements, including a summary of significant accounting policies

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

In our opinion, the accompanying financial statements present fairly, in all material respects, the consolidated financial position of the Entity as at December 31, 2021 and December 31, 2020, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards (IFRS).

Basis for Opinion

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

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

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

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements for the year ended December 31, 2021. These matters were addressed in the context of our audit of the financial statements, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

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

Assessment of finished and semi-finished products inventory cost

Description of the Key Audit Matter

We draw attention to Notes 3.4 and 6 to the consolidated financial statements. The finished and semi-finished products inventory cost is \$33.0 million. The Entity records finished and semi-finished products inventory at the lower of weighted average cost and net realizable value. The cost for finished and semi-finished products includes direct costs incurred in production including direct labour, materials, freight, depreciation and directly attributable overhead costs and indirect overhead costs based on normal operating capacity. The Entity uses the standard cost method to measure the cost of finished and semi-finished products as this method approximates the weighted average cost.

Why the matter is a Key Audit Matter

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

How the matter was addressed in the audit

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

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

Other Information

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

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

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

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

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

We have nothing to report in this regard.

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

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

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

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

Auditors' Responsibilities for the Audit of the Financial Statements

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

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

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

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

We also:

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

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

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Entity's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Entity's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Entity to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair representation.
- Communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.
- Provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and

other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

- Determine, from the matters communicated with those charged with governance, those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our auditors' report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.



Chartered Professional Accountants

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

Vancouver, Canada

March 2, 2022

AUDITED CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2021 and 2020

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

(\$'000 unless otherwise stated)

	<i>Notes</i>	As at December 31, 2021	As at December 31, 2020
Cash		33,251	1,245
Accounts receivable	5, 13.1	38,054	24,819
Inventory	6	77,512	46,808
Prepaid expenses		6,785	3,209
Current assets		155,602	76,081
Property, plant and equipment	7	49,042	43,067
Right of use assets	8.1	19,886	25,982
Other non-current assets		1,276	1,419
Total assets		225,806	146,549
Accounts payable and accrued liabilities		27,278	17,770
Income taxes payable	15.1	18,305	1,383
Other current liabilities		55	97
Dividends payable		2,275	570
Current portion of long-term borrowing	9.2	2,819	2,825
Current portion of ROU lease liabilities	8.2	3,546	1,599
Current liabilities		54,278	24,244
Senior revolving facility	9.1	-	25,398
Senior term loans	9.2	10,363	13,215
ROU Lease liabilities	8	24,289	28,549
Other non-current liabilities		517	491
Deferred Income tax liabilities	15.2	3,738	3,583
Total liabilities		93,185	95,480
Shareholders' equity		132,621	51,069
Total liabilities and shareholders' equity		225,806	146,549

See accompanying Notes to the Consolidated Financial Statements

Approved on behalf of Tree Island Steel.

[Signed]

"Amar S. Doman"

Executive Chairman of the Board of Director

AUDITED CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2021 and 2020

CONSOLIDATED STATEMENTS OF OPERATIONS

(\$'000 unless otherwise stated)

	Notes	Year Ended December 31,	
		2021	2020
Sales	5, 13.1, 21.1	301,848	215,894
Cost of sales	6	(227,378)	(184,008)
Depreciation	7, 8.1	(5,843)	(6,036)
Gross profit		68,627	25,850
Selling, general and administrative expenses		(16,367)	(13,954)
Operating income		52,260	11,896
Foreign exchange loss		(140)	(173)
Gain on sale of property, plant and equipment		63,896	5
Other expenses		(6)	(217)
Financing expenses	11	(2,532)	(4,335)
Income before income taxes		113,478	7,176
Current income tax expense	15.1	(25,352)	(1,647)
Deferred income tax expense	15.2	(155)	(398)
Net income		87,971	5,131
Net income per share	19	3.09	0.18
Dividends per share		0.22	0.08
Weighted average number of shares	19	28,453,485	28,773,322

