



WIRE & WIRE PRODUCTS

ESTABLISHED IN 1964



**Interim Unaudited Consolidated
Financial Statements
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.

INTERIM UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

September 30, 2020 and 2019

NOTICE OF NO AUDITOR REVIEW OF INTERIM FINANCIAL STATEMENTS

Under National Instrument 51-102 “Continuous Disclosure Obligation”, Part 4, Subsection 4.3(3a), if an auditor has not performed a review of the interim financial statements, they must be accompanied by a notice indicating that the financial statements have not been reviewed by an auditor.

The accompanying interim condensed consolidated financial statements of Tree Island Steel have been prepared by and are the responsibility of Tree Island Steel’s management.

Tree Island Steel’s independent auditor, KPMG LLP, has not performed a review of these financial statements in accordance with standards established by the Chartered Professional Accountants of Canada for a review of interim financial statements by an entity’s auditor.

October 27, 2020

INTERIM UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
September 30, 2020 and 2019

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

(\$'000 unless otherwise stated)

	As at September 30, 2020	As at December 31, 2019
Cash	3,449	907
Accounts receivable <i>(Notes 5)</i>	26,717	24,250
Inventories <i>(Note 6)</i>	44,365	55,034
Prepaid and other current assets	2,604	3,332
Income taxes recoverable	-	427
Current assets	77,135	83,950
Property, plant and equipment <i>(Notes 7, 19.2)</i>	44,513	44,980
Right of use assets <i>(Note 8)</i>	27,532	28,700
Other non-current assets	1,833	1,492
Total assets	151,013	159,122
Accounts payable and accrued liabilities	22,827	18,402
Income taxes payable	610	-
Other current liabilities	124	238
Dividends payable	572	577
Current portion of long-term and senior term debt <i>(Notes 9.2, 10)</i>	2,833	4,057
Current portion of lease liabilities <i>(Note 8)</i>	1,602	1,568
Current liabilities	28,568	24,842
Senior revolving facility <i>(Note 9.1)</i>	23,925	38,162
Senior term loans <i>(Note 9.2)</i>	14,300	9,234
Long-term debt <i>(Note 10)</i>	-	4,010
Lease Liability <i>(Note 8)</i>	30,052	30,517
Other non-current liabilities	584	518
Deferred income tax liability <i>(Note 14.1)</i>	3,664	3,186
Total liabilities	101,093	110,469
Shareholders' equity	49,920	48,653
Total liabilities and shareholders' equity	151,013	159,122

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 Directors

INTERIM UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
September 30, 2020 and 2019

CONSOLIDATED STATEMENTS OF OPERATIONS

(\$'000 unless otherwise stated)

	Three Months Ended		Nine months ended	
	September 30,		September 30,	
	2020	2019	2020	2019
Sales (Notes 13.1, 20)	53,236	49,701	161,697	155,261
Cost of sales (Note 6)	(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 sale of property, plant and equipment	17	(3)	5	-
Restructuring and other expenses	(122)	(215)	(199)	(482)
Financing expenses (Note 11)	(1,992)	(1,111)	(3,745)	(3,590)
Income (loss) before income taxes	696	(398)	4,805	(1,757)
Income tax recovery (expense) (Note 14)	(176)	39	(1,363)	(232)
Net income (loss)	520	(359)	3,442	(1,989)
Net income (loss) per share (Note 18)	0.02	(0.01)	0.12	(0.07)
Dividends per share	0.02	0.02	0.06	0.06
Weighted average number of shares (Note 18)	28,715,838	29,162,348	28,846,898	29,107,774

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

(\$'000 unless otherwise stated)

	Three Months Ended		Nine months ended	
	September 30,		September 30,	
	2020	2019	2020	2019
Net income (loss) for the year	520	(359)	3,442	(1,989)
Unrealized gain (loss) on foreign exchange translation	81	22	4	(62)
Comprehensive income (loss)	601	(337)	3,446	(2,051)

See accompanying Notes to the Consolidated Financial Statements

INTERIM UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
September 30, 2020 and 2019

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

(\$'000 unless otherwise stated)

