



WIRE & WIRE PRODUCTS

ESTABLISHED IN 1964



**Management's
Discussion and Analysis
Q3 2020**

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®, True Spec®, K-Lath®, TI Wire®, Tough Strand® and ToughPanel™ brand names.

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

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SHAREHOLDER INFORMATION back cover



Inventory of Mesh Rolls at the Richmond, BC facility.

TO OUR SHAREHOLDERS

Letter to Shareholders

We continue to maintain our employees' safety as our primary focus, adapting our health and safety protocols based on the guidance from the respective health authorities in the jurisdictions that we operate. While we are seeing strength of demand in our markets, we continue to remain cautious about the long-term effects the pandemic could have on demand, and we will continue to diligently monitor our cost structures and working capital levels to ensure a timely and efficient delivery of products to our customers.

The third quarter of 2020 continued to demonstrate our successful actions related to rigorous cost management, including inventory control and production efficiency initiatives. In addition, with the gradual reopening of the economy and increased customer demand seen in the quarter, we were able to produce and deliver an increased volume of products into the multiple markets and geographies we serve, supporting improved overall financial results.

We wish to sincerely acknowledge all of our employees, customers and stakeholders for your ongoing support and engagement during these unprecedented times.

Sincerely,

Remy Stachowiak
President and COO, Tree Island Steel

MANAGEMENT DISCUSSION AND ANALYSIS

September 30, 2020

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 October 27, 2020 and should be read in conjunction with the unaudited interim condensed consolidated financial statements for nine months ended September 30, 2020. Tree Island Steel's unaudited interim condensed consolidated financial statements are prepared in accordance with International Financial Reporting Standards ("IFRS") and are reported in Canadian dollars. Additional information relating to Tree Island Steel, including the audited consolidated financial statements and Annual Information Form ("AIF") for the year ended December 31, 2019, 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, 2019.

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, 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, 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 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 28,576,833 Shares outstanding as of September 30, 2020 and 28,558,323 Shares outstanding as of October 27, 2020.

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 that meet or exceed customers' needs, ASTM standards and applicable codes, 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 Markets	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®, Tough Strand®, 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®, True Spec®, 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 and fourth quarter results are traditionally lower than other quarters due to the onset of winter and the corresponding reduction in construction and agricultural activities.

4 2020 BUSINESS OVERVIEW AND DEVELOPMENT

4.1 BUSINESS OVERVIEW

Revenues earned in the third quarter of 2020 amounted to \$53.2 million compared to \$49.7 million in the same period last year, a 7.1% increase. This increase in revenue is primarily attributable to higher sales volumes in our Agricultural, Industrial and Residential construction segments. Increased sales volumes and ongoing cost management actions resulted in a gross profit increase of 44.6% to \$6.7 million in the quarter, compared to \$4.6 million in the same period last year. The resulting gross profit margin for the quarter was 12.6% compared to 9.3% in Q3 2019. EBITDA for the period amounted to \$4.3 million compared to \$2.5 million in the third quarter of 2019 the combined result of improving gross profit and reduced selling, general and administrative (SG&A) expenditures compared to the prior period.

For the nine months ending September 30, 2020, revenues amounted to \$161.7 million compared to \$155.3 in the same period in 2019, representing a 4.1% increase. The increase in revenue is primarily attributable to higher shipped volumes, with growth in the Agricultural, Industrial and Residential construction market segments. Gross profit increased during the period to \$19.2 million, which represents a 34.7% increase when compared to the \$14.3 million in the same period last year. Gross margin also increased from 9.2% in 2019 to 11.9% in the current period. The increase in gross profit for the period is primarily the result of higher sales volumes, improved efficiencies and cost management. The higher gross margin and reduced SG&A costs also resulted in a higher EBITDA of \$13.3 million when compared to the \$6.9 million in the same period in 2019.

