



**WIRE & WIRE PRODUCTS**

**ESTABLISHED IN 1964**



## **Quarterly Report**

***Q1 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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*Agricultural Fencing Products*

## TO OUR SHAREHOLDERS

### Letter to Shareholders

In the first quarter of 2021, we experienced an increase in demand resulting from economic recovery in the markets we serve, from strengthened home improvement and housing starts, increased construction and agricultural activities, along with industrial demand for wire and related products. With increased demand, higher raw materials costs and limited product availability in the market, pricing was elevated. This delivered increased revenue, and combined with ongoing cost and inventory management across all areas of the business, resulted in improved margins and earnings.

We continue to remain cautiously optimistic of future results in this dynamic market environment, noting a tightening global supply of our core raw material, steel wire rod, with higher steel demand. We are actively and closely managing our supply chain to support our customer needs for premium quality wire and wire products, while remaining focused on our health and safety programs throughout all facilities as an essential service provider.

We wish to sincerely acknowledge the contributions, ongoing engagement and support of all of our employees, customers and stakeholders.

Sincerely,

Remy Stachowiak  
President and Chief Operating Officer, Tree Island Steel

## MANAGEMENT DISCUSSION AND ANALYSIS

March 31, 2021

The following is a discussion of the financial condition and results of operations of Tree Island Steel ("Tree Island" or the "Company") and its wholly owned operating subsidiary Tree Island Industries (together with Tree Island Steel, referred to as "Tree Island"). This discussion is current to May 6, 2021 and should be read in conjunction with the unaudited interim condensed consolidated financial statements for three months ended March 31, 2021. Tree Island Steel's unaudited interim condensed consolidated financial statements are prepared in accordance with International Financial Reporting Standards ("IFRS") and are reported in Canadian dollars and in thousand dollar units, unless otherwise stated. Additional information relating to Tree Island Steel, including the audited consolidated financial statements and Annual Information Form ("AIF") for the year ended December 31, 2020, can be found at [www.sedar.com](http://www.sedar.com) or on Tree Island Steel's website at [www.treeisland.com](http://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, 2020.

The forward-looking statements contained herein reflect management's current beliefs and are based upon certain assumptions that management believes to be reasonable based on the information currently available to management. By their very nature, forward looking statements involve inherent risks and uncertainties, both general and specific, and a number of factors could cause actual events or results to differ materially from the results discussed in the forward-looking statements. In evaluating these statements, prospective investors should specifically consider various factors including the risks outlined in the Company's most recent annual information form and management discussion and analysis which may cause actual results to differ materially from any forward looking statement. Such risks and uncertainties include, but are not limited to: general economic, market and business conditions, the impact of COVID-19 on the company, its customers and vendors, the cyclical nature of our business and demand for our products, financial condition of our customers, competition, volume and price pressure from import competition, deterioration in the Company's liquidity, disruption in the supply of raw materials, volatility in the costs of raw materials, transportation costs, foreign exchange fluctuations, leverage and restrictive covenants, labour relations, trade actions, dependence on key personnel and skilled workers, intellectual property risks, energy costs, un-insured loss, credit risk, operating risk, management of growth, changes in tax, environmental and other legislation, and other risks and uncertainties set forth in our publicly filed materials.

This MD&A has been reviewed by the Board of Directors of Tree Island Steel and its Audit Committee, and contains information that is current as of the date of this MD&A, unless otherwise noted. Events occurring after that date could render the information contained herein inaccurate or misleading in a material respect. Readers are cautioned not to place undue reliance on this forward-looking information and management of Tree Island undertakes no obligation to update publicly or revise any forward-looking information, whether as a result of new information, future events or otherwise except as required by applicable securities law.

## 2 NON-IFRS MEASURES

References in this MD&A to “EBITDA” are to provide an EBITDA that we define as operating income adjusted by adding back total depreciation and foreign exchange gains or losses. EBITDA is not a measure recognized by IFRS and does not have a standardized meaning prescribed by IFRS. We believe that providing an EBITDA is an important supplemental measure for evaluating our performance. You are cautioned that our definition of EBITDA should not be construed as an alternative to net income or loss determined in accordance with IFRS, nor should it be used as an indicator of performance, cash flows from operating, investing and financing activities, as a measure of liquidity or cash flows. Our method of calculating EBITDA may differ from methods used by other issuers and, accordingly, our definition of EBITDA may not be comparable to similar measures presented by other issuers.

## 3 TREE ISLAND STEEL

Since 1964, Tree Island has been making products from steel wire for a diverse range of customers and applications. Tree Island Steel, following a conversion from an income trust to a corporate entity, was incorporated under the laws of Canada, and the units of the income fund were converted to common shares in Tree Island Steel.

There were 28,451,777 Shares outstanding as of March 31, 2021.

### 3.1 ORGANIZATIONAL STRUCTURE

Our corporate structure has the following primary entities: Tree Island Industries (“TI Canada”) which is our Canadian operating company as well as the ultimate parent company to our operations in the United States, which are managed through our U.S. operating subsidiary, Tree Island Wire. (“TI USA”).

### 3.2 PRODUCTS

Tree Island is a manufacturer and supplier of premium quality wire products for a broad range of applications. Our goal is to match the appropriate wire product with our customers’ needs. We achieve this by manufacturing most of our products at our own manufacturing facilities, while outsourcing others from qualified manufacturers. We market these products to customers in Canada, the United States and internationally.