	Shareholders' Capital (Note 12)	Retained Earnings	Accumulated Other Comprehensive Loss	Total
Balance as at December 31, 2019	223,994	(172,566)	(2,775)	48,653
Repurchase of shares	(48)	-	-	(48)
Net income	-	1,822	-	1,822
Dividends	-	(576)	-	(576)
Other comprehensive income (loss)	-	-	(213)	(213)
Balance as at March 31, 2020	223,946	(171,320)	(2,988)	49,638
Repurchase of shares	(236)	-	-	(236)
Net income	-	1,100	-	1,100
Dividends	-	(573)	-	(573)
Other comprehensive income (loss)	-	-	136	136
Balance as at June 30, 2020	223,710	(170,793)	(2,852)	50,065
Repurchase of shares	(174)	-	-	(174)
Net income	-	520	-	520
Dividends	-	(572)	-	(572)
Other comprehensive income (loss)	-	-	81	81
Balance as at September 30, 2020	223,536	(170,845)	(2,771)	49,920
Balance as at December 31, 2018	224,715	(163,354)	(2,735)	58,626
Accounting policy change (Note 8)	-	(1,708)	-	(1,708)
Adjusted balance at January 1, 2019	224,715	(165,062)	(2,735)	56,918
Repurchase of shares	(96)	-	-	(96)
Net income (loss)	-	(1,095)	-	(1,095)
Dividends	-	(583)	-	(583)
Other comprehensive income (loss)	-	-	(51)	(51)
Balance as at March 31, 2019	224,619	(166,740)	(2,786)	55,093
Repurchase of shares	(594)	-	-	(594)
Net income (loss)	-	(535)	-	(535)
Dividends	-	(577)	-	(577)
Other comprehensive income (loss)	-	-	(33)	(33)
Balance as at June 30, 2019	224,025	(167,852)	(2,819)	53,354
Repurchase of shares	(31)	-	-	(31)
Net income (loss)	-	(359)	-	(359)
Dividends	-	(577)	-	(577)
Other comprehensive income (loss)	-	-	22	22
Balance as at September 30, 2019	223,994	(168,788)	(2,798)	52,409

See accompanying Notes to the Consolidated Financial Statements

INTERIM UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
September 30, 2020 and 2019

CONSOLIDATED STATEMENTS OF CASH FLOWS

(\$'000 unless otherwise stated)

	Three Months Ended		Nine months ended	
	September 30,		September 30,	
	2020	2019	2020	2019
Net income (loss)	520	(359)	3,442	(1,989)
Depreciation	1,504	1,565	4,548	4,611
Loss (Gain) on sale of property, plant and equipment	17	3	4	-
Net financing costs	1,992	1,111	3,745	3,590
Deferred income tax expense (recovery)	441	(39)	479	1
Exchange revaluation of foreign denominated debt (Note 9, 10)	(205)	123	245	(342)
Working capital adjustments				
Accounts receivable	995	1,998	(2,467)	(2,115)
Inventories	3,700	205	10,703	15,696
Accounts payable and accrued liabilities	2,674	4,557	4,813	602
Prepaid expenses	(169)	1,767	374	99
Income and other taxes	(265)	(333)	884	(235)
Other	(124)	(587)	(190)	(229)
Net cash provided by operating activities	11,080	10,011	26,580	19,689
Government rebates	-	-	816	-
Purchase of property, plant and equipment	(112)	(681)	(2,527)	(1,619)
Net cash used in investing activities	(112)	(681)	(1,711)	(1,619)
Term loans – advances (repayment), net (Note 9.2)	6,844	(492)	5,850	(1,479)
Repayment of long-term debt (Note 10)	(7,221)	(734)	(7,895)	(1,776)
Other financing liabilities	-	(13)	-	(35)
Lease interest paid	(333)	(354)	(1,025)	(1,069)
Lease principal payments	(388)	(433)	(1,209)	(1,306)
Other interest paid	(297)	(599)	(1,119)	(1,944)
Deferred financing fees	(16)	-	(16)	(39)
Repayment of senior revolving facility	(7,344)	(5,539)	(14,742)	(7,756)
Dividend paid	(573)	(577)	(1,722)	(1,744)
Repurchase of common shares	(174)	(31)	(458)	(721)
Net cash used in financing activities	(9,502)	(8,772)	(22,336)	(17,869)
Effect of exchange rate change on cash	(8)	2	9	(2)
Decrease in cash	1,458	560	2,542	199
Cash - beginning of period	1,991	916	907	1,277
Cash - end of period	3,449	1,476	3,449	1,476

See accompanying Notes to the Consolidated Financial Statements

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

September 30, 2020 and 2019

1 NATURE OF BUSINESS

These interim unaudited condensed consolidated financial statements of Tree Island Steel ("Tree Island Steel" or the "Company") for the nine months ended September 30, 2020 and 2019 were authorized for issue in accordance with a resolution of the Board of Directors on October 27, 2020.