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(\$'000 unless otherwise stated)

	Year Ended December 31,	
	2021	2020
Net income for the year	87,971	5,131
Unrealized gain on foreign exchange translation	38	207
Comprehensive income	88,009	5,338

See accompanying Notes to the Consolidated Financial Statements

AUDITED CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2021 and 2020

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

<i>(\$'000 unless otherwise stated)</i>	Shareholders' Capital <i>Note 12</i>	Retained Earnings	Accumulated Other Comprehensive Loss	Total
Balance as at December 31, 2020	223,363	(169,726)	(2,568)	51,069
Repurchase of shares	(200)	-	-	(200)
Net Income	-	87,971	-	87,971
Dividends	-	(6,257)	-	(6,257)
Other comprehensive income	-	-	38	38
Balance as at December 31, 2021	223,163	(88,012)	(2,530)	132,621
Balance as at December 31, 2019	223,994	(172,566)	(2,775)	48,653
Repurchase of shares	(631)	-	-	(631)
Net Income	-	5,131	-	5,131
Dividends	-	(2,291)	-	(2,291)
Other comprehensive income	-	-	207	207
Balance as at December 31, 2020	223,363	(169,726)	(2,568)	51,069

See accompanying Notes to the Consolidated Financial Statements

AUDITED CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2021 and 2020

CONSOLIDATED STATEMENTS OF CASH FLOWS

(\$'000 unless otherwise stated)

	Notes	Year Ended December 31,	
		2021	2020
Net income		87,971	5,131
Depreciation		5,843	6,036
Gain on sale of property, plant and equipment		(63,896)	(5)
Net financing costs		2,532	4,335
Deferred income tax expense		155	398
Exchange revaluation of foreign denominated debt	9, 10	(55)	(161)
Working capital adjustments			
Accounts receivable		(13,236)	(569)
Inventories		(30,704)	8,262
Accounts payable and accrued liabilities		9,642	(570)
Prepaid expenses		(3,432)	181
Income and other taxes		16,922	1,647
Other		131	(10)
Net cash provided by operating activities		11,873	24,675
Government rebates		-	799
Proceeds on disposal of property plant and equipment		69,244	-
Purchase of property, plant and equipment		(12,131)	(2,721)
Net cash provided by (used in) investing activities		57,113	(1,922)
Term loans - advances (repayment), net	9.2	(2,803)	5,245
Repayment of long-term debt	10	-	(7,896)
Lease interest paid		(1,199)	(1,347)
Lease principal payments		(1,573)	(1,607)
Other interest paid		(1,319)	(1,400)
Deferred financing fees		-	(16)
Repayment of senior revolving facility		(25,340)	(12,451)
Dividend paid		(4,552)	(2,297)
Repurchase of common shares		(200)	(631)
Net cash used in financing activities		(36,986)	(22,400)
Effect of exchange rate change on cash		6	(15)
Increase in cash		32,006	338
Cash - beginning of year		1,245	907
Cash - end of year		33,251	1,245

See accompanying Notes to the Consolidated Financial Statements

1 NATURE OF BUSINESS

These consolidated financial statements of Tree Island Steel ("Tree Island" or the "Company") for the years ended December 31, 2021 and 2020 were authorized for issue in accordance with a resolution of the Board of Directors on March 2, 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 consolidated financial statements as at and for the years ended December 31, 2021 and 2020 have been prepared in accordance with International Financial Reporting Standards ("IFRS"). Certain comparative information has been reclassified to conform to the presentation adopted during the period.