We market our products under the following brands:



We offer consistent, high quality wire and wire products that meet or exceed customers' needs, ASTM standards and applicable codes, a broad range of applications, short lead times, technical support and excellent customer service.

The products we source from other suppliers are generally limited to commodity items, or items we do not produce. Products within this group meet general industry specifications, but are not customized to individual customer requirements. Outsourced products allow us to enhance our relationship with those customers that require competitively priced commodity products. These products typically create complementary pull-through for our manufactured products.

### 3.3 MARKETS

The following summarizes the markets, key product groups, the specific end-use markets, and regions we serve with our products:

<b>Markets</b>	<b>Brand</b>	<b>Key Product Groups</b>	<b>Specific End-Use Market</b>	<b>Regions</b>
Industrial	Tree Island®, TI Wire®	Bright/galvanized/annealed low and high carbon wire	Wire fabricating, industrial applications, OEM manufacturing	North America and International
Agricultural	Tree Island®, Tough Strand®, ToughPanel®	Game fence and farm fence Vineyard wire and barbed wire Livestock panels	Agriculture, farming	North America
Commercial Construction	Tree Island®, TI Wire®	Welded wire mesh Concrete reinforcing products	Commercial construction, mining, infrastructure projects	North America and International
Residential Construction	Tree Island®, Halsteel®, K-Lath®, True Spec®, ToughPanel®	Collated, bulk and packaged nails Stucco reinforcing mesh Welded wire panels	Construction and renovation for new and existing homes	North America

### 3.4 SEASONALITY

Our operations are impacted by the seasonal nature of the various industries we serve, primarily the construction and agriculture industries. Accordingly, revenues, sales volumes and operating results for interim quarters are not necessarily indicative of the results that may be expected for the full fiscal year.

## **4 2021 BUSINESS OVERVIEW AND DEVELOPMENT**

### **4.1 BUSINESS OVERVIEW**

Revenues earned in the first quarter of 2021 amounted to \$66.8 million compared to \$58.0 million in the same period last year, a 15.3% increase. This increase in revenue is primarily attributable to higher sales volumes in our Agricultural, Industrial and Residential Construction segments. Increased market demand and ongoing cost and inventory management actions resulted in a gross profit increase to \$12.6 million in the quarter, compared to \$6.6 million in the same period last year. The resulting gross profit margin for the quarter was 18.9% compared to 11.4%, in Q1 2020. EBITDA for the period amounted to \$10.7 million compared to \$5.0 million in the first quarter of 2020, from the combined result of improving gross profit, reduced selling, general and administrative (SG&A) expenditures and financing expenses compared to the prior period.

### **4.2 COVID-19 DEVELOPMENT**

While we are experiencing an increase in market demand supported by economic recovery, we continue to remain highly focused on our health and safety programs throughout all facilities as an essential service provider, in direct alignment with the respective health authority and government mandates in place.

As we have a shared responsibility for the health and safety of our staff and community, and there remains uncertainty regarding the pandemic progress and ongoing health and business impact, we continue to diligently follow and reinforce multiple health and safety practices in all of our facilities.

## 5 RESULTS FROM OPERATIONS

	Three Months Ended	
	March 31,	
	2021	2020
Revenue	66,842	57,993
Cost of sales	(52,748)	(49,835)
Depreciation	(1,467)	(1,544)
Gross profit	12,627	6,614
Selling, general and administrative expenses	(3,327)	(3,858)
Operating income	9,300	2,756
Foreign exchange gain (loss)	(113)	730
Financing expenses	(566)	(951)
Income before income taxes	8,621	2,535
Income tax expense	(2,157)	(706)
Net income	6,464	1,829
Net income per share	0.22	0.06
Dividends per share	0.03	0.02

Financial position as of:	March 31, December 31,	
	2021	2020
Total assets	156,217	146,549
Total non-current financial liabilities	75,114	71,236

## 6 EBITDA

	Three Months Ended	
	March 31,	
	2021	2020
Operating income	9,300	2,756
Add back depreciation	1,467	1,544
Foreign exchange gain (loss)	(113)	730
EBITDA	10,654	5,030



## 7 COMPARISON OF RESULTS FOR THE THREE MONTHS ENDED MARCH 31, 2021 AND 2020

<i>(\$'000 unless otherwise stated)</i>	<u>2021</u>	<u>2020</u>	<u>Variance Fav/(Unfav)</u>	
<b>SALES</b>	66,842	57,993	8,849	15.3%

The increase in revenues over the prior year by 15.3% is primarily attributable to higher sales volumes in our Agricultural, Industrial and Residential Construction segments.

### Revenue by Market Segment

	Three Months Ended March 31,					
	<u>2021</u>		<u>2020</u>		<u>Variance</u>	
	<u>Revenue</u>	<u>% of Total</u>	<u>Revenue</u>	<u>% of Total</u>	<u>Amount</u>	<u>%</u>
Industrial	22,429	33.5%	19,210	33.2%	3,219	16.8%
Commercial	12,829	19.2%	13,289	22.9%	(460)	(3.5%)
Agricultural	14,075	21.1%	10,345	17.8%	3,730	36.1%
Residential	17,509	26.2%	15,149	26.1%	2,360	15.6%
<b>Total</b>	<b>66,842</b>	<b>100%</b>	<b>57,993</b>	<b>100%</b>	<b>8,849</b>	<b>15.3%</b>

Overall revenues increased across most geographical locations, over the same period last year, as a result of higher demand for our products experienced in the quarter relative to Q1 2020 for most of our market segments, except for Commercial construction which was more broadly impacted by pandemic related factors.