Tree Island Steel is the successor to Tree Island Income Fund and was incorporated under the laws of Canada on August 2, 2012 to affect the conversion from an income trust to a corporate entity. The units of Tree Island Wire Income Fund were converted into common shares of the Company ("Shares") upon conversion. The Company is headquartered at 3933 Boundary Road, Richmond, British Columbia, Canada and the Shares are publicly traded on the Toronto Stock Exchange ("TSX") under the symbol TSL.

Tree Island Steel owns 100% of the shares of Tree Island Industries ("TI Canada") (collectively "Tree Island"). TI Canada supplies a diverse range of steel wire and fabricated steel wire products to customers in Canada, the United States, and internationally.

2 BASIS OF PREPARATION

2.1 BASIS OF PREPARATION

The interim unaudited condensed consolidated financial statements as at and for the nine months ended September 30, 2020 have been prepared in accordance with International Accounting Standard ("IAS" 34, "Interim Financial Reporting"). They should be read in conjunction with the annual consolidated financial statements and the notes thereto for the year ended December 31, 2019 and do not include all information required for the full annual financial statements. Certain comparative information has been reclassified to conform to the presentation adopted during the period.

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

3 SIGNIFICANT ACCOUNTING POLICIES, CRITICAL ACCOUNTING JUDGEMENTS AND ESTIMATES

The accounting policies, methods of application and critical judgements and estimates used in the preparation of these interim unaudited condensed consolidated financial statements are consistent with those disclosed in the annual consolidated financial statements as at December 31, 2019.

4 FUTURE IFRS STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
September 30, 2020 and 2019

5 ACCOUNTS RECEIVABLE

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

(\$'000 unless otherwise stated)

	As at September 30, 2020	As at December 31, 2019
Current	24,616	21,462
Over 30 days past due	2,629	3,368
Total accounts receivable	27,245	24,830
Allowance for doubtful accounts	(528)	(580)
Net accounts receivable	26,717	24,250

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 \$26.7 million as at September 30, 2020 (\$24.3 million as at December 31, 2019).

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:

(\$'000 unless otherwise stated)

	As at September 30, 2020	As at December 31, 2019
Opening balance – beginning of period	580	324
Additions during the period	150	312
Reversals during the period	(57)	-
Collections	(3)	(6)
Write-offs during the period	(111)	(72)
Foreign exchange revaluation	(31)	22
Closing balance – end of period	528	580

See Note 16 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
September 30, 2020 and 2019

6 INVENTORIES

Tree Island had the following categories of inventory:

(\$'000 unless otherwise stated)

	As at September 30, 2020	As at December 31, 2019
Raw materials	11,847	13,319
Finished and semi-finished products	20,433	29,708
Consumable supplies and spare parts	12,085	12,007
Total inventory	<u>44,365</u>	<u>55,034</u>

For the three and nine month period ended September 30, 2020 and 2019, Tree Island recognized, in income, inventory costs for the following:

(\$'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>
Opening inventory	48,064	66,129	55,034	81,619
Material purchases	28,498	30,496	87,690	82,892
Conversion costs	12,851	12,812	39,542	37,772
Closing inventory	<u>(44,365)</u>	<u>(65,924)</u>	<u>(44,365)</u>	<u>(65,924)</u>
Cost of sales	<u>45,048</u>	<u>43,513</u>	<u>137,901</u>	<u>136,359</u>

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 the three and nine months ended September 30, 2020 and 2019. The reserves for slow moving inventory as at September 30, 2020 were \$1.2 million (\$1.2 million at September 30, 2019).

