



**WIRE & WIRE PRODUCTS**

**ESTABLISHED IN 1964**



# **Consolidated Financial Statements**

**Q3 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®, 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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*Stiff Stay Knot Agricultural Fencing*

**INTERIM UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**September 30, 2021 and 2020**

**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.

November 10, 2021

**INTERIM UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
**September 30, 2021 and 2020**

**CONSOLIDATED STATEMENT OF FINANCIAL POSITION**

*(\$'000 unless otherwise stated)*

	<i>Notes</i>	As at September 30, 2021	As at December 31, 2020
Cash		2,640	1,245
Accounts receivable	5, 13.1	43,503	24,819
Inventory	6	71,481	46,808
Prepaid expenses		5,071	3,209
<b>Current assets</b>		<b>122,695</b>	<b>76,081</b>
Property, plant and equipment	7	41,175	43,067
Right of use assets	8.1	24,481	25,982
Other non-current assets		1,476	1,419
<b>Total assets</b>		<b>189,827</b>	<b>146,549</b>
Accounts payable and accrued liabilities		34,767	17,770
Income taxes payable		7,367	1,383
Other current liabilities		74	97
Dividends payable		2,275	570
Current portion of long-term borrowing	9.2	2,826	2,825
Current portion of ROU lease liability	8.2	1,734	1,599
<b>Current liabilities</b>		<b>49,043</b>	<b>24,244</b>
Senior revolving facility	9.1	22,268	25,398
Senior term loans	9.2	11,102	13,215
ROU Lease liabilities	8.2	27,489	28,549
Other non-current liabilities		526	491
Deferred Income tax liabilities		3,581	3,583
<b>Total liabilities</b>		<b>114,009</b>	<b>95,480</b>
<b>Shareholders' equity</b>		<b>75,818</b>	<b>51,069</b>
<b>Total liabilities and shareholders' equity</b>		<b>189,827</b>	<b>146,549</b>

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

Approved on behalf of Tree Island Steel.

[Signed]  
"Amar S. Doman"  
Executive Chairman of the Board of Director

**INTERIM UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
**September 30, 2021 and 2020**

**CONSOLIDATED STATEMENT OF OPERATIONS**

(\$'000 unless otherwise stated)	Notes	Three Months Ended September 30,		Nine Months Ended September 30,	
		2021	2020	2021	2020
Sales	5, 13.1, 20.1	84,642	53,236	225,894	161,697
Cost of sales	6	(61,326)	(45,048)	(170,187)	(137,901)
Depreciation	7, 8.1	(1,478)	(1,504)	(4,403)	(4,548)
Gross profit		21,838	6,684	51,304	19,248
Selling, general and administrative expenses		(3,734)	(3,508)	(10,534)	(10,557)
Operating income		18,104	3,176	40,770	8,691
Foreign exchange gain (loss)		445	(383)	233	53
Financing expenses	11	(663)	(1,992)	(1,853)	(3,745)
Other expenses		-	(105)	(3)	(194)
Income before income taxes		17,886	696	39,147	4,805
Income tax expense	14	(4,488)	(176)	(10,217)	(1,363)
Net income		13,398	520	28,930	3,442
Net income per share	18	0.47	0.02	1.02	0.12
Dividends per share		0.08	0.02	0.14	0.06
Weighted average number of shares		28,436,719	28,715,838	28,459,988	28,846,898

**CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME**

(\$'000 unless otherwise stated)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2021	2020	2021	2020
Net income for the period	13,398	520	28,930	3,442
Unrealized gain (loss) on foreign exchange translation	(162)	81	1	4
Comprehensive income	13,236	601	28,931	3,446