4.2 COVID-19 DEVELOPMENT

The COVID-19 pandemic continues to have adverse effects on global and regional economies and could cause disruptions, such as temporary closures of third-party supplier facilities, interruptions to construction activity or restrictions on the export or shipment of our products. Any such interruptions may impact our costs, sales and ability to pursue other strategic initiatives. The long-term impact of the pandemic may also impact customer demand, the availability of key components sourced from effected manufacturers and suppliers, logistics flows and the availability of other resources to support critical operations.

The potential future operational and financial impact of the pandemic on the Company's business activities is unknown at the moment, and the extent to which the pandemic can have an impact on future results will depend on future developments, which are very uncertain and cannot be predicted at this time.

In the interest of protecting our employees and supply chain partners, the Company has implemented multiple measures to protect the health and safety of our employees based on the guidance from the respective health authorities in the jurisdictions that we operate.

Since the beginning of this pandemic and as at October 27, 2020 all of our facilities remained open and operational.

5 RESULTS FROM OPERATIONS

(\$'000 unless otherwise stated)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020	2019	2020	2019
Revenue	53,236	49,701	161,697	155,261
Cost of sales	(45,048)	(43,513)	(137,901)	(136,359)
Depreciation	(1,504)	(1,565)	(4,548)	(4,611)
Gross profit	6,684	4,623	19,248	14,291
Selling, general and administrative expenses	(3,508)	(3,762)	(10,557)	(11,790)
Operating income	3,176	861	8,691	2,501
Foreign exchange gain (loss)	(383)	70	53	(186)
Gain (loss) on property, plant and equipment	17	(3)	5	-
Restructuring and other expenses	(122)	(215)	(199)	(482)
Financing expenses	(1,992)	(1,111)	(3,745)	(3,590)
Income (loss) before income taxes	696	(398)	4,805	(1,757)
Income tax (expense) recovery	(176)	39	(1,363)	(232)
Net income (loss)	520	(359)	3,442	(1,989)
Net income/ (loss) per share	0.02	(0.01)	0.12	(0.07)
Dividends per share	0.02	0.02	0.06	0.06

Financial Position as at:	September 30, 2020	December 31, 2019
Total assets	151,013	159,122
Total non-current financial liabilities	72,525	85,627

6 EBITDA

(\$'000 unless otherwise stated)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020	2019	2020	2019
Operating income (loss)	3,176	861	8,691	2,501
Add back depreciation	1,504	1,565	4,548	4,611
Foreign exchange gain (loss)	(383)	70	53	(186)
EBITDA ¹	4,297	2,496	13,292	6,926

7 COMPARISON OF RESULTS FOR THE THREE MONTHS ENDED SEPTEMBER 30, 2020 AND 2019

(\$'000 unless otherwise stated)	2020	2019	Variance Fav/(Unfav)	
SALES	53,236	49,701	3,535	7.1%

The increase in revenues over the prior year by 7.1% is primarily attributable to higher sales volumes in our Agricultural, Industrial and Residential Construction segments.

Revenue by Market Segment

(\$'000 unless otherwise stated)

	Three months ended September 30,					
	2020		2019		Variance	
	Revenue	% of Total	Revenue	% of Total	Amount	%
Industrial	18,471	34.7%	18,037	36.2%	434	0.9%
Commercial	11,774	22.1%	13,252	26.7%	(1,478)	(3.0%)
Agricultural	7,280	13.7%	3,720	7.5%	3,560	7.2%
Residential	15,711	29.5%	14,692	29.6%	1,019	2.1%
Total revenue	53,236	100.0%	49,701	100.0%	3,535	7.1%

Overall revenues increased across all geographical locations, over the same period last year, as a result of higher demand for our products experienced in the quarter relative to Q3 2019 for most of our market segments except for Commercial construction which was more broadly impacted by pandemic related site closures.

¹ See definition of EBITDA in Section 2 NON-IFRS MEASURES.