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

2.2 BASIS OF CONSOLIDATION

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

2.3 FUNCTIONAL CURRENCY AND PRESENTATION CURRENCY

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

3 SIGNIFICANT ACCOUNTING POLICIES, CRITICAL ACCOUNTING JUDGMENTS AND ESTIMATES

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

3.1 CHANGES IN ACCOUNTING POLICIES

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

3.2 REVENUE RECOGNITION

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

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

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

3.3 CASH

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

3.4 INVENTORIES

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

3.5 PROPERTY, PLANT AND EQUIPMENT AND DEPRECIATION

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

Depreciation is calculated over the following rates:

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

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

3.6 LEASES

3.6.1 RIGHT-OF-USE-ASSETS

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

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

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

3.6.2 LEASE LIABILITY

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

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

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

3.6.3 SHORT-TERM LEASES AND LEASES OF LOW-VALUE

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

3.7 IMPAIRMENT OF NON-FINANCIAL ASSETS

3.7.1 IMPAIRMENT CHARGES

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

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

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

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

3.8 FAIR VALUE MEASUREMENT

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

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

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

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

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

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

All financial assets and liabilities for which fair value is measured or disclosed in the consolidated financial statements are categorized within the fair value hierarchy (Note 16.2).

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

3.9 FINANCIAL INSTRUMENTS AND RISKS

3.9.1 FINANCIAL ASSETS

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

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

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

3.9.2 FINANCIAL LIABILITIES

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

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

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

3.9.3 FINANCIAL INSTRUMENTS AT FAIR VALUE THROUGH PROFIT AND LOSS

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

3.10 PROVISIONS

3.10.1 GENERAL

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

3.10.2 ASSET DECOMMISSIONING AND RETIREMENT OBLIGATIONS

Tree Island recognizes obligations associated with the retirement of property, plant and equipment that result from the acquisition, construction, development or normal operations of the assets. These obligations are recorded in the period in which the obligations are incurred, if a reasonable estimate can be made. In general, the present value of the estimated future expenditures is added to the carrying amount of the associated asset and the resulting asset retirement cost is depreciated over the estimated useful life of the asset. The present value is determined with a discount rate that equates to the Company's credit-adjusted risk-free rate. Where an asset is no longer in service when an asset retirement obligation is recorded, the asset retirement cost is recorded in results of operations. Management has determined that Tree Island does not have any material asset decommissioning or retirement obligations.

3.11 POST-RETIREMENT BENEFITS

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

3.12 TAXES

3.12.1 CURRENT INCOME TAX

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

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

3.12.2 DEFERRED TAX

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

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

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

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

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

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

3.12.3 SALES TAX

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

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

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

3.13 NET INCOME (LOSS) PER SHARE

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

3.14 FOREIGN EXCHANGE

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

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

3.15 CRITICAL ACCOUNTING JUDGMENTS AND ESTIMATES

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

3.15.1 INVENTORY VALUATION

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

The measurement of an inventory write-down to NRV is based on our best estimate of the NRV and of our expected future sale or consumption of our inventories. Due to market driven fluctuations in certain product group sales prices and the commodity nature of our significant raw materials, there is uncertainty as to whether the NRV of the inventories will remain consistent with those used in our assessment of NRV at period end. As a result there is the risk that a write-down of on-hand and unconsumed inventories could occur in future periods. Also, a certain portion of inventory may become damaged or obsolete. A slow moving reserve is recorded, as required, based on an analysis of the length of time product has been in inventory and historical rates of damage and obsolescence. Refer to Note 6 for the inventory provision as at December 31, 2021 and 2020.

3.15.2 ALLOWANCE FOR DOUBTFUL ACCOUNTS

It is possible that a certain portion of required customer payments will not be made, and as such an allowance for these doubtful accounts is maintained. The allowance is based on estimation of the potential of recovering the accounts receivable and incorporates current and expected collection trends. The estimates will change, as necessary, to reflect market or specific industry risks, as well as known or expected changes in the customers’ financial position. Refer to Note 5 for the carrying amount of allowance for doubtful accounts as at December 31, 2021 and 2020.