### Revenue by Location

	Three Months Ended March 31,					
	<u>2021</u>		<u>2020</u>		<u>Variance</u>	
	<u>Revenue</u>	<u>% of Total</u>	<u>Revenue</u>	<u>% of Total</u>	<u>Amount</u>	<u>%</u>
United States	42,648	63.8%	34,383	59.3%	8,265	24.0%
Canada	22,995	34.4%	21,230	36.6%	1,765	8.3%
International	1,199	1.8%	2,380	4.1%	(1,181)	(49.6%)
<b>Total</b>	<b>66,842</b>	<b>100%</b>	<b>57,993</b>	<b>100%</b>	<b>8,849</b>	<b>15.3%</b>

Average C\$/U.S.\$ 1.27 1.35

<i>(\$'000 unless otherwise stated)</i>	<u>2021</u>	<u>2020</u>	<u>Variance Fav/(Unfav)</u>	
<b>COST OF SALES</b>	52,748	49,835	(2,913)	5.8%

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

<i>(\$'000 unless otherwise stated)</i>	<u>2021</u>	<u>2020</u>	<u>Variance Fav/(Unfav)</u>	
<b>GROSS PROFIT</b>	12,627	6,614	6,013	90.9%

Gross profit for the quarter amounted to \$12.6 million versus \$6.6 million during the same period in 2020, predominantly from increased sales volumes and improved cost and inventory management. The gross profit margin for the period was 18.9% compared to 11.4% in the comparative period.

<i>(\$'000 unless otherwise stated)</i>	<u>2021</u>	<u>2020</u>	<u>Variance Fav/(Unfav)</u>	
<b>SG&amp;A EXPENSES</b>	3,327	3,858	531	13.8%

SG&A expenses are lower when compared to prior year, as a result of cost reduction actions taken in the past year that have been maintained.

<i>(\$'000 unless otherwise stated)</i>	<u>2021</u>	<u>2020</u>	<u>Variance Fav/(Unfav)</u>	
<b>FINANCING EXPENSES</b>	566	951	385	40.5%

Financing expenses decreased mainly due to reduced interest on the Senior Credit Facility, due to lower interest rates and overall lower debt balances, compared to prior year.

### Financing Expenses

	Three Months Ended March 31,			
	<u>2021</u>	<u>2020</u>	<u>Variance Fav/(Unfav)</u>	
			<u>Amount</u>	<u>%</u>
Long term debt accretion	-	164	164	100.0%
Interest on senior credit facility	119	287	168	58.5%
Interest on senior term facility	74	89	15	58.5%
Interest on lease liability	312	342	30	8.8%
Other interest and financing costs	58	61	3	4.9%
Deferred financing costs	3	8	5	62.5%
<b>Total financing expenses</b>	<b>566</b>	<b>951</b>	<b>385</b>	<b>40.5%</b>

<i>(\$'000 unless otherwise stated)</i>	<u>2021</u>	<u>2020</u>	<u>Variance Fav/(Unfav)</u>	
<b>FOREIGN EXCHANGE</b>	(113)	730	(843)	115.5%

Our Canadian operation, whose functional currency is the Canadian dollar, has a portion of its assets, liabilities, sales and expenses denominated in currencies other than the Canadian dollar, in particular the U.S. dollar. With raw material costs being denominated in U.S. dollars, having a significant portion of our sales also being denominated in U.S. dollars creates a natural partial hedge. Foreign currency forward contracts are used to manage a portion of the remaining currency risk. Foreign exchange gains and losses are unpredictable in nature and therefore can vary significantly over time. As at March 31, 2021, the Company did not have any U.S. dollar currency forward contracts outstanding.

<i>(\$'000 unless otherwise stated)</i>	<u>2021</u>	<u>2020</u>	<u>Variance Fav/(Unfav)</u>	
<b>INCOME TAX EXPENSE</b>	(2,157)	(706)	(1,451)	(205.5%)

The income tax expense for 2021 is based on a statutory rate of 27% for Canadian taxable income and 21% for U.S. based taxable income applied to the income of the respective subsidiaries before taxes, with adjustments for permanent differences between accounting and taxable income.

<i>(\$'000 unless otherwise stated)</i>	<u>2021</u>	<u>2020</u>	<u>Variance Fav/(Unfav)</u>	
<b>NET INCOME</b>	6,464	1,829	4,635	253.4%

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

## 8 FINANCIAL CONDITION AND LIQUIDITY

### 8.1 WORKING CAPITAL

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

#### Working Capital

	As at March 31,	
	<u>2021</u>	<u>2020</u>
Cash	2,929	4,568
Accounts receivable	32,035	32,324
Inventories	48,695	53,182
Other current assets	3,879	3,345
	<u>87,538</u>	<u>93,419</u>
Accounts payable and accrued liabilities	(17,652)	(27,463)
Dividends payable	(854)	(576)
Other current liabilities	(1,613)	(201)
	<u>(20,119)</u>	<u>(28,240)</u>
<b>Net Working Capital</b>	<u>67,419</u>	<u>65,179</u>

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

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

Accounts receivable as at March 31, 2021 were in line with the same period last year, reflecting improved collections against the increasing sales in Q1 2021 compared to the same period in the prior year.