Revenue by Location

(\$'000 unless otherwise stated)

	Three months ended September 30,					
	2020		2019		Variance	
	Revenue	% of Total	Revenue	% of Total	Amount	%
United States	34,037	63.9%	32,199	64.8%	1,838	5.7%
Canada	17,340	32.6%	16,057	32.3%	1,283	8.0%
International	1,859	3.5%	1,445	2.9%	414	28.7%
Total	53,236	100.0%	49,701	100.0%	3,535	7.1%
Average C\$/U.S.\$	1.3324		1.3205			

(\$'000 unless otherwise stated)	2020	2019	Variance Fav/(Unfav)	
COST OF SALES	45,048	43,513	(1,535)	(3.5%)

The cost of goods sold increased when compared to prior year due to the higher sales volume in the quarter offset by cost reduction measures taken earlier in the year that continue to be in place in the quarter.

(\$'000 unless otherwise stated)	2020	2019	Variance Fav/(Unfav)	
GROSS PROFIT	6,684	4,623	2,061	44.6%

Gross profit for the quarter amounted to \$6.7 million versus \$4.6 million during the same period in 2019, as the result of increased sales volumes and improved cost management. The gross profit margin for the period was 12.6% compared to 9.3% in the comparative period.

(\$'000 unless otherwise stated)	2020	2019	Variance Fav/(Unfav)	
SG&A EXPENSES	3,508	3,762	254	6.8%

SG&A expenses are lower when compared to prior year, the result of cost reduction actions taken earlier in the year which were maintained in the quarter.

(\$'000 unless otherwise stated)	2020	2019	Variance Fav/(Unfav)	
FINANCING EXPENSES	1,992	1,111	(881)	(79.3%)

Financing expenses increased primarily due to accretion of \$1.2 million associated with the settlement of the long term debt during the period (see section 9.4 of this MD&A). This accretion is a non-recurring item.

Financing Expense

(\$'000 unless otherwise stated)

	Three months ended September 30,			
	2020	2019	Variance Fav / (Unfav)	
			Amount	%
Long term debt accretion	1,370	178	(1,192)	(669.7%)
Interest on senior credit facility	121	388	267	68.8%
Interest on lease liability	333	354	21	5.9%
Other interest and financing costs	166	182	16	8.8%
Deferred financing costs	2	9	7	77.8%
Total financing expenses	1,992	1,111	(881)	(79.3%)

<i>(\$'000 unless otherwise stated)</i>	2020	2019	Variance Fav/(Unfav)	
FOREIGN EXCHANGE	(383)	70	(453)	(647.1%)

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 September 30, 2020, the Company did not have any U.S. dollar currency forward contracts outstanding.

<i>(\$'000 unless otherwise stated)</i>	2020	2019	Variance Fav/(Unfav)	
INCOME TAX RECOVERY (EXPENSE)	(176)	39	(215)	(551.3%)

The income tax expense for 2020 is based on a statutory rate of 27% for Canadian taxable income and 21% for U.S. based taxable income applied to the income of the respective subsidiaries before taxes, with adjustments for permanent differences between accounting and taxable income.

<i>(\$'000 unless otherwise stated)</i>	Q2 2020	Q2 2019	Variance Fav/(Unfav)	
NET INCOME (LOSS)	520	(359)	879	244.8%

The net income increase over the comparative period is attributable to the higher gross profit plus reductions in SG&A expenses when compared to prior year less the non-recurring accretion amount from the settlement of the Long Term Debt.

8 COMPARISON OF RESULTS FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2020 AND 2019

<i>(\$'000 unless otherwise stated)</i>	2020	2019	Variance Fav/(Unfav)	
SALES	161,697	155,261	6,436	4.1%

The increase in year-to-date revenues by 4.1% is primarily due to higher shipped volumes, with growth in the Agricultural, Industrial and Residential construction market segments.

Revenue by Market Segment

(\$'000 unless otherwise stated)

	Nine months ended September 30,					
	2020		2019		Variance	
	<u>Revenue</u>	<u>% of Total</u>	<u>Revenue</u>	<u>% of Total</u>	<u>Amount</u>	<u>%</u>
Industrial	55,802	34.5%	49,548	31.9%	6,254	4.0%
Commercial	36,570	22.6%	40,522	26.1%	(3,952)	(2.5%)
Agricultural	25,235	15.6%	21,831	14.1%	3,404	2.2%
Residential	44,090	27.3%	43,360	27.9%	730	0.5%
Total revenue	<u>161,697</u>	<u>100.0%</u>	<u>155,261</u>	<u>100.0%</u>	<u>6,436</u>	<u>4.1%</u>

Revenues generated from the Commercial market segment, primarily impacting Canada, decreased over the same period last year as a result of lower demand following the pandemic related temporary closures and restrictions of operations for certain customers. U.S. revenues increased due to increasing demand in products that had been impacted by Section 232 tariffs against Canada in the prior year.