3.15.3 PROPERTY, PLANT AND EQUIPMENT

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

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

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

3.15.4 LEASES

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

4 FUTURE IFRS STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE

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

5 REVENUE AND ACCOUNTS RECEIVABLE

Revenue is net of the cost of freight associated with those sales to customers where the Company arranges the freight. In 2021, this amounts to \$17.6 million (\$13.0 million in 2020).

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

	As at December 31, 2021	As at December 31, 2020
Current	35,911	22,386
Over 30 days past due	2,629	2,764
Total accounts receivable	38,540	25,150
Allowance for doubtful accounts	(486)	(331)
Net accounts receivable	38,054	24,819

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 \$38.1 million as at December 31, 2021 (\$24.8 million as at December 31, 2020).

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 13.1.

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

	As at December 31, 2021	As at December 31, 2020
Opening balance - beginning of period	331	580
Additions during the period	232	169
Reversals during the period	-	(20)
Payments	(77)	(36)
Write-offs during the period	-	(366)
Foreign exchange revaluation	-	4
Closing balance - end of period	486	331

See Note 17 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 CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2021 and 2020

6 INVENTORIES

Tree Island had the following categories of inventory:

	As at December 31, 2021	As at December 31, 2020
Raw materials	30,397	14,790
Finished and semi-finished products	33,006	20,465
Consumable supplies and spare parts	14,109	11,553
Total inventory	77,512	46,808

For the year ended December 31, 2021 and 2020, Tree Island recognized, in income, inventory costs for the following:

	Years Ended December 31,	
	2021	2020
Opening inventory	46,808	55,034
Material purchases	201,609	125,443
Conversion costs	56,473	50,339
Closing inventory	(77,512)	(46,808)
Cost of sales	227,378	184,008

At each year end, the ending inventories on hand are reviewed to determine if a write down to net realizable value is required. Based on this review, it was determined that no write-downs were necessary in 2021 and 2020. The reserves for slow moving inventory as at December 31, 2021 were \$1.4 million (\$1.2 million at December 31, 2020).

7 PROPERTY, PLANT AND EQUIPMENT

The carrying value of property, plant and equipment is reviewed each reporting period. For the purposes of testing for impairment, or the reversal of impairment, Tree Island Steel's assets are grouped and tested at the Cash Generating Unit level. Tree Island considers both qualitative and quantitative factors when determining whether an asset may be impaired, or when a reversal of impairment is required. Where the carrying value of the assets is not expected to be recoverable from future cash flows, they are written down to their recoverable amount. Tree Island has noted no indicators of impairment as at December 31, 2021.

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2021 and 2020

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, 2019	9,765	46,702	41,267	1,494	99,228
Additions	23	451	2,148	(763)	1,859
Disposals	-	-	(109)	-	(109)
Foreign exchange translation	(40)	(193)	(277)	13	(497)
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
Depreciation and impairment					
As at December 31, 2019	55	34,930	19,263	-	54,248
Depreciation for the period	17	1,394	2,135	-	3,546
Disposals	-	-	(108)	-	(108)
Foreign exchange translation	(2)	(130)	(140)	-	(272)
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
Net book value as at					
December 31, 2020	9,678	10,766	21,879	744	43,067
December 31, 2021	13,338	14,493	20,800	411	49,042

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2021 and 2020

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 year:

8.1 RIGHT OF USE ASSETS

	Land & buildings	Machinery & equipment	Total right-of-use assets
Cost			
As at December 31, 2019	32,825	2,477	35,302
Additions	-	149	149
Disposals	(885)	(403)	(1,288)
Foreign exchange translation	(465)	(26)	(491)
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
Depreciation and impairment			
As at December 31, 2019	(5,609)	(993)	(6,602)
Additions	(2,033)	(457)	(2,490)
Disposals	880	393	1,273
Foreign exchange translation	109	20	129
As at December 31, 2020	(6,653)	(1,037)	(7,690)
Depreciation for period	(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)
Carrying value as at:			
December 31, 2020	24,822	1,160	25,982
December 31, 2021	18,824	1,062	19,886