Inventories levels were lower as at March 31, 2021, when compared to the same period in 2020, as a result of increased market demand across all geographical regions and most categories, along with inventory management.

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 and supply chain constraints, 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

	Three Months Ended March 31,	
	2021	2020
Cash provided by operating activities	8,382	5,619
Working capital adjustments	(9,594)	3,018
Net cash provided by (used in) operating activities	(1,212)	8,637
Net cash used in investing activities	(277)	(1,369)
Repayment of senior term loans	(705)	(496)
Repayment of long-term debt	-	(295)
Lease interest paid	(312)	(346)
Lease principal payments	(393)	(431)
Other interest paid	(252)	(475)
Advance on (repayment of) senior revolving facility	5,550	(986)
Dividend paid	(570)	(576)
Share buyback	(139)	(48)
Net cash provided by (used in) financing activities	3,179	(3,653)
Exchange rate changes on foreign cash balances	(6)	46
Increase in cash balances	1,684	3,661

In the first quarter of 2021, net cash for operating activities has increased compared to Q1 2020 primarily as a result of increased accounts receivable balances from higher volumes of sales. The net cash used in investing activities was from capital investments which are further described in Section 10. The net cash used in financing activities was the result of increased balance of our Senior Revolving Facility of \$5.6 million during the quarter.

### **8.3 SENIOR CREDIT FACILITY**

The Company's senior secured committed banking facility matures in June of 2023. The facility enables the Company to borrow up to \$80.0 million in Canadian and/or U.S. funds. Interest payable on funds borrowed in Canadian and U.S. currency is at variable rates. For the revolving facility, up to \$60 million may be borrowed at any time in Canadian and/or U.S. dollars with the amount advanced under the revolving facility limited to a defined percentage of inventories, accounts receivable, machinery and equipment, and real estate, less certain reserves. In addition, up to \$20 million may be borrowed as term debt, in Canadian and/or U.S. dollars for financing existing machinery and equipment and future capital expenditures.

The Senior Credit Facility is secured by a first charge over Tree Island's assets supported by the appropriate guarantees, pledges and assignments, and requires that certain covenants be met by Tree Island. The Senior Credit Facility has defined covenants, the primary one being that a certain amount of credit availability be maintained. Only if this amount falls below a certain threshold, then other covenants, which include a defined fixed charge coverage ratio, are tested. In addition, there are other restrictive covenants that limit the discretion of management with respect to certain business matters.

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

## **9 CAPITAL EXPENDITURES AND CAPACITY**

For the three months ended March 31, 2021, we made capital expenditures of \$0.3 million. These expenditures were for capital maintenance activities.

## 10 CONTRACTUAL OBLIGATIONS AND COMMITMENTS

As of March 31, 2021, we were committed to the contracts, operating leases and debt repayments (including scheduled interest payments on interest bearing debt) set out below, which will be financed through working capital and our Senior Credit Facility.

The production materials include raw materials, such as wire rod and zinc, and finished goods. These raw materials are used in the day-to-day operations of our manufacturing facilities and are in the normal course of our business activities. Finished goods are purchased for resale without further processing and are also in the normal course of our business activities. All committed production materials are to be delivered prior to the end of Q3 2021.

From time to time, we make investments to update, replace or make additions to our existing capital assets, which includes, but is not limited to, the buildings we occupy and capital equipment. These investments are in the normal course of our business activity. For the capital assets we have committed to purchase but have not yet received, amounts remaining to be paid are disclosed as purchase commitments. As of March 31, 2021, the Company did not have any capital equipment commitments outstanding.

From time to time, the Company enters into U.S. dollar currency forward contracts for periods consistent with a portion of U.S. dollar currency transaction exposures, generally from one to three months. These are not designated as cash flow, fair value or net investment hedges. As of March 31, 2021, the Company did not have any U.S. dollar currency forward contracts outstanding.

### Contractual Obligations and Commitments

	<u>2021</u>	<u>2022</u>	<u>2023</u>	<u>2024</u>	<u>2025</u>	<u>Thereafter</u>	<u>Total</u>
Production materials	43,969	-	-	-	-	-	43,969
AP and accrued liabilities	17,652	-	-	-	-	-	17,652
Other current liabilities	89	-	-	-	-	-	89
Dividends	854	-	-	-	-	-	854
Lease liabilities	2,116	2,871	2,525	2,392	2,356	31,302	43,562
Senior revolving facility	-	-	30,734	-	-	-	30,734
Senior term loans (principal)	2,106	2,807	2,807	2,807	2,245	2,450	15,222
Senior term loans (interest)	228	252	194	135	78	79	966
<b>Total obligations and commitments</b>	<b>67,014</b>	<b>5,930</b>	<b>36,260</b>	<b>5,334</b>	<b>4,679</b>	<b>33,831</b>	<b>153,048</b>

## 11 SUMMARY OF QUARTERLY FINANCIAL RESULTS

The table below provides selected quarterly financial information for the eight most recent fiscal quarters to March 31, 2021. Sales volumes by quarter are impacted by the seasonality of our business. Quarter-over-quarter results may also be impacted by unusual or infrequently occurring items.