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

INTERIM UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

September 30, 2021 and 2020

CONSOLIDATED STATEMENT OF SHAREHOLDERS' EQUITY

<i>(\$'000 unless otherwise stated)</i>	Shareholders' Capital (Note 12)	Retained Earnings	Accumulated Other Comprehensive Loss	Total
Balance as at December 31, 2020	223,363	(169,726)	(2,568)	51,069
Repurchase of shares	(139)	-	-	(139)
Net income	-	6,464	-	6,464
Dividends	-	(854)	-	(854)
Other comprehensive income (loss)	-	-	8	8
<b>Balance as at March 31, 2021</b>	<b>223,224</b>	<b>(164,116)</b>	<b>(2,560)</b>	<b>56,548</b>
Repurchase of shares	(29)	-	-	(29)
Net income	-	9,068	-	9,068
Dividends	-	(853)	-	(853)
Other comprehensive income (loss)	-	-	155	155
<b>Balance as at June 30, 2021</b>	<b>223,195</b>	<b>(155,901)</b>	<b>(2,405)</b>	<b>64,889</b>
Repurchase of shares	(32)	-	-	(32)
Net income	-	13,398	-	13,398
Dividends	-	(2,275)	-	(2,275)
Other comprehensive income (loss)	-	-	(162)	(162)
<b>Balance as at September 30, 2021</b>	<b>223,163</b>	<b>(144,778)</b>	<b>(2,567)</b>	<b>75,818</b>
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)
<b>Balance as at March 31, 2020</b>	<b>223,946</b>	<b>(171,320)</b>	<b>(2,988)</b>	<b>49,638</b>
Repurchase of shares	(236)	-	-	(236)
Net income	-	1,100	-	1,100
Dividends	-	(573)	-	(573)
Other comprehensive income (loss)	-	-	136	136
<b>Balance as at June 30, 2020</b>	<b>223,710</b>	<b>(170,793)</b>	<b>(2,852)</b>	<b>50,065</b>
Repurchase of shares	(174)	-	-	(174)
Net income	-	520	-	520
Dividends	-	(572)	-	(572)
Other comprehensive income (loss)	-	-	81	81
<b>Balance as at September 30, 2020</b>	<b>223,536</b>	<b>(170,845)</b>	<b>(2,771)</b>	<b>49,920</b>

See accompanying Notes to the Interim Unaudited Condensed Consolidated Financial Statements

**INTERIM UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
**September 30, 2021 and 2020**

**CONSOLIDATED STATEMENT OF CASH FLOWS**

(\$'000 unless otherwise stated)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2021	2020	2021	2020
Net income	13,398	520	28,930	3,442
Depreciation	1,478	1,504	4,403	4,548
Loss (Gain) on sale of property, plant and equipment	-	17	-	4
Net financing costs	663	1,992	1,853	3,745
Deferred income tax expense (recovery)	-	441	(2)	479
Exchange revaluation of foreign denominated debt	233	(205)	(12)	245
Working capital adjustments				
Accounts receivable	(7,463)	995	(18,684)	(2,467)
Inventories	(12,791)	3,700	(24,673)	10,703
Accounts payable and accrued liabilities	14,657	2,674	17,025	4,813
Prepaid expenses	1,175	(169)	(1,919)	374
Income and other taxes	2,952	(265)	5,984	884
Other	642	(124)	(97)	(190)
<b>Net cash provided by operating activities</b>	<b>14,944</b>	<b>11,080</b>	<b>12,808</b>	<b>26,580</b>
Government rebates	-	-	-	816
Purchase of property, plant and equipment	(179)	(112)	(734)	(2,527)
<b>Net cash used in investing activities</b>	<b>(179)</b>	<b>(112)</b>	<b>(734)</b>	<b>(1,711)</b>
Term loans advances (payments)	(703)	6,844	(2,104)	5,850
Long-term debt payments	-	(7,221)	-	(7,895)
Lease interest paid	(305)	(333)	(919)	(1,025)
Lease principal payments	(397)	(388)	(1,183)	(1,225)
Other interest paid	(356)	(313)	(923)	(1,119)
Repayment of senior revolving facility	(12,428)	(7,344)	(3,074)	(14,742)
Dividend paid	(852)	(573)	(2,277)	(1,722)
Repurchase of common shares	(32)	(174)	(200)	(458)
<b>Net cash used in financing activities</b>	<b>(15,073)</b>	<b>(9,502)</b>	<b>(10,680)</b>	<b>(22,336)</b>
Effect of exchange rate change on cash	19	(8)	1	9
Increase (decrease) in cash	(289)	1,458	1,395	2,542
Cash - beginning of period	2,929	1,991	1,245	907
<b>Cash - end of period</b>	<b>2,640</b>	<b>3,449</b>	<b>2,640</b>	<b>3,449</b>

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

## **1 NATURE OF BUSINESS**

These interim unaudited condensed consolidated financial statements of Tree Island Steel ("Tree Island" or the "Company") for the nine months ended September 30, 2021 and 2020 were authorized for issue in accordance with a resolution of the Board of Directors on November 10, 2021. 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, 2021 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, 2020 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.

