# TREE ISLAND STEEL

WIRE & WIRE PRODUCTS ESTABLISHED IN 1964


Quarterly Report
Q1 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® and Tough Strand® brand names.**

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



*Load of welded wire reinforcement mesh*

# TO OUR SHAREHOLDERS

**Letter to Shareholders**

One of the key pillars in our business is and always has been the health and safety of our employees and now gains even more importance as we manage through the health impacts of the Covid-19 pandemic. To address these additional health considerations, we have implemented additional safety protocols in alignment with necessary regulations and health guidelines in the jurisdictions in which we operate to protect the health and safety of our employees and their families.

Through these unprecedented events, we continue to hold true to our key business priorities. These include the health and safety of all our employees, closely managing our cost structure and productivity improvements, investing in our people and facilities, as well as, focusing on product quality and customer engagement. The recent investments in the new welded wire mesh machine and, in the first quarter of 2020, a new fence machine for our Canadian operations, support our long-term objectives and broaden our product offerings.

In terms of the financial results, the first quarter of 2020 demonstrated the steps taken to increase profitability and sales volumes supporting improved customer demand in our US markets. In addition, the company continued its efforts to focus on the balance sheet by closely managing inventory and debt levels. These steps are now important as the company faces the impact and the uncertainty caused by the pandemic and related economic impact.

The visibility in this current environment is greatly limited and the economic impacts in our markets from the various shelter–at-home government orders and non-essential business closures further introduce uncertainty. Although, we are seeing cautious signs toward limited re-opening of various industries and geographies in which we sell our products, the economic effects of the pandemic on our markets are expected to negatively impact demand.

With the lessons learned from the ongoing trade actions we experienced starting in 2018, we will continue to adapt our product offering and business strategies to address the market challenges we face and look for opportunities that could arise.

We would like to thank all our employees, customers and shareholders as we would not have been able to address these challenges without their continued support and deep engagement.

Sincerely,

Amar S. Doman
Chairman of the Board of Directors

# MANAGEMENT DISCUSSION AND ANALYSIS

March 31, 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 May 7, 2020 and should be read in conjunction with the interim unaudited condensed consolidated financial statements for three months ended March 31, 2020. Tree Island Steel’s interim unaudited 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 herein under the heading "Risk Factors" 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 COVID-19 pandemic impact on the Company, 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 "Adjusted EBITDA" that we define as operating income and adding back total depreciation, foreign exchange gains or losses and deducting the IFRS 16 depreciation impact. Adjusted EBITDA is not a measure recognized by IFRS and does not have a standardized meaning prescribed by IFRS. We believe that providing an Adjusted EBITDA is an important supplemental measure for evaluating our performance. You are cautioned that our definition of Adjusted 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 Adjusted EBITDA may differ from methods used by other issuers and, accordingly, our definition of Adjusted 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 28,799,643 Shares outstanding as of March 31, 2020 and 28,764,181 Shares outstanding as of May 7, 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:

Our manufactured products offer: consistent, high quality that meet or exceed customers' needs, ASTM standards and applicable codes; 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<br>Vineyard wire and barbed wire | Agriculture, farming | North America |
| Commercial Construction | Tree Island®, TI Wire® | Welded wire mesh<br>Concrete reinforcing products | Commercial construction, mining, infrastructure projects | North America and International |
| Residential Construction | Tree Island®, Halsteel®, K-Lath®, True Spec® | Collated, bulk and packaged nails<br>Stucco reinforcing mesh | 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 first quarter of 2020 amounted to $58.0 million compared to $52.9 million in the same period last year, a 9.5% increase. This increase is mostly attributable to increased sales volumes to U.S. customers for our Industrial product offerings and increased demand for our Residential products in the quarter. The higher sales volumes and cost management resulted in a gross profit increase of 39% to $6.6 million in the quarter, compared to $4.7 million in the same period last year. The resulting gross profit margin for the quarter was 11.4% compared to 9.0% in Q1 2019. Adjusted EBITDA for the period amounted to $4.4 million compared to $1.2 million in the first quarter of 2019.

The Company cautions that going forward, current economic uncertainty with respect to the COVID-19 pandemic and its effect on the broader global economy are expected to have negative effects on demand for the Company's products.

# 5 RESULTS FROM OPERATIONS

*($'000 unless otherwise stated)*

| | Three months ended, March 31, 2020 | |
|---|---|---|
| | 2020 | 2019 |
| Revenue | 57,993 | 52,942 |
| Cost of sales | (49,835) | (46,696) |
| Depreciation | (1,544) | (1,499) |
| Gross profit | 6,614 | 4,747 |
| Selling, general and administrative expenses | (3,858) | (4,244) |
| Operating income | 2,756 | 503 |
| Foreign exchange gain (loss) | 730 | (171) |
| Restructuring and other expenses | - | (12) |
| Financing expenses | (951) | (1,221) |
| Income (loss) before income taxes | 2,535 | (901) |
| Current income tax (expense) recovery | (252) | (139) |
| Deferred income tax (expense) recovery | (454) | (55) |
| Net income (loss) | 1,829 | (1,095) |
| Net income/ (loss) per share | 0.06 | (0.04) |
| Dividends per share | 0.02 | 0.02 |

| Financial Position as at: | March 31, 2020 | December 31, 2019 |
|---|---|---|
| Total assets | 172,407 | 159,122 |
| Total non-current financial liabilities | 89,750 | 85,628 |