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, 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 for this reporting period.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

September 30, 2020 and 2019

The net book value of the Company's property, plant and equipment is detailed below:

(\$'000 unless otherwise stated)

	Land & Improvement	Building & Improvement	Machinery & Equipment	Capital in Progress	Total
Cost					
As at December 31, 2018	9,869	45,660	33,848	9,349	98,726
Additions	-	1,531	8,092	(7,532)	2,091
Disposals	-	-	(276)	-	(276)
Foreign exchange translation	(104)	(489)	(397)	(323)	(1,313)
As at December 31, 2019	9,765	46,702	41,267	1,494	99,228
Additions	24	45	2,042	(166)	1,945
Disposals	-	-	(14)	-	(14)
Foreign exchange translation	56	265	379	(179)	521
As at September 30, 2020	9,845	47,012	43,674	1,149	101,680
Depreciation and impairment					
As at December 31, 2018	41	33,811	17,644	-	51,496
Depreciation for the period	16	1,368	2,121	-	3,505
Disposals	-	-	(239)	-	(239)
Foreign exchange translation	(2)	(249)	(263)	-	(514)
As at December 31, 2019	55	34,930	19,263	-	54,248
Depreciation for the period	12	1,046	1,601	-	2,659
Disposals	-	-	(14)	-	(14)
Foreign exchange translation	2	136	136	-	274
As at September 30, 2020	69	36,112	20,986	-	57,167
Net book value as at					
December 31, 2019	9,710	11,772	22,004	1,494	44,980
September 30, 2020	9,776	10,900	22,688	1,149	44,513

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:

(\$'000 unless otherwise stated)

	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)	(397)	(1,282)
Foreign exchange translation	639	23	662
As at Sep 30, 2020	32,579	2,252	34,831

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

September 30, 2020 and 2019

Depreciation and impairment			
As at December 31, 2019	(5,609)	(993)	(6,602)
Depreciation for the period	(1,544)	(345)	(1,889)
Disposals	880	397	1,277
Foreign exchange translation	(67)	(18)	(85)
As at Sep 30, 2020	<u>(6,340)</u>	<u>(959)</u>	<u>(7,299)</u>
Carrying value as at:			
December 31, 2019	27,216	1,484	28,700
September 30, 2020	26,239	1,293	27,532

(\$'000 unless otherwise stated)

	Land & buildings	Machinery & equipment	Total lease liability
Lease liability			
As at December 31, 2019	30,614	1,471	32,085
New contracts and renewals	-	147	147
Interest adjustment	(10)	-	(10)
Interest expense	979	42	1,021
Payment of lease liability	(1,865)	(369)	(2,234)
Foreign exchange translation	637	8	645
Lease liability as at September 30, 2020	<u>30,355</u>	<u>1,299</u>	<u>31,654</u>
Less: current portion	<u>(1,187)</u>	<u>(415)</u>	<u>(1,602)</u>
Total as at September 30, 2020	<u>29,168</u>	<u>884</u>	<u>30,052</u>

9 SENIOR CREDIT FACILITY

On July 1, 2018, the Company renewed its 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 \$40 thousand Letter of Credit outstanding as at September 30, 2020.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

September 30, 2020 and 2019

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.

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

(\$’000 unless otherwise stated)

	As at September 30, 2020	As at December 31, 2019
Revolving portion of the senior credit facility	23,925	38,162
Deferred financing costs	(59)	(59)
Total	<u>23,866</u>	<u>38,103</u>

The revolving portion of the Senior Credit Facility denominated in U.S. dollars as at September 30, 2020 is \$19.5 million (\$12.0 million at September 30, 2019).

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, to pay dividends 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 September 30, 2020, 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. During the period, the Company advanced, from the Senior Term Facility, a new eight year term debt of \$7.2 million to settle the Long-Term Debt. The settlement is further described in Note 10.

The following amounts are outstanding under the Senior Term Facility:

(\$’000 unless otherwise stated)

	As at September 30, 2020	As at December 31, 2019
Senior term loans - beginning of period	11,194	13,335
Advances	7,242	-
Foreign exchange revaluation	184	(171)
Payments	(1,487)	(1,970)
Senior term loans - end of period	<u>17,133</u>	<u>11,194</u>
Less: current portion	(2,833)	(1,960)
Total	<u>14,300</u>	<u>9,234</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

September 30, 2020 and 2019

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. The difference between the value reported on the balance sheet and the amount paid is recognized as accretion of \$1.2 million. The difference is resulting from the historical difference between the effective rate of 9% and actual rate of interest of 4%.