### **2.2 FUNCTIONAL CURRENCY AND PRESENTATION CURRENCY**

The functional and presentation currency of the Company is the Canadian dollar. All currency amounts have been rounded to the nearest thousand, except as otherwise indicated.

## **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, 2020.

## **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.

September 30, 2021 and 2020

**5 REVENUE AND ACCOUNTS RECEIVABLE**

Revenue is net of cost of freight associated with those sales to customers where the Company arranges the freight. For the nine months ended September 30, 2021, this cost of freight amounts to \$13.4 million (\$9.4 million in 2020).

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

	As at September 30, 2021	As at December 31, 2020
Current	41,152	22,386
Over 30 days past due	2,785	2,764
Total accounts receivable	43,937	25,150
Allowance for doubtful accounts	(434)	(331)
Net accounts receivable	43,503	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 \$43.5 million as at September 30, 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 September 30, 2021	As at December 31, 2020
Opening balance - beginning of period	331	580
Additions during the period	178	169
Reversals during the period	-	(20)
Collections	(77)	(36)
Write-offs during the period	-	(366)
Foreign exchange revaluation	2	4
Closing balance - end of period	434	331

See Note 15.1 on credit risk of trade receivables to understand how credit quality of accounts receivable that are neither past due nor impaired are managed and measured.

## 6 INVENTORIES

Tree Island had the following categories of inventory:

	As at September 30, 2021	As at December 31, 2020
Raw materials	31,026	14,790
Finished and semi-finished products	27,558	20,465
Consumable supplies and spare parts	12,897	11,553
<b>Total inventory</b>	<b>71,481</b>	<b>46,808</b>

For the three and nine month period ended September 30, 2021 and 2020, Tree Island recognized, in income, inventory costs for the following:

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2021	2020	2021	2020
Opening inventory	58,690	48,064	46,808	55,035
Material costs	59,911	29,112	151,667	87,689
Conversion costs	14,206	12,237	43,193	39,542
Closing inventory	(71,481)	(44,365)	(71,481)	(44,365)
<b>Cost of sales</b>	<b>61,326</b>	<b>45,048</b>	<b>170,187</b>	<b>137,901</b>

The reserves for slow moving inventory as at September 30, 2021 were \$1.3 million (\$1.2 million at September 30, 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, 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.

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	(39)	(194)	(278)	13	(498)
As at December 31, 2020	9,749	46,959	43,028	744	100,480
Additions	-	148	908	(356)	700
Disposals	-	-	(22)	-	(22)
Foreign exchange translation	-	8	91	(9)	90
As at September 30, 2021	9,749	47,115	44,005	379	101,248
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)	(141)	-	(273)
As at December 31, 2020	70	36,194	21,149	-	57,413
Depreciation for the period	13	1,045	1,599	-	2,657
Disposals	-	-	(22)	-	(22)
Foreign exchange translation	-	10	15	-	25
As at September 30, 2021	83	37,249	22,741	-	60,073
Net book value as at:					
December 31, 2020	9,679	10,765	21,879	744	43,067
September 30, 2021	9,666	9,866	21,264	379	41,175

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

**September 30, 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
<b>Cost</b>			
As at December 31, 2019	32,825	2,477	35,302
Additions	-	149	149
Disposals	(885)	(403)	(1,288)
Foreign exchange translation	(467)	(24)	(491)
As at December 31, 2020	31,473	2,199	33,672
Additions	-	262	262
Disposals	-	(230)	(230)
Foreign exchange translation	18	7	25
As at September 30, 2021	31,491	2,238	33,729
<b>Depreciation and impairment</b>			
As at December 31, 2019	5,609	993	6,602
Depreciation for period	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	1,439	307	1,746
Disposals	-	(206)	(206)
Foreign exchange translation	13	5	18
As at September 30, 2021	8,105	1,143	9,248
<b>Carrying value as at:</b>			
December 31, 2020	24,820	1,162	25,982
September 30, 2021	23,386	1,095	24,481

September 30, 2021 and 2020

**8.2 LEASE LIABILITY**

	Land & buildings	Machinery & equipment	Total lease liability
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	-	268	268
Interest adjustment	-	(23)	(23)
Interest expense	887	31	918
Payment of lease liability	(1,772)	(330)	(2,102)
Foreign exchange translation	16	(2)	14
Lease liability as at September 30, 2021	28,106	1,117	29,223
Less: current portion	(1,334)	(400)	(1,734)
Total as at September 30, 2021	26,772	717	27,489

**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

- \$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 \$166 thousand Letter of Credit outstanding as at September 30, 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 INTERIM UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
**September 30, 2021 and 2020**

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

	As at September 30, 2021	As at December 31, 2020
Revolving portion of the senior credit facility	22,268	25,398
Deferred financing costs	(47)	(56)
<b>Total</b>	<b>22,221</b>	<b>25,342</b>

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 that a certain amount of credit availability be maintained. 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.