## 6 ADJUSTED EBITDA

*($'000 unless otherwise stated)*

| | Three Months Ended March 31, 2020 | 2019 |
|---|---|---|
| Operating income (loss) | 2,756 | 503 |
| Add back depreciation | 1,544 | 1,499 |
| Foreign exchange gain (loss) | 730 | (171) |
| EBITDA | 5,030 | 1,831 |
| IFRS 16 depreciation adjustment | (663) | (662) |
| Adjusted EBITDA[1] | 4,367 | 1,169 |

## 7 COMPARISON OF RESULTS FOR THE THREE MONTHS ENDED MARCH 31, 2020 AND 2019

| *($'000 unless otherwise stated)* | **2020** | **2019** | **Variance Fav/(Unfav)** | |
|---|---|---|---|---|
| **SALES** | 57,993 | 52,942 | 5,051 | 9.5% |

The increase in revenues over the prior year by 9.5% is primarily due to higher volumes shipped in the U.S. for our Industrial and Residential segments. Agricultural revenues were lower in the quarter, when compared to the same period last year, due to timing of shipments for certain customers.

**Revenue by Market Segment**
*($'000 unless otherwise stated)*

| | Three months ended March 31, | | | | | |
|---|---|---|---|---|---|---|
| | 2020 | | 2019 | | Variance | |
| | Revenue | % of Total | Revenue | % of Total | Amount | % |
| Industrial | 19,210 | 33.2% | 15,779 | 29.7% | 3,431 | 6.4% |
| Commercial | 13,289 | 22.9% | 12,523 | 23.7% | 766 | 1.4% |
| Agricultural | 10,345 | 17.8% | 11,636 | 22.0% | (1,291) | (2.4%) |
| Residential | 15,149 | 26.1% | 13,004 | 24.6% | 2,145 | 4.1% |
| Total revenue | 57,993 | 100.0% | 52,942 | 100.0% | 5,051 | 9.5% |

**Revenue by Location**
*($'000 unless otherwise stated)*

| | Three months ended March 31, | | | | | |
|---|---|---|---|---|---|---|
| | 2020 | | 2019 | | Variance | |
| | Revenue | % of Total | Revenue | % of Total | Amount | % |
| United States | 34,383 | 59.3% | 26,570 | 50.2% | 7,813 | 29.4% |
| Canada | 21,230 | 36.6% | 23,964 | 45.3% | (2,734) | (11.4%) |
| International | 2,380 | 4.1% | 2,408 | 4.5% | (28) | (1.2%) |
| Total | 57,993 | 100.0% | 52,942 | 100.0% | 5,051 | 9.5% |
| Average C$/U.S.$ | 1.3451 | | 1.3289 | | | |

[1] *See definition of Adjusted EBITDA in Section 2* NON-IFRS MEASURES*.*

Revenues generated in the U.S. increased over the same period last year as a result of increased demand in the Industrial and Residential segments. Canadian generated revenue decreased as a result of lower sales volumes in the Residential and Agricultural markets.

| *($'000 unless otherwise stated)* | **2020** | **2019** | **Variance Fav/(Unfav)** | |
|---|---|---|---|---|
| **COST OF SALES** | 49,835 | 46,696 | (3,139) | (6.7%) |

The cost of goods sold increased when compared to prior year due to higher volumes of sales.

| *($'000 unless otherwise stated)* | **2020** | **2019** | **Variance Fav/(Unfav)** | |
|---|---|---|---|---|
| **GROSS PROFIT** | 6,614 | 4,747 | 1,867 | 39.3% |

Gross profit for the quarter amounted to $6.6 million versus $4.7 million during the same period in 2019, mainly the result of higher sales volumes and cost management. The gross profit margin for the quarter was 11.4% compared to 9.0% in the comparative period.

| *($'000 unless otherwise stated)* | **2020** | **2019** | **Variance Fav/(Unfav)** | |
|---|---|---|---|---|
| **SG&A EXPENSES** | 3,858 | 4,244 | 386 | 9.1% |

SG&A expenses are lower when compared to prior year, the result of cost reduction actions taken in 2019.

| *($'000 unless otherwise stated)* | **2020** | **2019** | **Variance Fav/(Unfav)** | |
|---|---|---|---|---|
| **FINANCING EXPENSES** | 951 | 1,221 | 270 | 22.1% |

Financing expenses decreased primarily due to a lower average balance outstanding in the revolving credit during the period and decreasing interest rates in both Canada and the U.S. compared to the prior year period.