The elements of the long-term debt are listed below:

(\$'000 unless otherwise stated)

	As at September 30, 2020	As at December 31, 2019
Beginning of period	6,107	7,916
Monthly Payments – Principal	(659)	(2,224)
Settlement	(7,221)	-
Monthly Accretion	439	767
Accretion on debt settlement	1,201	-
Foreign exchange revaluation	133	(352)
End of period	-	6,107
Less: current portion	-	(2,097)
Net long-term debt	-	4,010

11 FINANCING EXPENSES

(\$'000 unless otherwise stated)

	Three months ended September 30,		Nine months ended September 30,	
	2020	2019	2020	2019
Non-cash accretion on long term debt	1,370	178	1,679	603
Interest on senior credit facility (Note 9.1)	121	388	580	1,272
Interest on lease liability	333	354	1,021	1,070
Other interest and financing costs	166	182	449	618
Amortization of deferred financing costs	2	9	16	27
Total	1,992	1,111	3,745	3,590

As described in Note 10, the non-cash accretion includes the difference between the book value reported on the balance sheet and the amount paid on the long term debt that is recognized as accretion of \$1.2 million.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

September 30, 2020 and 2019

12 SHAREHOLDERS' CAPITAL

Tree Island is authorized to issue an unlimited number of shares. The Shares have no par value. There were no shares issued and 254,804 shares were repurchased (totaling \$458 thousand at an average price of \$1.80 per share) and cancelled in the period ended September 30, 2020. Shares issued and outstanding are as follows:

(\$'000 except for shares)

	Shares	Gross	Issuance Cost ¹	Net
Shareholders' capital - December 31, 2018	29,183,650	236,115	11,400	224,715
Repurchase of common shares	(352,013)	(721)	-	(721)
Shareholders' capital - December 31, 2019	28,831,637	235,394	11,400	223,994
Repurchase of common shares	(254,804)	(458)	-	(458)
Shareholders' capital - September 30, 2020	28,576,833	234,936	11,400	223,536

12.1 NORMAL COURSE ISSUER BID

The Company has an ongoing normal course issuer bid (the "Bid"). The current Bid is effective November 7, 2019 to November 6, 2020. The Bid allows the Company to purchase up to 1,441,000 Shares in the period. Tree Island has no obligation to purchase any Shares under the Bid.

For the period January 1, 2020 to September 30, 2020 the Company purchased 254,804 Shares under the Bid at a total cost of \$458 thousand (at an average price of \$1.80 per Share). An additional 16,289 Shares were purchased under the Bid for the period October 1, 2020 to October 27, 2020 at an average price of \$2.15 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 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 (Note 5).

¹ Issuance costs were incurred as a result of the November 2002 Initial Public Offering and October 2004 Secondary Offering.

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13.2 TRANSACTIONS WITH KEY MANAGEMENT PERSONNEL

Included in the definition of key management for purposes of disclosure of related party transactions are members of Board of Directors and officers of Tree Island Steel. Amounts for key management personnel for the three and 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.

14 INCOME TAXES

14.1 INCOME TAX RECOVERY (EXPENSE)

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

(\$'000 unless otherwise stated)

	Three months ended September 30,		Nine months ended September 30,	
	2020	2019	2020	2019
Current tax expense	265	-	(884)	(231)
Deferred tax recovery (expense)	(441)	39	(479)	(1)
Total in the Consolidated Statement of Operations	(176)	39	(1,363)	(232)

15 FINANCIAL INSTRUMENTS

15.1 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 and interest rates being variable for the senior credit facility;
- 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 \$0.2 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

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- 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.

(\$'000 unless otherwise stated)

	As at September 30, 2020		As at December 31, 2019	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Cash and cash investments	3,449	3,449	907	907
Accounts receivable	26,717	26,717	24,250	24,250
Total financial assets	30,166	30,166	25,157	25,157
Senior revolving facility	23,925	23,925	38,162	38,162
Accounts payable, accrued and other current liabilities	22,827	22,827	18,402	18,402
Senior term loans	17,133	17,133	11,194	11,194
Long-term debt	-	-	6,107	5,622
Lease Liabilities	31,654	31,654	32,085	32,085
Total financial liabilities	95,539	95,539	105,950	105,465

15.2 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.

16 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.

16.1 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.

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16.2 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.