### Summary of Quarterly Financial Results

	Mar 31, <u>2021</u>	Dec 31, <u>2020</u>	Sep 30, <u>2020</u>	Jun 30, <u>2020</u>	Mar 31, <u>2020</u>	Dec 31, <u>2019</u>	Sep 30, <u>2019</u>	Jun 30, <u>2019</u>
Revenue	66,842	54,199	53,236	50,466	57,993	45,144	49,701	52,618
Gross profit	12,627	6,607	6,684	5,945	6,614	3,482	4,623	4,912
Foreign exchange gain (loss)	(113)	(226)	(383)	(294)	730	(490)	70	(85)
Net income (loss)	6,464	1,682	520	1,100	1,829	(3,199)	(359)	(536)
Net income (loss) per share - basic	0.22	0.05	0.02	0.04	0.06	(0.11)	(0.01)	(0.02)

#### Commentary:

- During the first half of 2019, volumes in the Industrial markets were impacted by Section 232 tariffs.
- Q4 2019 includes restructuring charges of \$1.4 million, of which \$1.15 million relates to termination benefits paid to the former CEO in accordance with his employment contract.
- During Q1 2020, increased demand resulted in improved gross profits earned.
- In Q2 2020 lower sales from the impacts of COVID-19 were offset by proactive cost management measures, including decreases in expenditures and improved product mix.
- In Q3 and Q4 2020 sales increased as a result of improved demand after the initial pandemic related reductions in demand and temporary closures of certain customer and project sites.
- In Q1 2021 sales continued to increase as a result of the economic recovery experienced in the markets we serve.

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, 2020 Consolidated Financial Statements and in the Annual Information Form for the year ended December 31, 2020 and Note 3 of the March 31, 2021 interim unaudited condensed consolidated financial statements.

### **12.1 CRITICAL ACCOUNTING ESTIMATES**

The areas that we considered 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, lease discount rates applied and useful life. These critical estimates and the judgments involved are discussed further in Note 3 to the Consolidated Financial Statements for December 31, 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 6, 2021, Futura owns 34.3% 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, 2021, Tree Island sold, net of rebates, approximately \$0.9 million (\$0.7 million in 2020) of goods to CanWel and trade accounts receivable owing from CanWel as at March 31, 2021 is approximately \$0.3 million (approximately \$0.2 million in 2020). Outstanding trade accounts receivable from CanWel at period end are unsecured, interest free and settlement occurs in cash.

### **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, 2021 was approximately \$0.3 million (\$0.3 million approximately in 2020) which includes wages, salaries and retirement contributions, paid annual and sick leave, vehicle costs and also includes directors’ fees paid to members of the Board.



## **14 RISKS AND UNCERTAINTIES**

Investment in Tree Island Steel is subject to a number of risks. Our income is dependent upon the wire products business, which is susceptible to a number of risks. Risks pertaining to current economic conditions are discussed in the section above under the heading “2021 Business Overview and Development”. A detailed discussion of our significant business risks is provided in the 2020 Annual Information Form under the heading “Risk Factors” which can be found at [www.sedar.com](http://www.sedar.com).

## **15 LITIGATIONS 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. The Company received a proposal letter from the Canada Revenue Agency (“CRA”) wherein the CRA stated that it proposed to disallow certain intercompany bad debt and capital losses for the year ended December 31, 2015. A Notice of Reassessment has not been issued. The Company disagrees with the CRA’s position and believes that no provisions are necessary with respect to this matter at this time.

## **16 DISCLOSURE CONTROLS AND PROCEDURES AND INTERNAL CONTROL OVER FINANCIAL REPORTING**

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

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

Our President and Chief Operating Officer, in the capacity of chief executive officer, and Chief Financial Officer certified the appropriateness of the financial disclosures in the interim financial report together with the other financial information included in the interim filings for the three months ended March 31, 2021. 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, 2021, 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, 2021 unaudited interim condensed consolidated financial statements and this MD&A prior to its release.

**INTERIM UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**March 31, 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.

May 6, 2021

**INTERIM UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
**March 31, 2021 and 2020**

**CONSOLIDATED STATEMENT OF FINANCIAL POSITION**

*(\$'000 unless otherwise stated)*

	<i>Notes</i>	As at March 31, 2021	As at December 31, 2020
Cash		2,929	1,245
Accounts receivable	5	32,035	24,819
Inventory	6	48,695	46,808
Prepaid expenses		3,879	3,209
<b>Current assets</b>		<b>87,538</b>	<b>76,081</b>
Property, plant and equipment	7	42,321	43,067
Right of use assets	8.1	25,155	25,982
Other non-current assets		1,203	1,419
<b>Total assets</b>		<b>156,217</b>	<b>146,549</b>
Accounts payable and accrued liabilities		17,652	17,770
Income taxes payable		1,524	1,383
Other current liabilities		89	97
Dividends payable		854	570
Current portion of long-term borrowing	9.2	2,807	2,825
Current portion of ROU lease liability	8.2	1,629	1,599
<b>Current liabilities</b>		<b>24,555</b>	<b>24,244</b>
Senior revolving facility	9.1	30,734	25,398
Senior term loans	9.2	12,415	13,215
ROU Lease liabilities	8.2	27,841	28,549
Other non-current liabilities		543	491
Deferred Income tax liabilities		3,581	3,583
<b>Total liabilities</b>		<b>99,669</b>	<b>95,480</b>
<b>Shareholders' equity</b>		<b>56,548</b>	<b>51,069</b>
<b>Total liabilities and shareholders' equity</b>		<b>156,217</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**  
**March 31, 2021 and 2020**