**Financing Expense**
*($'000 unless otherwise stated)*

| | Three months ended March 31, | | | |
|---|---|---|---|---|
| | | | Variance Fav / (Unfav) | |
| | 2020 | 2019 | Amount | % |
| Non-cash financing expenses | 164 | 215 | 50 | 23.4% |
| Interest on senior credit facility | 287 | 462 | 175 | 37.9% |
| Interest on lease liability | 342 | 357 | 15 | 4.2% |
| Other interest and financing costs | 150 | 179 | 29 | 16.2% |
| Deferred financing costs | 8 | 8 | - | 0.0% |
| Total financing expenses | 951 | 1,221 | 270 | 22.1% |

| *($'000 unless otherwise stated)* | **2020** | **2019** | **Variance Fav/(Unfav)** | |
|---|---|---|---|---|
| **FOREIGN EXCHANGE** | 730 | (171) | 901 | 526.9% |

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 March 31, 2020, the Company did not have any U.S. dollar currency forward contracts outstanding.

| ($’000 unless otherwise stated) | 2020 | 2019 | Variance Fav/(Unfav) | |
|---|---|---|---|---|
| **INCOME TAX RECOVERY (EXPENSE)** | (706) | (194) | (512) | (263.9%) |

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.

| ($’000 unless otherwise stated) | YTD 2020 | YTD 2019 | Variance Fav/(Unfav) | |
|---|---|---|---|---|
| **NET INCOME (LOSS)** | 1,829 | (1,095) | 2,924 | 267.0% |

The net income over the comparative period is attributable to the higher gross profit plus reductions in SG&A and financing expenses, when compared to prior period.

# 8 FINANCIAL CONDITION AND LIQUIDITY

## 8.1 WORKING CAPITAL

A summary of the composition of our working capital as at March 31, 2020 compared to 2019 is provided below:

**Working Capital**
*($’000 unless otherwise stated)*

| | As at March 31, | |
|---|---|---|
| | 2020 | 2019 |
| Cash | 4,568 | 1,885 |
| Accounts receivable | 32,324 | 31,124 |
| Inventories | 53,146 | 66,858 |
| Other current assets | 3,381 | 5,069 |
| Total current assets | 93,419 | 104,936 |
| Accounts payable and accrued liabilities | (27,463) | (19,521) |
| Dividends payable | (576) | (583) |
| Other current liabilities | (201) | (631) |
| Current portion of long term debt | (3,170) | (4,778) |
| Current portion of ROU lease liability | (1,599) | (1,259) |
| Total current liabilities | (33,009) | (26,772) |
| Net working capital | 60,410 | 78,164 |

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 March 31, 2020 were slightly higher than the same period last year, reflecting the increase in sales in the current quarter compared to the same period in the prior year.

Inventories levels were lower as at March 31, 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 and lower per unit costs.

The increase in accounts payable and accrued liabilities is reflective of the increase in raw materials purchased in Q1 2020 relative to the same period last year and difference in the timing of payments made and expenses incurred.

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 COVID-19 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.

## 8.2 CASH FLOW

**Cash Flow**
*($'000 unless otherwise stated)*

| | Three months ended March 31, | |
|---|---|---|
| | 2020 | 2019 |
| Cash provided by operating activities | 5,619 | 1,436 |
| Working capital adjustments | 3,018 | 3,469 |
| Net cash provided by (used in) operating activities | 8,637 | 4,905 |
| Net cash used in investing activities | (1,369) | (611) |
| Advance on (repayment of) senior term loans | (496) | (492) |
| Advance on (repayment of) senior revolving facility | (986) | (523) |
| Repayment of long-term debt | (295) | (476) |
| Interest paid | (475) | (656) |
| Lease principal paid | (431) | (451) |
| Lease interest paid | (346) | (357) |
| Dividend paid | (576) | (584) |
| Share buyback | (48) | (96) |
| Other payables | - | (48) |
| Net cash provided by (used in) financing activities | (3,653) | (3,683) |
| Exchange rate changes on foreign cash balances | 46 | (3) |
| Increase (decrease) in cash balances | 3,661 | 608 |

For Q1 2020, net cash from operating activities has increased compared to Q1 2019 as a direct result of improved operational performance and income. The net cash used in investing activities was from capital investments which are further described in Section 9. The net cash used by financing activities was mainly due to repayments on the senior revolving facility, long terms debt, lease obligations, divided payments and share buybacks.

## 8.3 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.

As at March 31, 2020 the Company was in compliance with its covenants on the Senior Credit Facility.

## 8.4 LONG TERM DEBT AGREEMENT

On June 11, 2012, Tree Island entered into a Second Amendment to the long-term debt agreement (“Agreement"). Under the terms of this Agreement, the total principal debt amount is to be repaid monthly over a ten year amortization period. The carrying value of the long term debt at March 31, 2020 is $6.5 million. Interest, which began accruing in June 2017, is non-compounding. The interest owed is payable over a four year period beginning June 2024 (see Note 10 in the interim unaudited condensed consolidated financial statements).

# 9 CAPITAL EXPENDITURES AND CAPACITY

For the three months ended March 31, 2020, we made capital expenditures of $2.0 million and received $0.6 million of government funding in the quarter for a net expenditure of $1.4 million. These expenditures were for capital maintenance activities and new manufacturing equipment.

# 10 CONTRACTUAL OBLIGATIONS AND COMMITMENTS

As of March 31, 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. The raw materials, wire rod and zinc, 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 Q2 2020.

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 purchase commitments.

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 March 31, 2020, the Company did not have any U.S. dollar currency forward contracts outstanding.