Revenue by Location

(\$'000 unless otherwise stated)

	Nine months ended September 30,					
	2020		2019		Variance	
	Revenue	% of Total	Revenue	% of Total	Amount	%
United States	101,663	62.9%	90,922	58.6%	10,741	11.8%
Canada	54,024	33.4%	58,660	37.7%	(4,636)	(7.9%)
International	6,010	3.7%	5,679	3.7%	331	5.8%
Total	161,697	100.0%	155,261	100.0%	6,436	4.1%
Average C\$/U.S.\$	1.3527		1.3289			

(\$'000 unless otherwise stated)	2020	2019	Variance Fav/(Unfav)	
COST OF SALES	137,901	136,359	(1,542)	(1.1%)

The cost of goods sold increased when compared to prior period, due to the increase in sales volume and a rebalance in production mix, offset by lower raw materials costs and other cost reduction measures.

(\$'000 unless otherwise stated)	2020	2019	Variance Fav/(Unfav)	
GROSS PROFIT	19,248	14,291	4,957	34.7%

Gross profit for the period amounted to \$19.2 million versus \$14.3 million during the same period in 2019, which represent a 34.7% increase, mainly the result of higher sales volumes, improved efficiencies and cost management. The gross profit margin for the year-to date period was 11.9% compared to 9.2% in the comparative period.

(\$'000 unless otherwise stated)	2020	2019	Variance Fav/(Unfav)	
SG&A EXPENSES	10,557	11,790	1,233	10.5%

SG&A expenses are lower when compared to prior year, the result of cost reduction actions taken throughout the year.

(\$'000 unless otherwise stated)	2020	2019	Variance Fav/(Unfav)	
FINANCING EXPENSES	3,745	3,590	(155)	(4.3%)

Financing expenses increased primarily due to non-recurring accretion of \$1.2 million related to the settlement of the long term debt during the period (see section 9.4 of this MD&A). The increase was offset by reduced interest on the Senior Credit Facility due to lower balances.

Financing Expense

(\$'000 unless otherwise stated)

	Nine months ended September 30,			
	2020	2019	Variance Fav / (Unfav)	
			Amount	%
Long-term Debt accretion	1,679	603	(1,076)	(178.4%)
Interest on senior credit facility	580	1,272	692	54.4%
Interest on lease liability	1,021	1,070	49	4.6%
Other interest and financing costs	449	618	169	27.3%
Deferred financing costs	16	27	11	40.7%
Total financing expenses	3,745	3,590	(155)	(4.3%)

<i>(\$'000 unless otherwise stated)</i>	<u>2020</u>	<u>2019</u>	<u>Variance Fav/(Unfav)</u>	
FOREIGN EXCHANGE	53	(186)	239	128.5%

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 September 30, 2020, the Company did not have any U.S. dollar currency forward contracts outstanding.

<i>(\$'000 unless otherwise stated)</i>	<u>2020</u>	<u>2019</u>	<u>Variance Fav/(Unfav)</u>	
INCOME TAX RECOVERY (EXPENSE)	(1,363)	(232)	(1,131)	(487.5%)

The income tax expense for 2020 is based on a statutory rate of 27% for Canadian taxable income and 21% for U.S. based taxable income applied to the income of the respective subsidiaries before taxes, with adjustments for permanent differences between accounting and taxable income.

<i>(\$'000 unless otherwise stated)</i>	<u>YTD 2020</u>	<u>YTD 2019</u>	<u>Variance Fav/(Unfav)</u>	
NET INCOME (LOSS)	3,442	(1,989)	5,431	273.1%

The net income increase over the comparative period is attributable to higher gross profits and lower SG&A compared to prior period.