The table below summarizes the future undiscounted contractual cash flow requirements for financial liabilities (including scheduled interest payments on interest bearing liabilities) as at September 30, 2020 and December 31, 2019:

(\$'000 unless otherwise stated)

	Carrying Amount	Contractual Cash Flow	Less Than 1 Year	1 – 2 Years	Greater Than 2 Years
As at September 30, 2020					
Senior revolving facility	23,925	23,925	-	-	23,925
Accounts payable, accrued and other liabilities	22,951	22,951	22,951	-	-
Senior term loans (principal)	17,133	15,183	2,833	5,822	6,528
Senior term loans (interest)	-	1,180	100	354	726
Lease liability	31,654	47,206	727	2,903	43,575
	<u>95,663</u>	<u>110,445</u>	<u>26,611</u>	<u>9,079</u>	<u>74,754</u>
As at December 31, 2019					
Senior revolving facility	38,162	38,162	-	-	38,162
Accounts payable, accrued and other liabilities	18,640	18,640	18,640	-	-
Senior term loans (principal)	11,194	11,194	1,960	3,920	5,314
Senior term loans (interest)	-	1,137	362	292	483
Long-term debt	6,107	11,007	2,097	3,308	5,602
Lease liability	32,085	48,995	2,949	2,820	43,226
	<u>106,188</u>	<u>129,135</u>	<u>26,008</u>	<u>10,340</u>	<u>92,787</u>

16.3 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 changes in the U.S./Canadian dollar exchange rate. The Company may enter 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 had no outstanding U.S. dollar currency forward contracts.

For the three months ended September 30, 2020, a \$0.01 increase (decrease) in the Canadian dollar to U.S. dollar exchange rate will increase (decrease) net comprehensive income by \$0.1 million.

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16.4 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 Credit Facility would increase financing expenses by \$0.2 million annually. Tree Island does not use derivative instruments to manage the interest rate risk.

16.5 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 September 30, 2020, the Company had no outstanding zinc forward contracts.

17 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:

(\$'000 unless otherwise stated)

	As at September 30, 2020	As at December 31, 2019
Total shareholders' equity	49,920	48,653
Senior revolving facility	23,925	38,162
Lease liabilities	31,654	32,085
Senior term loans	17,133	11,194
Long-term debt	-	6,107
Total capital	<u>122,632</u>	<u>136,201</u>

18 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 September 30, 2020 the Company does not have any instruments issued that could be dilutive.

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During nine months ended September 30, 2020, 254,804 shares were repurchased and cancelled (Note 12). An additional 16,289 Shares were purchased under the Bid for the period October 1, 2020 to October 27, 2020 at an average price of \$2.15 per share.

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

(\$'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>
Net income (loss) for the period	520	(359)	3,442	(1,989)
Weighted average number of Shares outstanding:	28,715,838	29,162,348	28,846,898	29,107,774
Net income per share (\$/share)	0.02	(0.01)	0.12	(0.07)

19 PROVISIONS AND COMMITMENTS

19.1 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.

19.2 PURCHASE COMMITMENTS

As at September 30, 2020, Tree Island's wholly owned subsidiaries have committed to material purchases (including finished goods) totalling \$32.9 million (\$28.9 million - September 30, 2019).

20 SEGMENTED INFORMATION

20.1 MARKET SEGMENTS

Revenues for each group for the three and nine months ended September 30, 2020 and 2019 were as follows:

(\$'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>
Industrial	18,471	18,037	55,802	49,548
Commercial	11,774	13,252	36,570	40,522
Agricultural	7,280	3,720	25,235	21,831
Residential	15,711	14,692	44,090	43,360
Total revenue	<u>53,236</u>	<u>49,701</u>	<u>161,697</u>	<u>155,261</u>

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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20.2 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:

(\$'000 unless otherwise stated)

	Three months ended		Nine months ended	
	September 30,		September 30,	
	2020	2019	2020	2019
United States	34,037	32,199	101,663	90,922
Canada	17,340	16,057	54,024	58,660
International	1,859	1,445	6,010	5,679
Total revenue	<u>53,236</u>	<u>49,701</u>	<u>161,697</u>	<u>155,261</u>

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.

(\$'000 unless otherwise stated)

	As at	As at
	September 30,	December 31,
	2020	2019
United States	36,258	36,720
Canada	37,620	38,452
Total non-current assets	<u>73,878</u>	<u>75,172</u>

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:

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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.