**Contractual Obligations and Commitments**
*($'000 unless otherwise stated)*

| | 2020 | 2021 | 2022 | 2023 | 2024 | Thereafter | Total |
|---|---|---|---|---|---|---|---|
| Production materials | 34,469 | - | - | - | - | - | 34,469 |
| Total commitments | 34,469 | - | - | - | - | - | 34,469 |
| AP and accrued liabilities | 27,463 | - | - | - | - | - | 27,463 |
| Other current liabilities | 201 | - | - | - | - | - | 201 |
| Dividends | 576 | - | - | - | - | - | 576 |
| Lease liabilities | 2,240 | 2,996 | 3,045 | 2,699 | 2,566 | 37,621 | 51,167 |
| Senior revolving facility | - | - | - | 38,775 | - | - | 38,775 |
| Senior term loans (principal) | 1,507 | 2,009 | 2,009 | 2,009 | 2,009 | 1,435 | 10,978 |
| Senior term loans (interest) | 219 | 204 | 156 | 108 | 60 | - | 747 |
| Long-term debt | 882 | 1,175 | 2,024 | - | 797 | 4,667 | 9,545 |
| Total financial liabilities | 33,088 | 6,384 | 7,234 | 43,591 | 5,432 | 43,723 | 139,452 |
| Total obligations and commitments | 67,557 | 6,384 | 7,234 | 43,591 | 5,432 | 43,723 | 173,921 |

## 11 SUMMARY OF QUARTERLY FINANCIAL RESULTS

The table below provides selected quarterly financial information for the eight most recent fiscal quarters to March 31, 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)*

| | Mar 31, 2020 | Dec 31, 2019 | Sep 30, 2019 | Jun 30, 2019 | Mar 31, 2019 | Dec 31, 2018 | Sep 30, 2018 | Jun 30, 2018 |
|---|---|---|---|---|---|---|---|---|
| Revenue | 57,993 | 45,144 | 49,701 | 52,618 | 52,942 | 44,882 | 55,846 | 68,087 |
| Gross profit | 6,614 | 3,482 | 4,623 | 4,912 | 4,754 | 3,686 | 6,936 | 8,509 |
| Foreign exchange gain (loss) | 730 | (490) | 70 | (85) | (171) | 408 | (77) | 256 |
| Net income (loss) | 1,829 | (3,199) | (359) | (536) | (1,096) | (2,334) | 1,030 | 2,792 |
| Net income (loss) per unit - basic | 0.06 | (0.11) | (0.01) | (0.02) | (0.04) | (0.08) | 0.03 | 0.09 |

Commentary:

- During 2018 the average prices of finished good products increased month-over-month to counter inflationary cost of raw materials.
- 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 there were higher volume sales as a result of increased demand.

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

## 12 ACCOUNTING POLICIES AND STATEMENTS

Certain of our accounting policies involve critical accounting estimates that require us to make subjective or complex judgments about matters that are inherently uncertain and because of the likelihood that materially different amounts could be reported under differing conditions or using different assumptions. We evaluate these estimates and assumptions regularly.

Our significant accounting policies are described in Note 3 of the December 31, 2019 Consolidated Financial Statements and in the Annual Information Form for the year ended December 31, 2019 and Note 3 of the March 31, 2020 interim unaudited condensed consolidated financial statements.

### 12.1 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 interim unaudited condensed consolidated financial statements for March 31, 2020.

# 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 May 7, 2020, Futura owns 32.4% 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 months ended March 31, 2020, Tree Island sold, net of rebates, approximately \$0.7 million (\$0.8 million in 2019) of goods to CanWel and trade accounts receivable owing from CanWel as at March 31, 2020 is approximately \$0.2 million (approximately \$0.6 million in 2019). Outstanding trade accounts receivable from CanWel at period end are unsecured, interest free and settlement occurs in cash.

## 13.2 TRANSACTIONS WITH KEY MANAGEMENT PERSONNEL

Included in the definition of key management for purposes of disclosure of related party transactions are members of Board of Directors and officers of Tree Island Steel. Amounts for key management personnel for the three months ended March 31, 2020 was approximately \$0.3 million (\$0.6 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 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.

# 15 DISCLOSURE CONTROLS AND PROCEDURES AND INTERNAL CONTROL OVER FINANCIAL REPORTING

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

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

Our Chief Financial Officer and Chief Operating Officer, each in their capacities as chief executive officer, and Chief Financial Officer certified the appropriateness of the quarterly disclosures in the quarterly financial report together with the other financial information included in the quarterly filings for the three months ended March 31, 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 March 31, 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 March 31, 2020 unaudited interim condensed consolidated financial statements and this MD&A prior to its release.