## **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 September 30, 2021	As at December 31, 2020
Senior term loans - beginning of period	16,040	11,194
Advances	-	7,242
Foreign exchange revaluation	(12)	(272)
Payments	(2,100)	(2,124)
Senior term loans - end of period	13,928	16,040
Less: current portion	(2,826)	(2,825)
<b>Total</b>	<b>11,102</b>	<b>13,215</b>

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

	As at September 30, 2021	As at December 31, 2020
Beginning of period	-	6,107
Monthly Payments - Principal	-	(675)
Settlement	-	(7,221)
Monthly Accretion	-	399
Accretion on debt settlement	-	1,280
Foreign exchange revaluation	-	110
End of period	-	-

## 11 FINANCING EXPENSES

		Three Months Ended September 30,		Nine Months Ended September 30,	
	<i>Notes</i>	2021	2020	2021	2020
Accretion on long term debt		-	1,370	-	1,679
Interest on senior revolving credit facility	9.1	111	121	346	580
Interest on senior term facility	9.2	69	54	212	209
Interest on lease liability		305	333	918	1,021
Other interest and financing costs		175	112	368	240
Amortization of deferred financing costs		3	2	9	16
Total		663	1,992	1,853	3,745

## 12 SHAREHOLDERS' CAPITAL

Tree Island is authorized to issue an unlimited number of shares. The Shares have no par value.

	Shares	Gross	Issuance Cost <sup>(1)</sup>	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 - September 30, 2021	28,434,188	234,563	11,400	223,163

<sup>(1)</sup> Issuance costs relate to the initial public offering in 2002.

The Company has an ongoing normal course issuer bid (the "Bid"). The current Bid was effective November 9, 2020 to November 8, 2021. The Bid allowed the Company to purchase up to 1,427,000 Shares in the period. Tree Island has no obligation to purchase any Shares under the Bid.

The Company has renewed its normal course issuer bid, effective November 9, 2021 to November 8, 2022. The renewed bid allows the Company to purchase up to 1,421,000 Shares over the term.

For the period January 1, 2021 to September 30, 2021 the Company canceled 69,326 Shares purchased 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 November 10, 2021, 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" and formerly CanWel Building Materials Group Ltd). For the three and nine months ended September 30, 2021, Tree Island sold, net of rebates, approximately \$0.9 million and \$2.8 million respectively (\$0.8 million and \$2.1 million in 2020) of goods to DBM and trade accounts receivable owing from DBM as at September 30, 2020 is approximately \$0.5 million (approximately \$0.3 million in 2020). Outstanding trade accounts receivable from DBM 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 three months and nine months ended September 30, 2021 was approximately \$0.6 million and \$1.4 million respectively (\$0.4 million and \$1.0 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 INCOME TAXES

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2021	2020	2021	2020
Current tax expense	(4,488)	265	(10,219)	(884)
Deferred tax recovery (expense)	-	(441)	2	(479)
Total in the Consolidated Statement of Operations	<u>(4,488)</u>	<u>(176)</u>	<u>(10,217)</u>	<u>(1,363)</u>

**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 \$0.1 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 September 30, 2021		As at December 31, 2020	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Cash and cash equivalent	2,640	2,640	1,245	1,245
Accounts receivable	43,503	43,503	24,819	24,819
<b>Total financial assets</b>	<b>46,143</b>	<b>46,143</b>	<b>26,064</b>	<b>26,064</b>
Accounts payable, accrued and other current liabilities	34,767	34,767	17,770	17,770
Senior revolving facility	22,268	22,268	25,398	25,398
Senior term loans	13,928	13,928	16,040	16,040
Lease Liabilities	29,223	29,223	30,148	30,148
<b>Total financial liabilities</b>	<b>100,186</b>	<b>100,186</b>	<b>89,356</b>	<b>89,356</b>