**CONSOLIDATED STATEMENT OF OPERATIONS**

(\$'000 unless otherwise stated)	Notes	Three Months Ended March 31,	
		2021	2020
Sales	5, 12.1, 19.1	66,842	57,993
Cost of sales	6	(52,748)	(49,835)
Depreciation		(1,467)	(1,544)
Gross profit		12,627	6,614
Selling, general and administrative expenses		(3,327)	(3,858)
Operating income		9,300	2,756
Foreign exchange gain (loss)		(113)	730
Financing expenses	10	(566)	(951)
Income before income taxes		8,621	2,535
Income tax expense	13	(2,157)	(706)
Net income		6,464	1,829
Net income per share	17	0.22	0.06
Dividends per share		0.03	0.02
Weighted average number of shares		28,816,136	29,151,278

**CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME**

(\$'000 unless otherwise stated)	Three Months Ended March 31,	
	2021	2020
Net income for the period	6,464	1,829
Unrealized gain (loss) on foreign exchange translation	8	(210)
Comprehensive income	6,472	1,619

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

**INTERIM UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
**March 31, 2021 and 2020**

**CONSOLIDATED STATEMENT OF SHAREHOLDERS' EQUITY**

<i>(\$'000 unless otherwise stated)</i>	Shareholders' Capital (Note 11)	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>
Balance as at December 31, 2019	223,994	(172,566)	(2,775)	48,653
Repurchase of shares	(48)	-	-	(48)
Net income	-	1,829	-	1,829
Dividends	-	(576)	-	(576)
Other comprehensive income (loss)	-	-	(210)	(210)
<b>Balance as at March 31, 2020</b>	<b>223,946</b>	<b>(171,313)</b>	<b>(2,985)</b>	<b>49,648</b>

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

**INTERIM UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
**March 31, 2021 and 2020**

**CONSOLIDATED STATEMENT OF CASH FLOWS**

(\$'000 unless otherwise stated)	Three Months Ended	
	March 31,	
	2021	2020
Net income	6,464	1,829
Depreciation	1,467	1,544
Net financing costs	566	954
Deferred income tax expense (recovery)	(2)	454
Exchange revaluation of foreign denominated debt	(113)	838
Working capital adjustments		
Accounts receivable	(7,216)	(8,075)
Inventories	(1,887)	1,889
Accounts payable and accrued liabilities	(86)	9,246
Prepaid expenses	(454)	(174)
Income and other taxes	140	252
Other	(91)	(120)
<b>Net cash provided by (used in) operating activities</b>	<b>(1,212)</b>	<b>8,637</b>
Government rebates	-	650
Purchase of property, plant and equipment	(277)	(2,019)
<b>Net cash used in investing activities</b>	<b>(277)</b>	<b>(1,369)</b>
Term loans payments	(705)	(496)
Long-term debt payments	-	(295)
Lease interest paid	(312)	(346)
Lease principal payments	(393)	(431)
Other interest paid	(252)	(475)
Increase (repayment) of senior revolving facility	5,550	(986)
Dividend paid	(570)	(576)
Repurchase of common shares	(139)	(48)
<b>Net cash provided by (used in) financing activities</b>	<b>3,179</b>	<b>(3,653)</b>
Effect of exchange rate change on cash	(6)	46
Increase in cash	1,684	3,661
Cash - beginning of period	1,245	907
<b>Cash - end of period</b>	<b>2,929</b>	<b>4,568</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 three months ended March 31, 2021 and 2020 were authorized for issue in accordance with a resolution of the Board of Directors on May 6, 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 three months ended March 31, 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.

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

**March 31, 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 three months ended March 31, 2021, this cost of freight amounts to \$4.4 million (\$3.4 million in 2020).

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

	As at March 31, 2021	As at December 31, 2020
Current	31,411	22,386
Over 30 days past due	989	2,764
<b>Total accounts receivable</b>	<b>32,400</b>	<b>25,150</b>
Allowance for doubtful accounts	(365)	(331)
<b>Net accounts receivable</b>	<b>32,035</b>	<b>24,819</b>

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 \$32.0 million as at March 31, 2021 ( \$24.8 million as at December 31, 2020).

At the end of each reporting period a review of the allowance for bad and doubtful accounts is performed. It is an assessment of the expected credit loss associated with trade accounts receivable after the consolidated statement of financial position date. The assessment is made by reference to age, status and risk of each receivable, current economic conditions and historical information. The trade accounts receivable balance is reduced through the use of the allowance for doubtful accounts and the amount of the loss is recognized in the consolidated statement of operations. Reversals to the allowance for doubtful accounts occur when previously allowed for trade accounts receivable are collected. Individual trade accounts receivable, together with any associated allowance previously recognized, are written off when there is no realistic prospect of future recovery. Accounts receivable with related parties are discussed in Note 12.1.