# INTERIM UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

**March 31, 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.

May 7, 2020

## CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

*($'000 unless otherwise stated)*

| | As at March 31, 2020 | As at December 31, 2019 |
|---|---|---|
| Cash | 4,568 | 907 |
| Accounts receivable *(Notes 5, 13.1)* | 32,324 | 24,250 |
| Inventories (*Note* 6*)* | 53,146 | 55,034 |
| Prepaid and other current assets | 3,187 | 3,332 |
| Income taxes recoverable | 194 | 427 |
| **Current assets** | 93,419 | 83,950 |
| Property, plant and equipment *(Notes 7, 19.2)* | 47,102 | 44,980 |
| Right of use assets *(Note 8)* | 30,055 | 28,700 |
| Other non-current assets | 1,831 | 1,492 |
| **Total assets** | 172,407 | 159,122 |
| | | |
| Accounts payable and accrued liabilities | 27,463 | 18,402 |
| Other current liabilities | 201 | 238 |
| Dividends payable | 576 | 577 |
| Current portion of long-term debt and senior term loans *(Notes 9.2, 10)* | 3,170 | 4,057 |
| Current portion of lease liabilities *(Note 8)* | 1,599 | 1,568 |
| **Current liabilities** | 33,009 | 24,842 |
| Senior revolving facility *(Note 9.1)* | 38,775 | 38,162 |
| Senior term loans *(Note 9.2)* | 8,969 | 9,234 |
| Long-term debt *(Note 10)* | 5,374 | 4,010 |
| Lease Liability *(Note 8)* | 32,340 | 30,517 |
| Other non-current liabilities | 653 | 518 |
| Deferred income tax liability | 3,639 | 3,186 |
| **Total liabilities** | 122,759 | 110,469 |
| **Shareholders' equity** | 49,648 | 48,653 |
| **Total liabilities and shareholders' equity** | 172,407 | 159,122 |

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

Approved on behalf of Tree Island Steel.

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

## CONSOLIDATED STATEMENTS OF OPERATIONS

*($'000 unless otherwise stated)*

| | Three months ended March 31, 2020 | 2019 |
|---|---|---|
| Sales *(Notes 5, 13.1, 20)* | 57,993 | 52,942 |
| Cost of sales *(Note 6)* | (49,835) | (46,696) |
| Depreciation | (1,544) | (1,499) |
| Gross profit | 6,614 | 4,747 |
| Selling, general and administrative expenses | (3,858) | (4,244) |
| Operating income | 2,756 | 503 |
| Foreign exchange gain (loss) | 730 | (171) |
| Restructuring and other expenses *(Note 22)* | - | (12) |
| Financing expenses *(Note 11)* | (951) | (1,221) |
| Income (loss) before income taxes | 2,535 | (901) |
| Current income tax recovery (expense) *(Note 14)* | (252) | (139) |
| Deferred income tax recovery (expense) *(Note 14)* | (454) | (55) |
| Net income (loss) | 1,829 | (1,095) |
| Net income (loss) per share *(Note 18)* | 0.06 | (0.04) |
| Dividends per share | 0.02 | 0.02 |
| Weighted average number of shares *(Note 18)* | 28,830,926 | 29,172,160 |

## CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

*($'000 unless otherwise stated)*

| | Three months ended March 31, 2020 | 2019 |
|---|---|---|
| Net income (loss) for the year | 1,829 | (1,095) |
| Unrealized gain (loss) on foreign exchange translation | (210) | (51) |
| Comprehensive income (loss) | 1,619 | (1,146) |

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

## 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 loss | - | 1,829 | - | 1,829 |
| Dividends | - | (576) | - | (576) |
| Other comprehensive income (loss) | - | - | (210) | (210) |
| Balance as at March 31, 2020 | 223,946 | (171,313) | (2,985) | 49,648 |

| | | | | |
|---|---|---|---|---|
| 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 | - | (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 |

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

**CONSOLIDATED STATEMENTS OF CASH FLOWS**
*($'000 unless otherwise stated)*

| | Three months ended March 31, 2020 | 2019 |
|---|---|---|
| Net income (loss) | 1,829 | (1,095) |
| Depreciation | 1,544 | 1,499 |
| Net financing costs | 954 | 1,221 |
| Deferred income tax expense (recovery) | 454 | 55 |
| Exchange revaluation of foreign denominated debt *(Note 9 and 10)* | 838 | (244) |
| Working capital adjustments | | |
| Accounts receivable | (8,075) | (6,996) |
| Inventories | 1,889 | 14,761 |
| Accounts payable and accrued liabilities | 9,246 | (2,431) |
| Prepaid expenses | (174) | (1,056) |
| Income and other taxes | 252 | 139 |
| Other | (120) | (948) |
| Net cash provided by (used in) operating activities | 8,637 | 4,905 |
| Government funding for purchase of equipment | 650 | - |
| Purchase of property, plant and equipment | (2,019) | (611) |
| Net cash used in investing activities | (1,369) | (611) |
| Term loans – advances (repayment), net *(Note 9.2)* | (496) | (492) |
| Increase (repayment) of senior revolving facility | (986) | (523) |
| Repayment of long-term debt *(Note 10)* | (295) | (476) |
| Other interest paid | (475) | (656) |
| Lease principal payments | (431) | (451) |
| Lease interest paid | (346) | (357) |
| Dividend paid | (576) | (584) |
| Repurchase of common shares | (48) | (96) |
| Deferred financing fees | - | (39) |
| Other financing liabilities | - | (9) |
| Net cash provided by (used in) financing activities | (3,653) | (3,683) |
| Effect of exchange rate change on cash | 46 | (3) |
| Increase (decrease) in cash | 3,661 | 608 |
| Cash - beginning of year | 907 | 1,277 |
| Cash - end of year | 4,568 | 1,885 |

*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 Steel ” or the “Company”) for the Three months ended March 31, 2020 and 2019 were authorized for issue in accordance with a resolution of the Board of Directors on May 7, 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 three months ended March 31, 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.