## 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.

## 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.

### 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.

**NOTES TO THE INTERIM UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS****September 30, 2021 and 2020**

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, 2021 and December 31, 2020:

	Carrying Amount	Contractual Cash Flow	Less Than 1 Year	1 - 2 Years	Greater Than 2
Senior revolving facility	22,268	22,268	-	-	22,268
Accounts payable, accrued and other liabilities	34,841	34,841	34,841	-	-
Senior term loans (principal)	13,928	13,928	706	5,652	7,570
Senior term loans (interest)	-	835	270	212	353
Lease liability	29,223	42,886	2,922	2,655	37,309
<b>As at September 30, 2021</b>	<b>100,260</b>	<b>114,758</b>	<b>38,739</b>	<b>8,519</b>	<b>67,500</b>
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
<b>As at December 31, 2020</b>	<b>89,453</b>	<b>103,914</b>	<b>23,937</b>	<b>8,860</b>	<b>71,117</b>

**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, 2021, the Company had no outstanding U.S. dollar currency forward contracts.

For the three months ended September 30, 2021, a \$0.01 change in the Canadian dollar to U.S. dollar exchange rate will increase (decrease) net comprehensive income by \$0.04 million.

**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 variable rates.

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, 2021 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:

	As at September 30, 2021	As at December 31, 2020
Total shareholders' equity	75,818	51,069
Senior revolving facility	22,268	25,398
Lease liabilities	29,223	30,148
Senior term loans	13,928	16,040
<b>Total capital</b>	<b>141,237</b>	<b>122,655</b>

**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, 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:

	Three Months Ended September		Nine Months Ended September 30,	
	2021	2020	2021	2020
Net income for the period	13,398	520	28,930	3,442
Weighted average number of Shares outstanding:	28,436,719	28,715,838	28,459,988	28,846,898
Net income per share (\$/share)	0.47	0.02	1.02	0.12

**19 PROVISIONS AND COMMITMENTS****19.1 LITIGATION AND CLAIMS**

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

**19.2 PURCHASE COMMITMENTS**

As at September 30, 2021, Tree Island's wholly owned subsidiaries have committed to material purchases (including finished goods) totaling \$60.0 million (\$32.9 million - September 30, 2020).

September 30, 2021 and 2020

**20 SEGMENTED INFORMATION****20.1 MARKET SEGMENTS**

Revenues for each group for the nine months ended September 30, 2021 and 2020 were as follows:

	Three Months Ended September		Nine Months Ended September 30,	
	2021	2020	2021	2020
Industrial	35,374	18,471	84,095	55,802
Commercial	21,859	11,774	51,790	36,571
Agricultural	6,719	7,280	32,206	25,234
Residential	20,690	15,711	57,803	44,090
<b>Total revenue</b>	<b>84,642</b>	<b>53,236</b>	<b>225,894</b>	<b>161,697</b>

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

**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:

	Three Months Ended September		Nine Months Ended September 30,	
	2021	2020	2021	2020
United States	60,011	34,037	152,618	101,663
Canada	22,889	17,340	68,502	54,024
International	1,742	1,859	4,774	6,010
<b>Total revenue</b>	<b>84,642</b>	<b>53,236</b>	<b>225,894</b>	<b>161,697</b>

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 September 31 (As at December 31,	
	2021	2020
United States	33,261	34,088
Canada	33,871	36,380
<b>Total non-current assets</b>	<b>67,132</b>	<b>70,468</b>

**21 SUBSEQUENT EVENTS**

On November 10, 2021 the Board of Directors declared a quarterly dividend of \$0.03 per Share and an additional \$0.05 per Share as a special dividend on the issued and outstanding Shares of the Company, payable on January 14, 2022 to holders of record at the close of business on December 31, 2021.

## SHAREHOLDER INFORMATION

TREE ISLAND STEEL

### Board of Directors:

Amar S. Doman –  
Executive Chairman of  
the Board

Peter Bull

Harry Rosenfeld

Sam Fleiser

Theodore A. Leja

Joe Downes

### Executive Officers:

Remy Stachowiak  
*President,  
Chief Operating Officer*

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

### Shares:

#### *Market Information*

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

#### *Registrar and Transfer Agent*

Computershare Investor  
Services Inc.

### Corporate Head Office:

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

### Website:

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

### Investor Relations:

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

### Auditors:

KPMG LLP Vancouver, B.C.