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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8.2 LEASE LIABILITY

	Land & buildings	Machinery & equipment	Total lease liabilities
Lease liability			
As at December 31, 2019	30,614	1,471	32,085
New contracts and renewals	-	143	143
Contract disposal	-	(9)	(9)
Interest adjustment	(10)	-	(10)
Interest expense	1,290	54	1,344
Payment of lease liability	(2,463)	(488)	(2,951)
Foreign exchange translation	(456)	2	(454)
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
Less: current portion	(3,143)	(403)	(3,546)
Total as at December 31, 2021	23,608	681	24,289

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 million of Senior Revolving Credit facility; and
- \$20 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 \$292 thousand Letter of Credit outstanding as at December 31, 2021.

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 CONSOLIDATED FINANCIAL STATEMENTS**December 31, 2021 and 2020**

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

	As at December 31, 2021	As at December 31, 2020
Revolving portion of the senior credit facility	-	25,398
Deferred financing costs	(44)	(56)
Total	(44)	25,342

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

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

As at December 31, 2021 the Company was in compliance with its financial covenants on the Senior Credit Facility.

9.2 SENIOR TERM FACILITY

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

The following amounts are outstanding under the Senior Term Facility:

	As at December 31, 2021	As at December 31, 2020
Senior term loans - beginning of period	16,040	11,194
Advances	-	7,242
Foreign exchange revaluation	(55)	(272)
Payments	(2,803)	(2,124)
Senior term loans - end of period	13,182	16,040
Less: current portion	(2,819)	(2,825)
Total	10,363	13,215

10 LONG-TERM DEBT

On September 17, 2020, the long-term debt was settled in full with funds advanced under the Company's Senior Term Facility for a total amount of \$7.2 million. Upon settlement all encumbrances were released and discharged.

11 FINANCING EXPENSES

	<i>Notes</i>	Year Ended December 31,	
		2021	2020
Accretion on long term debt		-	1,679
Interest on senior credit facility	9.1	462	703
Interest on senior term facility	9.2	278	289
Interest on lease liability		1,199	1,347
Other interest and financing costs		581	298
Amortization of deferred financing costs		12	19
Total		2,532	4,335

12 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, 2019	28,831,637	235,394	11,400	223,994
Repurchase of common shares	(328,123)	(631)	-	(631)
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

12.1 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, 2021 to December 31, 2021 the Company purchased and canceled 69,326 Shares under the Bid at a total cost of \$200 thousand (at an average price of \$2.88 per Share).

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 March 2, 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 year ended December 31, 2021, Tree Island sold, net of rebates, approximately \$3.5 million (\$2.7 million in 2020) of goods to DBM and trade accounts receivable owing from DBM as at December 31, 2021 is approximately \$0.3 million (approximately \$0.2 million in 2020). Outstanding trade accounts receivable from CanWel at period end are unsecured, interest free and settlement occurs in cash (Note 5).

13.2 TRANSACTION WITH KEY MANAGEMENT PERSONNEL

Included in the definition of key management for purposes of disclosure of related party transactions are members of Board of Directors and officers of Tree Island Steel. Amounts for key management personnel for the year ended December 31, 2021 were approximately \$2.7 million (approximately and \$1.2 million in 2020) 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 POST RETIREMENT BENEFITS

Tree Island contributes to a group registered retirements savings plan for all eligible Canadian employees and a 401K for all eligible U.S. employees. Contributions made by Tree Island’s subsidiaries in 2021 amounted to \$1.4 million (\$1.3 million in 2020). Funding obligations are satisfied upon making contributions.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2021 and 2020

15 INCOME TAXES**15.1 INCOME TAX EXPENSE**

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

	Year Ended December 31,	
	2021	2020
Current tax expense	(25,352)	(1,647)
Deferred tax expense	(155)	(398)
Total in the Consolidated Statement of Operations	(25,507)	(2,045)