# 5 REVENUE AND ACCOUNTS RECEIVABLE

Revenue is net of the cost of freight associated with those sales to customers where the Company arranges the freight. For the three months ended March 31, 2020, this cost of freight amounts to $3.4 million ($3.1 million in 2019).

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

*($'000 unless otherwise stated)*

| | As at March 31, 2020 | As at December 31, 2019 |
|---|---|---|
| Current | 29,297 | 21,462 |
| 30 - 60 days past due | 1,906 | 1,262 |
| 61 - 90 days past due | 523 | 860 |
| Over 91 days past due | 1,297 | 1,246 |
| Total accounts receivable | 33,023 | 24,830 |
| Allowance for doubtful accounts | (699) | (580) |
| Net accounts receivable | 32,324 | 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 $32.3 million as at March 31, 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 March 31, 2020 | As at December 31, 2019 |
|---|---|---|
| Opening balance – January 1 | 580 | 324 |
| Additions during the period | 80 | 294 |
| Reversals during the period | - | 18 |
| Collections | - | (6) |
| Write-offs during the period | - | (72) |
| Foreign exchange revaluation | 39 | 22 |
| Closing balance – December 31 | 699 | 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.

# 6 INVENTORIES

Tree Island had the following categories of inventory:

($'000 unless otherwise stated)

| | As at March 31, 2020 | As at December 31, 2019 |
|---|---|---|
| Raw materials | 15,228 | 13,319 |
| Finished and semi-finished products | 26,029 | 29,708 |
| Consumable supplies and spare parts | 11,889 | 12,007 |
| Total inventory | 53,146 | 55,034 |

For the three month period ended March 31, 2020 and 2019, Tree Island recognized, in income, inventory costs for the following:

*($'000 unless otherwise stated)*

| | Three months ended March 31, | |
|---|---|---|
| | 2020 | 2019 |
| Opening inventory | 55,034 | 81,619 |
| Material purchases | 33,982 | 19,224 |
| Conversion costs | 13,965 | 12,711 |
| Closing inventory | (53,146) | (66,858) |
| Cost of sales | 49,835 | 46,696 |

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 months ended March 31, 2020 and 2019. The reserves for slow moving inventory as at March 31, 2020 were $1.4 million ($1.3 million at March 31, 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, Tree Island Steel's assets are grouped and tested at the Cash Generating Unit level. Tree Island considers both qualitative and quantitative factors when determining whether an asset may be impaired, or when a reversal of impairment is required. Where the carrying value of the assets is not expected to be recoverable from future cash flows, they are written down to their recoverable amount. Tree Island has noted no indicators of impairment 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 Company has certain capital commitments (refer to section 19.2).

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 | - | - | 423 | 1,142 | 1,565 |
| Disposals | - | - | - | - | - |
| Foreign exchange translation | 190 | 904 | 1,295 | 48 | 2,437 |
| As at March 31, 2020 | 9,955 | 47,606 | 42,985 | 2,684 | 103,230 |
| | | | | | |
| 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 | 4 | 348 | 520 | - | 875 |
| Disposals | - | - | - | - | - |
| Foreign exchange translation | 5 | 491 | 512 | - | 1,008 |
| As at March 31, 2020 | 64 | 35,769 | 20,295 | - | 56,128 |
| | | | | | |
| Net book value as at | | | | | |
| December 31, 2019 | 9,710 | 11,772 | 22,004 | 1,494 | 44,980 |
| March 31, 2020 | 9,891 | 11,837 | 22,690 | 2,684 | 47,102 |

# 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 | - | 91 | 91 |
| Disposals | - | - | - |
| Foreign exchange translation | 2,182 | 92 | 2,274 |
| As at March 31, 2020 | 35,007 | 2,660 | 37,667 |
| | | | |
| Depreciation and impairment | | | |
| As at December 31, 2019 | (5,609) | (993) | (6,602) |
| Depreciation for the period | (545) | (127) | (672) |
| Disposals | - | - | - |
| Foreign exchange translation | (284) | (54) | (338) |
| As at March 31, 2020 | (6,438) | (1,174) | (7,612) |
| | | | |
| Carrying value as at | | | |
| December 31, 2019 | 27,216 | 1,484 | 28,700 |
| March 31, 2020 | 28,569 | 1,486 | 30,055 |

*($'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 | - | 98 | 98 |
| Interest expense | 327 | 15 | 342 |
| Payment of lease liability | (652) | (125) | (777) |
| Foreign exchange translation | 2,166 | 25 | 2,191 |
| Lease liability as at March 31, 2020 | 32,455 | 1,484 | 33,939 |
| Less: current portion | (1,157) | (442) | (1,599) |
| Total | 31,298 | 1,042 | 32,340 |

# 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 revolving credit facility;
- $10 million "Fixed Asset Term Loan" applied against existing term loans; and
- $10 million "Capex Term Loan" to finance future capital expenditures.

## 9.1 SENIOR 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 $43 thousand Letter of Credit outstanding as at March 31, 2020.

The amount available under the revolving portion of the Senior Credit Facility is limited to the amount of the calculated borrowing base, less issued Letters of Credit. The borrowing base is calculated as 90% of eligible receivables, plus the lesser of (a) 90% of the net orderly liquidation value of inventory and (b) 70% of eligible inventory.