9 FINANCIAL CONDITION AND LIQUIDITY

9.1 WORKING CAPITAL

A summary of the composition of our working capital as at September 30, 2020 compared to 2019 is provided below:

Working Capital

(\$'000 unless otherwise stated)

	As at September 30,	
	<u>2020</u>	<u>2019</u>
Cash	3,449	1,476
Accounts receivable	26,717	26,242
Inventories	44,365	65,924
Other current assets	2,604	3,113
Total current assets	<u>77,135</u>	<u>96,755</u>
Accounts payable and accrued liabilities	(22,827)	(23,622)
Dividends payable	(572)	(577)
Other current liabilities	(734)	(263)
Current portion of term debt	(2,833)	(4,274)
Current portion of ROU lease liability	(1,602)	(1,644)
Total current liabilities	<u>(28,568)</u>	<u>(30,380)</u>
Net working capital	<u>48,567</u>	<u>66,375</u>

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

Our investment in working capital fluctuates from quarter-to-quarter based on factors such as seasonal sales demand, strategic purchasing decisions taken by management, and the timing of collections from customers and payments made to our suppliers. The construction and agricultural markets are seasonal in nature. As a result, sales and working capital requirements may be higher in the first three quarters when demand is historically highest.

Accounts receivable as at September 30, 2020 were slightly higher than the same period last year, reflecting the increase in sales in Q3 2020 compared to the same period in the prior year.

Inventories levels were lower as at September 30, 2020, when compared to the same period in 2019, as a result of planned reduction in levels of raw materials and other inventories on hand from the comparative period.

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

We manage our inventories with an emphasis on a continuous inflow of raw materials to meet our production needs balanced with strategic purchases, barring unforeseen events, 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.

9.2 CASH FLOW

Cash Flow

(\$'000 unless otherwise stated)

	Three Months Ended September 30,		Nine months ended September 30,	
	<u>2020</u>	<u>2019</u>	<u>2020</u>	<u>2019</u>
Cash provided by operating activities	4,269	2,404	12,464	5,871
Working capital adjustments	6,811	7,607	14,116	13,818
Net cash provided by (used in) operating activities	11,080	10,011	26,580	19,689
Net cash used in investing activities	(112)	(681)	(1,711)	(1,619)
Advance on (repayment of) senior term loans	6,844	(492)	5,850	(1,479)
Repayment of long-term debt	(7,221)	(734)	(7,895)	(1,776)
Other payables	-	(13)	-	(35)
Lease interest paid	(333)	(354)	(1,025)	(1,069)
Other interest paid	(297)	(599)	(1,119)	(1,944)
Deferred financing expenses	(16)	-	(16)	(39)
Advance on (repayment of) senior revolving facility	(7,344)	(5,539)	(14,742)	(7,756)
Dividend paid	(573)	(577)	(1,722)	(1,744)
Lease principal paid	(388)	(433)	(1,209)	(1,306)
Share buyback	(174)	(31)	(458)	(721)
Net cash provided by (used in) financing activities	(9,502)	(8,772)	(22,336)	(17,869)
Exchange rate changes on foreign cash balances	(8)	2	9	(2)
Increase (decrease) in cash balances	1,458	560	2,542	199

In the third quarter of 2020, net cash from operating activities has increased compared to Q3 2019 as a direct result of improved operational performance and income, and reductions in inventory. The net cash used in investing activities was from capital investments which are further described in Section 10. The net cash used by financing activities includes the advancing \$7.2 million from the senior credit facility's term debt to settle the long-term debt arrangement in the period, as further described below.

9.3 SENIOR CREDIT FACILITY

On July 1, 2018, the Company renewed its senior secured committed banking facility, maturing in June of 2023, which enables the Company to borrow up to \$80.0 million in Canadian and/or U.S. funds. Interest payable on funds borrowed in Canadian currency is at variable rates based on the Canadian Dollar Offered Rate ("CDOR") for Canadian dollar banker's acceptance. Interest payable on funds borrowed in U.S. currency is at variable rates based on the London Interbank Offered Rate ("LIBOR") for U.S. dollar deposits. 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 based on the remaining funds within the Senior Credit Facility that is available ("Availability Test"). 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.