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

	As at March 31, 2021	As at December 31, 2020
Opening balance - beginning of period	331	580
Additions during the period	103	169
Reversals during the period	-	(20)
Collections	(69)	(36)
Write-offs during the period	-	(366)
Foreign exchange revaluation	-	4
<b>Closing balance - end of period</b>	<b>365</b>	<b>331</b>

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 March 31, 2021	As at December 31, 2020
Raw materials	17,299	14,790
Finished and semi-finished products	19,866	20,465
Consumable supplies and spare parts	11,530	11,553
<b>Total inventory</b>	<b>48,695</b>	<b>46,808</b>

For the three month period ended March 31, 2021 and 2020, Tree Island recognized, in income, inventory costs for the following:

	Three Months Ended March 31,	
	2021	2020
Opening inventory	46,808	55,035
Material costs	40,199	34,680
Conversion costs	14,436	13,302
Closing inventory	(48,695)	(53,182)
<b>Cost of sales</b>	<b>52,748</b>	<b>49,835</b>

The reserves for slow moving inventory as at March 31, 2021 were \$1.3 million (\$1.4 million at March 31, 2020).

## 7 PROPERTY, PLANT AND EQUIPMENT

The carrying value of property, plant and equipment is reviewed each reporting period. For the purposes of testing for impairment, or the reversal of impairment, 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
<b>Cost</b>					
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	-	-	-	334	334
Disposals	-	-	-	-	-
Foreign exchange translation	(26)	(118)	(175)	(26)	(345)
As at March 31, 2021	9,723	46,841	42,853	1,052	100,469
<b>Depreciation and impairment</b>					
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	4	349	526	-	879
Disposals	-	-	-	-	-
Foreign exchange translation	(1)	(71)	(72)	-	(144)
As at March 31, 2021	73	36,472	21,603	-	58,148
<b>Net book value as at:</b>					
December 31, 2020	9,679	10,765	21,879	744	43,067
March 31, 2021	9,650	10,369	21,250	1,052	42,321

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

**March 31, 2021 and 2020**

**8 LEASES**

Below is a table of the carrying amounts of Tree Island’s right-of-use assets and lease liabilities and the related movements during the year:

**8.1 RIGHT OF USE ASSETS**

	Land & buildings	Machinery & equipment	Total right-of-use assets
<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	-	-	-
Disposals	-	-	-
Foreign exchange translation	(285)	(9)	(294)
As at March 31, 2021	31,188	2,190	33,378
<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	(482)	(105)	(587)
Disposals	-	-	-
Foreign exchange translation	47	6	53
As at March 31, 2021	(7,088)	(1,136)	(8,224)
<b>Carrying value as at:</b>			
December 31, 2020	24,820	1,162	25,982
March 31, 2021	24,100	1,054	25,154

**NOTES TO THE INTERIM UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS****March 31, 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
Interest expense	301	11	312
Payment of lease liability	(593)	(112)	(705)
Foreign exchange translation	(280)	(5)	(285)
Lease liability as at March 31, 2021	28,403	1,067	29,470
Less: current portion	(1,245)	(384)	(1,629)
Total as at March 31, 2021	27,158	683	27,841

**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

- \$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 \$163 thousand Letter of Credit outstanding as at March 31, 2021.

The amount available under the revolving portion of the Senior Credit Facility is limited to the amount of the calculated borrowing base as prescribed in the Senior Credit Facility, less issued Letters of Credit.

Interest payable on funds borrowed in Canadian or U.S. currency is at variable rates.

**NOTES TO THE INTERIM UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS****March 31, 2021 and 2020**

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

	As at March 31, 2021	As at December 31, 2020
Revolving portion of the senior credit facility	30,734	25,398
Deferred financing costs	(53)	(56)
<b>Total</b>	<b>30,681</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 March 31, 2021	As at December 31, 2020
Senior term loans - beginning of period	16,040	11,194
Advances	-	7,242
Foreign exchange revaluation	(113)	(272)
Payments	(705)	(2,124)
Senior term loans - end of period	15,222	16,040
Less: current portion	(2,807)	(2,825)
<b>Total</b>	<b>12,415</b>	<b>13,215</b>

March 31, 2021 and 2020

**10 FINANCING EXPENSES**

	<i>Notes</i>	Three Months Ended	
		March 31,	
		2021	2020
Accretion on long term debt		-	164
Interest on senior revolving credit facility	9.1	119	287
Interest on senior tem facility	9.2	74	89
Interest on lease liability		312	342
Other interest and financing costs		58	61
Amortization of deferred financing costs		3	8
<b>Total</b>		<b>566</b>	<b>951</b>

**11 SHAREHOLDERS' CAPITAL**

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

	Shares	Gross	Issuance Cost	Net
Shareholders' capital - December 31, 2019	28,831,637	235,394	11,400	223,994
Repurchase of common shares	(328,123)	(631)	-	(631)
Shareholders' capital - December 31, 2020	28,503,514	234,763	11,400	223,363
Repurchase of common shares	(51,737)	(139)	-	(139)
Shareholders' capital - March 31, 2021	28,451,777	234,624	11,400	223,224

The Company has an ongoing normal course issuer bid (the "Bid"). The current Bid is effective November 9, 2020 to November 8, 2021. The Bid allows 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.

For the period January 1, 2021 to March 31, 2021 the Company purchased 51,737 Shares under the Bid at a total cost of \$139 thousand (at an average price of \$2.69 per Share).