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 revolving portion of the Senior Credit Facility:

*($'000 unless otherwise stated)*

| | As at March 31, 2020 | As at December 31, 2019 |
|---|---|---|
| Revolving portion of the senior credit facility | 38,775 | 38,162 |
| Deferred financing costs | (51) | (59) |
| Total | 38,724 | 38,103 |

The revolving portion of the Senior Credit Facility denominated in U.S. dollars as at March 31, 2020 is $20.1 million ($20.4 million at March 31, 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 March 31, 2020, the Company was in compliance with its financial covenants on the Senior Credit Facility.

## 9.2 SENIOR TERM LOANS

Under the terms of the Senior Credit Facility, the Company has designated portions up to a total of $20 million as two term loans denominated in either Canadian or U.S. dollars, and is available for existing machinery and equipment and future capital expenditures.

The following amounts are outstanding under the Senior Term Loans:

*($'000 unless otherwise stated)*

| | As at March 31, 2020 | As at December 31, 2019 |
|---|---|---|
| Senior term loans - beginning of period | 11,194 | 13,335 |
| Advances | - | - |
| Foreign exchange revaluation | 280 | (171) |
| Payments | (496) | (1,970) |
| Senior term loans - end of period | 10,978 | 11,194 |
| Less: current portion | (2,009) | (1,960) |
| Total | 8,969 | 9,234 |

# 10 LONG-TERM DEBT

In June of 2012, the Company entered into long-term debt agreements with a trade creditor. The repayment schedule of the long-term debt extends to June 2028 with principal payments over a 10 year amortization period. The interest is non-compounding interest at 4% and commenced accruing June 2017 and will become payable monthly over 4 years commencing June 2024. Starting in November 2019, the Company and creditor agreed to a six months of reduced principal payments. Present value of the debt was determined using discounted cash flows and a credit adjusted discount rate of 9%. The discount rate, together with the stated interest, comprises the debt discount. Using the effective interest rate method, the debt discount is amortized as accretion and charged to interest expense over the term of the amended long-term debt agreements. The amounts owing under the long-term debts are denominated in U.S. dollars.

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

*($'000 unless otherwise stated)*

| | As at March 31, 2020 | As at December 31, 2019 |
|---|---|---|
| Beginning of period | 6,107 | 7,916 |
| Payments | (295) | (2,224) |
| Foreign exchange revaluation | 558 | (352) |
| Accretion of debt discount | 164 | 767 |
| End of period | 6,534 | 6,107 |
| Less: current portion | (1,160) | (2,097) |
| Net long-term debt | 5,374 | 4,010 |

In addition, under the terms of this long-term debt agreement, Tree Island is required to make an accelerated payment of between $0.3 million to $0.5 million on the principal outstanding within 120 days of any fiscal year end in which EBITDA exceeds a specified amount.

# 11 FINANCING EXPENSES

*($'000 unless otherwise stated)*

| | Three months ended March 31, | |
|---|---|---|
| | 2020 | 2019 |
| Non-cash accretion of debt discount and interest on long term debt | 164 | 215 |
| Interest on senior credit facility (Note 9.1) | 287 | 462 |
| Interest on lease liability | 342 | 357 |
| Other interest and financing costs | 150 | 179 |
| Amortization of deferred financing costs | 8 | 8 |
| Total | 951 | 1,221 |

# 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 31,994 shares were repurchased (totaling $48 thousand at an average price of $1.50 per share) and cancelled in the quarter ended March 31, 2020. Shares issued and outstanding are as follows:

*($'000 except for shares)*

| | Shares | Gross | Issuance Cost[2] | 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 | (31,994) | (48) | - | (48) |
| Shareholders' capital - March 31, 2020 | 28,799,643 | 235,346 | 11,400 | 223,946 |

[2] *Issuance costs were incurred as a result of the November 2002 Initial Public Offering and October 2004 Secondary Offering.*

### 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 March 31, 2020 the Company purchased 31,994 Shares under the Bid at a total cost of $48 thousand (at an average price of $1.50 per Share). An additional 35,462 Shares were purchased under the Bid for the period April 1, 2020 to May 7, 2020 at an average price of $1.45 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 May 7, 2020, Futura owns 32.4% 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 months ended March 31, 2020, Tree Island sold, net of rebates, approximately $0.7 million ($0.8 million in 2019) of goods to CanWel and trade accounts receivable owing from CanWel as at March 31, 2020 is approximately $0.2 million (approximately $0.6 million in 2019). Outstanding trade accounts receivable from CanWel at period end are unsecured, interest free and settlement occurs in cash (Note 5).

### 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 months ended March 31, 2020 was approximately $0.3 million ($0.6 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 March 31, | |
|---|---|---|
| | 2020 | 2019 |
| Current tax expense | (252) | (139) |
| Deferred tax recovery (expense) | (454) | (55) |
| Total in the Consolidated Statement of Operations | (706) | (194) |

# 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, the revolving portion of the Senior Credit Facility 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 the Company's Senior Term Loans and Long-Term Debt are based on estimated market interest rate on similar borrowings. The carrying value of the Senior Term Loans approximates fair value as the interest rates approximate market. A 1% change in the market interest rate would change the fair value of Long-Term Debt by $0.1 million and Senior Term Loans by $0.1 million;

- Fair value of the commodity purchase contract embedded derivatives are estimated using observable spot rates for zinc; and

- 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.