On September 17, 2020, the Company advanced from its senior facility a new eight year term debt of \$7.2 million and the funds were used to settle the long-term debt agreement in full (see note 9.2 of the interim financial statements).

As at September 30, 2020 the Company was in compliance with its covenants on the Senior Credit Facility.

9.4 LONG TERM DEBT AGREEMENT

As noted above, the long-term debt agreement was settled in full, on September 17, 2020, using funds from the term debt advanced under the Company's senior facility. As part of the settlement, all encumbrances were discharged and released. The difference between the value on the financial statements and the amount paid is \$1.2 million and is recognized as accretion. This difference is resulting from the difference between the effective rate and actual rate of interest per the Agreement (see Note 10 in the unaudited consolidated financial statements).

10 CAPITAL EXPENDITURES AND CAPACITY

For the three months ended September 30, 2020, we made capital expenditures of \$0.1 million and for the year-to-date we made capital expenditures of \$2.5 million. These expenditures were for capital maintenance activities and new manufacturing equipment.

11 CONTRACTUAL OBLIGATIONS AND COMMITMENTS

As of September 30, 2020, 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 2021.

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 September 30, 2020, 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 September 30, 2020, the Company did not have any U.S. dollar currency forward contracts outstanding.

Contractual Obligations and Commitments

(\$'000 unless otherwise stated)

	<u>2020</u>	<u>2021</u>	<u>2022</u>	<u>2023</u>	<u>2024</u>	<u>Thereafter</u>	<u>Total</u>
Production materials	25,317	7,625	-	-	-	-	32,942
AP and accrued liabilities	22,827	-	-	-	-	-	22,827
Other current liabilities	124	-	-	-	-	-	124
Dividends	572	-	-	-	-	-	572
Lease liabilities	727	2,903	2,954	2,607	2,475	35,540	47,206
Senior revolving facility	-	-	-	23,925	-	-	23,925
Senior term loans (principal)	650	2,911	2,911	2,911	2,911	2,889	15,183
Senior term loans (interest)	100	354	282	210	138	96	1,180
Total financial liabilities	<u>25,000</u>	<u>6,168</u>	<u>6,147</u>	<u>29,653</u>	<u>5,524</u>	<u>38,525</u>	<u>111,017</u>
Total obligations and commitments	<u>50,317</u>	<u>13,793</u>	<u>6,147</u>	<u>29,653</u>	<u>5,524</u>	<u>38,525</u>	<u>143,959</u>

12 SUMMARY OF QUARTERLY FINANCIAL RESULTS

The table below provides selected quarterly financial information for the eight most recent fiscal quarters to September 30, 2020. 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. On adoption of IFRS 16 Leases, the comparative information presented for 2018 have not been restated and is presented as previously reported.

Summary of Quarterly Financial Results

(\$'000 unless otherwise stated)

	<u>Sep 30,</u> <u>2020</u>	<u>Jun 30,</u> <u>2020</u>	<u>Mar 31,</u> <u>2020</u>	<u>Dec 31,</u> <u>2019</u>	<u>Sep 30,</u> <u>2019</u>	<u>Jun 30,</u> <u>2019</u>	<u>Mar 31,</u> <u>2019</u>	<u>Dec 31,</u> <u>2018</u>
Revenue	53,236	50,466	57,993	45,144	49,701	52,618	52,942	44,882
Gross profit	6,684	5,945	6,614	3,482	4,623	4,912	4,754	3,686
Foreign exchange gain (loss)	(383)	(294)	730	(490)	70	(85)	(171)	408
Net income (loss)	520	1,100	1,829	(3,199)	(359)	(536)	(1,096)	(2,334)
Net income (loss) per unit - basic	0.02	0.04	0.6	(0.11)	(0.01)	(0.02)	(0.04)	(0.08)