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

	As at December 31,	
	2021	2020
Income before provision for income taxes	113,478	7,176
Tax Rate	27.0%	27.0%
Expected income tax expense	(30,639)	(1,938)
Items not deductible for tax	(26)	(24)
Foreign exchange on intercompany loans	(62)	159
Change in unrecognized deferred tax benefits	4,802	(439)
Foreign withholding taxes	-	(81)
Non-taxable capital gain	-	152
Other	418	126
Total in the Consolidated Statement of Operations	(25,507)	(2,045)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2021 and 2020

15.2 DEFERRED INCOME TAX ASSETS AND LIABILITIES

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

	As at December 31,	
	2021	2020
Non-capital tax loss-carry forwards	1,390	1,396
Property, plant and equipment	(6,263)	(5,957)
Capital losses	886	1,038
Reserves and other liabilities	11	207
Interest and other	238	(267)
Deferred tax asset (liability)	(3,738)	(3,583)
Deferred tax (liability) beginning of year	(3,583)	(3,185)
Deferred tax recovery (expense) during the year	(155)	(398)
Deferred tax asset (liability) end of year	(3,738)	(3,583)

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

	As at December 31,	
	2021	2020
Non-capital tax loss carry-forwards	2,131	239
Goodwill and intangibles	39	68
Unrealized foreign exchange losses	-	1,369
Reserves and other liabilities	-	201
Capital losses	2,640	1,681
Interest and other	2,201	8,739
Unrecognized deferred tax asset	7,011	12,297

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15.3 INCOME TAX LOSS CARRY-FORWARD

As at December 31, 2021, Tree Island had income tax loss carry forward available to offset future taxable income with expirations as shown in the table below:

Year of Expiration	Canada	U.S. - Federal	U.S. - State
2031	-	-	5,398
2032	10	-	468
2033	-	-	1,251
2034	-	-	3,455
2035	-	-	2,483
2037	-	-	1,751
2038	21	-	-
2039	68	-	1,340
2040	-	-	492
Total	99	-	16,639

As at December 31, 2021, the Company had capital losses of \$26.1 million in addition to the non-capital loss carry forwards listed above. The capital losses can be carried forward indefinitely to offset against future capital gains in Canada.

16 FINANCIAL INSTRUMENTS**16.1 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 December 31, 2021		As at December 31, 2020	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Cash and cash equivalent	33,251	33,251	1,245	1,245
Accounts receivable	38,054	38,054	24,819	24,819
Total financial assets	71,305	71,305	26,064	26,064
Senior revolving facility	-	-	25,398	25,398
Accounts payable, accrued & other current liabilities	27,278	27,278	17,770	17,770
Senior term loans	13,182	13,182	16,040	16,040
Lease Liabilities	27,835	27,835	30,148	30,148
Total financial liabilities	68,295	68,295	89,356	89,356

16.2 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.

17 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.

17.1 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.

17.2 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.

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The table below summarizes the future undiscounted contractual cash flow requirements for financial liabilities (including scheduled interest payments on interest bearing liabilities) as at December 31, 2021:

	Carrying Amount	Contractual Cash Flow	Less Than 1	1 - 2 Years	Greater Than 2
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
Senior revolving facility	25,398	25,398	-	-	25,398
Accounts payable, accrued and other liabilities	17,867	17,867	17,867	-	-
Senior term loans (principal)	16,040	14,708	2,825	5,650	6,233
Senior term loans (interest)	-	1,216	408	322	486
Lease liability	30,148	44,725	2,837	2,888	39,000
As at December 31, 2020	89,453	103,914	23,937	8,860	71,117

17.3 FOREIGN CURRENCY RISK

Tree Island's U.S. dollar-denominated cash, accounts receivable, accounts payable and accrued liabilities and Senior Credit Facility are exposed to foreign currency exchange rate risk because the value of these financial instruments will fluctuate with the changes in the U.S./Canadian dollar exchange rate. The Company enters into U.S. dollar currency forward contracts for periods consistent with a portion of U.S. dollar currency transaction exposures, generally from one to three months. These are not designated as cash flow, fair value or net investment hedges. As of December 31, 2021, the Company had no outstanding U.S. dollar currency forward contracts.