## 12 RELATED PARTY TRANSACTIONS

### 12.1 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 34.3% 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 month ended March 31, 2021, Tree Island sold, net of rebates, approximately \$0.9 million (\$0.7 million in 2020) of goods to CanWel and trade accounts receivable owing from CanWel as at March 31, 2021 is approximately \$0.3 million (approximately \$0.2 million in 2020). Outstanding trade accounts receivable from CanWel at period end are unsecured, interest free and settlement occurs in cash (Note 5).

### 12.2 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 ended March 31, 2021 was approximately \$0.3 million (\$0.3 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.

## 13 INCOME TAXES

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

	Three Months Ended March 31,	
	2021	2020
Current tax expense	(2,159)	(252)
Deferred tax recovery (expense)	2	(454)
<u>Total in the Consolidated Statement of Operations</u>	<u>(2,157)</u>	<u>(706)</u>

**14 FINANCIAL INSTRUMENTS****14.1 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 \$0.3 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 March 31, 2021		As at December 31, 2020	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Cash and cash equivalent	2,929	2,929	1,245	1,245
Accounts receivable	32,035	32,035	24,819	24,819
<b>Total financial assets</b>	<b>34,964</b>	<b>34,964</b>	<b>26,064</b>	<b>26,064</b>
Senior revolving facility	30,734	30,734	25,398	25,398
Accounts payable, accrued and other current liabilities	17,652	17,652	17,770	17,770
Senior term loans	15,222	15,222	16,040	16,040
Lease Liabilities	29,470	29,470	30,148	30,148
<b>Total financial liabilities</b>	<b>93,078</b>	<b>93,078</b>	<b>89,356</b>	<b>89,356</b>



## **14.2 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.

## **15 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.

### **15.1 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.

### **15.2 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****March 31, 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 March 31, 2021 and December 31, 2020:

	Carrying Amount	Contractual Cash Flow	Less Than 1	1 - 2 Years	Greater Than 2
<b>As at March 31, 2021</b>					
Senior revolving facility	30,734	30,734	-	-	30,734
Accounts payable, accrued and other liabilities	17,741	17,741	17,741	-	-
Senior term loans (principal)	15,222	15,222	2,807	5,614	6,801
Senior term loans (interest)	-	1,195	308	252	635
Lease liability	29,470	43,562	2,832	2,778	37,952
	<u>93,167</u>	<u>108,454</u>	<u>23,688</u>	<u>8,644</u>	<u>76,122</u>
<b>As at December 31, 2020</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
	<u>89,453</u>	<u>103,914</u>	<u>23,937</u>	<u>8,860</u>	<u>71,117</u>

**15.3 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 March 31, 2021, the Company had no outstanding U.S. dollar currency forward contracts.

For the three months ended March 31, 2021, a \$0.01 change in the Canadian dollar to U.S. dollar exchange rate will increase (decrease) net comprehensive income by \$0.2 million.

## NOTES TO THE INTERIM UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2021 and 2020

### 15.4 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 \$0.3 million annually. Tree Island does not use derivative instruments to manage the interest rate risk.

### 15.5 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, 2021 the Company had no outstanding zinc forward contracts.

## 16 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 March 31, 2021	As at December 31, 2020
Total shareholders' equity	56,548	51,069
Senior revolving facility	30,734	25,398
Lease liabilities	29,470	16,040
Senior term loans	15,222	30,148
<b>Total capital</b>	<b>131,974</b>	<b>122,655</b>

**17 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, 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 March 31,	
	2021	2020
Net income for the period	6,464	1,829
Weighted average number of Shares outstanding:	28,816,136	29,151,278
<u>Net income per share (\$/share)</u>	<u>0.22</u>	<u>0.06</u>

**18 PROVISIONS AND COMMITMENTS****18.1 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. The Company received a proposal letter from the Canada Revenue Agency ("CRA") wherein the CRA stated that it proposed to disallow certain intercompany bad debt and capital losses for the year ended December 31, 2015. A Notice of Reassessment has not been issued. The Company disagrees with the CRA's position and believes that no provisions are necessary with respect to this matter at this time.

**18.2 PURCHASE COMMITMENTS**

As at March 31, 2021, Tree Island's wholly owned subsidiaries have committed to material purchases (including finished goods) totaling \$44.0 million (\$34.5 million - March 31, 2020).

## 19 SEGMENTED INFORMATION

### 19.1 MARKET SEGMENTS

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

	Three Months Ended March 31,	
	2021	2020
Industrial	22,429	19,210
Commercial	12,829	13,289
Agricultural	14,075	10,345
Residential	17,509	15,149
<b>Total revenue</b>	<b>66,842</b>	<b>57,993</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.

### 19.2 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 March 31,	
	2021	2020
United States	42,648	34,383
Canada	22,995	21,230
International	1,199	2,380
<b>Total revenue</b>	<b>66,842</b>	<b>57,993</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 March 31, 2021	As at December 31, 2020
United States	33,495	34,088
Canada	35,184	36,380
<b>Total non-current assets</b>	<b>68,679</b>	<b>70,468</b>

## 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 or  
[amahdavi@treeisland.com](mailto:amahdavi@treeisland.com)

### Auditors:

KPMG LLP  
Vancouver, B.C.