Commentary:

- In Q2 and Q3 2019, aggressive pricing had a negative impact on revenue and margins.
- During the second half of 2018 and first half of 2019, volumes in the Industrial markets were impacted by Section 232 tariffs.
- Q4 2019 includes restructuring charges of \$1.4 million, of which \$1.15 million relates to termination benefits paid to the former CEO in accordance with his employment contract.
- During Q1 2020, increased demand resulted in improved gross profits earned.
- In Q2 2020 lower sales from the impacts of COVID-19 were offset by proactive cost management measures including decreases in expenditures and improved product mix.
- In Q3 2020 sales increased as a result of improved demand after the initial pandemic related reductions in demand and temporary closures of construction and mine sites.

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

13 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, 2019 Consolidated Financial Statements and in the Annual Information Form for the year ended December 31, 2019 and Note 3 of the September 30, 2020 interim unaudited condensed consolidated financial statements.

13.1 CRITICAL ACCOUNTING ESTIMATES

The areas that we consider to have critical accounting estimates are: financial instruments valued at fair value through profit and loss, inventory valuation, allowance for doubtful accounts, property, plant and equipment, leases, and income taxes. These critical estimates and the judgments involved are discussed further in Note 3 to the unaudited interim condensed consolidated financial statements for September 30, 2020.

14 RELATED PARTY TRANSACTIONS

14.1 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 October 27, 2020, Futura owns 33.1% of the fully diluted Shares of the Company.

In addition, Mr. Doman is Chairman and CEO of CanWel Building Materials Group Ltd. (“CanWel”). For the three and nine months ended September 30, 2020, Tree Island sold, net of rebates, approximately \$0.8 million and \$2.1 million respectively (\$0.5 million and \$2.3 million in 2019) of goods to CanWel and trade accounts receivable owing from CanWel as at September 30, 2020 is approximately \$0.3 million (approximately \$0.1 million in 2019). Outstanding trade accounts receivable from CanWel at period end are unsecured, interest free and settlement occurs in cash.

14.2 TRANSACTIONS WITH KEY MANAGEMENT PERSONNEL

Included in the definition of key management for purposes of disclosure of related party transactions are members of Board of Directors and officers of Tree Island Steel. Amounts for key management personnel for the three and nine months ended September 30, 2020 was approximately \$0.4 million and \$1.0 million respectively (\$0.5 million and \$1.7 million approximately in 2019) 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.

15 LABOUR RELATIONS UPDATES

On October 14, 2020, the Company and Teamsters Local Union No. 213 successfully concluded a new five-year collective agreement. The agreement, which covers hourly production employees at the Richmond, BC manufacturing facility, was ratified on October 14, 2020, and provides continued stability for our customers, employees, suppliers and other stakeholders.

16 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 *"2020 Business Overview and Development"*. A detailed discussion of our significant business risks is provided in the 2019 Annual Information Form under the heading *"Risk Factors"* which can be found at www.sedar.com.

17 DISCLOSURE CONTROLS AND PROCEDURES AND INTERNAL CONTROL OVER FINANCIAL REPORTING

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

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

Our President and Chief Operating Officer, in the capacity of chief executive officer, and Chief Financial Officer certified the appropriateness of the financial disclosures in the interim financial report together with the other financial information included in the interim filings for the three months ended September 30, 2020. These executives also certified that they are responsible for the design of disclosure controls and procedures and internal control over financial reporting. There have been no changes in internal control over financial reporting during the quarter ended September 30, 2020, that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

The Company's Board of Directors and Audit Committee reviewed and approved the September 30, 2020 unaudited interim condensed consolidated financial statements and this MD&A prior to its release.

SHAREHOLDER INFORMATION

TREE ISLAND STEEL

Board of Directors:

Amar S. Doman –
Executive Chairman of the
Board

Peter Bull

Harry Rosenfeld

Sam Fleiser

Theodore A. Leja

Joe Downes

Executive Officers:

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 or
amahdavi@treeisland.com

Auditors:

KPMG LLP
Vancouver, B.C.