For the year ended December 31, 2021, a \$0.01 increase (decrease) in the Canadian dollar to U.S. dollar exchange rate would have increased (decreased) net comprehensive income by \$0.6 million.

17.4 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 the Canadian interbank bid rates for Canadian dollar banker's acceptance for Canadian dollar denominated borrowings or the London Inter-Market Offered Rate ("LIBOR") for U.S. dollar deposits for U.S. dollar denominated borrowings.

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 CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2021 and 2020

17.5 RAW MATERIAL PRICE RISK

Tree Island is exposed to changes in the price of the materials used in its production process and, from time to time, enters into forward contracts to purchase a portion of the zinc used. These are not designated as cash flow or fair value hedges. As at December 31, 2021, the Company had no outstanding zinc forward contracts.

18 MANAGEMENT OF CAPITAL

The Company's objectives when managing its capital are:

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

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

	As at December 31, 2021	As at December 31, 2020
Total shareholders' equity	132,621	51,069
Senior revolving facility	-	25,398
Senior term loans	13,182	16,040
Lease liabilities	27,835	30,148
Total capital	173,638	122,655

19 NET INCOME PER SHARE

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

Diluted earnings per Share amount is calculated by dividing the net income for the year by the weighted average number of Shares outstanding during the year plus the weighted average number of Shares that would be issued on conversion of all the dilutive potential units into Shares. As at December 31, 2021 the Company does not have any instruments issued that could be dilutive.

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

	Year Ended December 31,	
	2021	2020
Net income for the period	87,971	5,131
Weighted average number of Shares outstanding:	28,453,485	28,773,322
Net income per share (\$/share)	3.09	0.18

20 PROVISIONS AND COMMITMENTS

20.1 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.

20.2 PURCHASE COMMITMENTS

As at December 31, 2021, Tree Island's wholly owned subsidiaries have committed to material purchases (including finished goods) totalling \$63.2 million (\$40.2 million in 2020).

21 SEGMENTED INFORMATION

21.1 MARKET SEGMENTS

Revenues for each group for the twelve months ended December 31, 2021 and 2020 were as follows:

	Year Ended December 31,	
	2021	2020
Industrial	112,067	77,359
Commercial	74,576	47,102
Agricultural	39,004	32,068
Residential	76,201	59,365
Total Revenue	301,848	215,894

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.

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21.2 GEOGRAPHIC SEGMENTS

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

	Year Ended December 31,	
	2021	2020
United States	205,019	138,022
Canada	89,974	70,207
International	6,855	7,665
Total revenue	301,848	215,894

Non-current assets for this purpose consist of property, plant and equipment, right-of-use assets and other non-current assets. These assets are attributed to geographic areas based on the locations of the subsidiary Company owning the assets.

	As at December 31,	As at December 31,
	2021	2020
United States	31,085	34,088
Canada	39,119	36,380
Total non-current assets	70,204	70,468

22 SUBSEQUENT EVENTS

On March 2, 2022 the Board of Directors declared a regular quarterly dividend of \$0.03 per share and an additional \$1.20 per share as a special dividend on the issued and outstanding Common Shares of the Company, both payable on April 14, 2022 to holders of record at the close of business on March 31, 2022.

SHAREHOLDER INFORMATION

TREE ISLAND STEEL

Board of Directors:

Amar S. Doman –
Executive Chairman of
the Board

Peter Bull

Harry Rosenfeld

Sam Fleiser

Theodore A. Leja

Joe Downes

Executive Officers:

Remy Stachowiak
*President,
Chief Operating Officer*

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

Shares:

Market Information

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

Registrar and Transfer Agent

Computershare Investor
Services Inc.

Corporate Head Office:

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.