- 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 March 31, 2020 | | As at December 31, 2019 | |
|---|---|---|---|---|
| | Carrying Amount | Fair Value | Carrying Amount | Fair Value |
| Cash and cash investments | 4,568 | 4,568 | 907 | 907 |
| Accounts receivable | 32,324 | 32,324 | 24,250 | 24,250 |
| Total financial assets | 36,892 | 36,892 | 25,157 | 25,157 |
| Senior revolving facility | 38,775 | 38,775 | 38,162 | 38,162 |
| Accounts payable, accrued and other current liabilities | 27,463 | 27,463 | 18,402 | 18,402 |
| Senior term loans | 10,978 | 10,978 | 11,194 | 11,194 |
| Long-term debt | 6,534 | 4,717 | 6,107 | 5,622 |
| Lease Liabilities | 33,939 | 33,939 | 32,085 | 32,085 |
| Total financial liabilities | 117,689 | 115,872 | 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.

## 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 March 31, 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 |
|---|---|---|---|---|---|
| Senior revolving facility | 38,775 | 38,775 | - | - | 38,775 |
| Accounts payable, accrued and other liabilities | 27,664 | 27,664 | 27,664 | - | - |
| Senior term loans (principal) | 10,978 | 10,978 | 2,009 | 4,018 | 4,951 |
| Senior term loans (interest) | - | 747 | 219 | 204 | 324 |
| Long-term debt | 6,534 | 9,545 | 1,160 | 3,199 | 5,186 |
| Lease liability | 33,939 | 51,167 | 2,240 | 2,996 | 45,931 |
| As at March 31, 2020 | 117,890 | 138,876 | 33,292 | 10,417 | 95,167 |
| 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 |
| As at December 31, 2019 | 106,188 | 129,135 | 26,008 | 10,340 | 92,787 |

## 16.3 FOREIGN CURRENCY RISK

Tree Island's U.S. dollar-denominated cash, accounts receivable, accounts payable and accrued liabilities, Senior Credit Facility and Long-Term Debt 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 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 March 31, 2020, the Company had no outstanding U.S. dollar currency forward contracts.

For the three months ended March 31, 2020, a $0.01 increase (decrease) in the Canadian dollar to U.S. dollar exchange rate will increase (decrease) net comprehensive income by $94 thousand.

### 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 $0.4 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 March 31, 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, Senior Term Loan agreements and Long-Term Debt agreements as described further in Notes 9.1, 9.2 and 10.

Management 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 March 31, 2020 | As at December 31, 2019 |
|---|---|---|
| Total shareholders' equity | 49,648 | 48,653 |
| Senior revolving facility | 38,775 | 38,162 |
| Lease liabilities | 33,939 | 32,085 |
| Senior term loans | 10,978 | 11,194 |
| Long-term debt | 6,534 | 6,107 |
| Total capital | 139,874 | 136,201 |

# 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 March 31, 2020 the Company does not have any instruments issued that could be dilutive.

During three months ended March 31, 2020, 31,994 shares were repurchased and cancelled (Note 12). An additional 35,462 Shares were purchased under the Bid for the period April 1, 2020 to May 7, 2020 at an average price of $1.45 per share.

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

*($'000 unless otherwise stated)*

| | Three months ended March 31, 2020 | 2019 |
|---|---|---|
| Net income (loss) for the period | 1,829 | (1,095) |
| Weighted average number of Shares outstanding: | 28,830,926 | 29,172,160 |
| Net income per share ($/share) | 0.06 | (0.04) |

# 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 March 31, 2020, Tree Island's wholly owned subsidiaries have committed to raw material purchases (including finished goods) totalling $34.5 million ($27.4 million - March 31, 2019).

# 20 SEGMENTED INFORMATION

## 20.1 MARKET SEGMENTS

Revenues for each group for the three months ended March 31, 2020 and 2019 were as follows:

*($'000 unless otherwise stated)*

| | Three months ended March 31, | |
|---|---|---|
| | 2020 | 2019 |
| Industrial | 19,210 | 15,779 |
| Commercial | 13,289 | 12,523 |
| Agricultural | 10,345 | 11,636 |
| Residential | 15,149 | 13,004 |
| Total revenue | 57,993 | 52,942 |

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, Agricultural, Commercial Construction, 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:

*($'000 unless otherwise stated)*

| | As at March 31, | |
|---|---|---|
| | 2020 | 2019 |
| United States | 34,383 | 26,570 |
| Canada | 21,230 | 23,964 |
| International | 2,380 | 2,408 |
| Total revenue | 57,993 | 52,942 |

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 March 31, 2020 | As at December 31, 2019 |
|---|---|---|
| United States | 51,007 | 36,720 |
| Canada | 27,981 | 38,452 |
| Total non-current assets | 78,988 | 75,172 |

# SHAREHOLDER INFORMATION

TREE ISLAND STEEL

**Board of Directors:**

Amar S. Doman – Chairman of the Board

Peter Bull

Harry Rosenfeld

Michael Fitch

Sam Fleiser

Theodore A. Leja

Joe Downes

**Executive Officers:**

Remy Stachowiak
*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.