



WIRE & WIRE PRODUCTS

ESTABLISHED IN 1964



**Quarterly Report
Q2 2020**

Since 1964, Tree Island Steel has been making products from steel wire for a diverse range of customers for industrial, construction, agricultural, and specialty applications.

Our products include welded wire mesh, fencing, galvanized wire, bright wire, a broad array of fasteners, stucco reinforcing products, and other fabricated wire products. We market these products under the Tree Island®, Halsteel®, True Spec®, K-Lath®, TI Wire®, Tough Strand® and ToughPanel™ brand names.

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

MANAGEMENT DISCUSSION AND ANALYSIS..... 2
INTERIM UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS..... 18
SHAREHOLDER INFORMATION back cover



Wire rod delivery at the Richmond, BC, facility.

TO OUR SHAREHOLDERS

Letter to Shareholders

We are closely following and addressing the impacts of the Covid-19 pandemic on our business. We are also diligently mapping our path forward through this new “normal”, regularly consulting with relevant authorities and healthcare professionals, as well as, closely monitoring and adhering to government guidance to assess the external environment and to update protocols in all our facilities. Importantly, our safety-first approach continues to guide our decision making, ensuring that the health and well-being of our employees is our top priority at all times.

There is significant uncertainty and unpredictability due to the pandemic, with an unclear line of sight into the future. As such, we continue to take specific actions to protect our business. Cost measures are closely tracked and actively managed, from inventory control through to production efficiency initiatives. Market changes and product mix are carefully evaluated and adjusted to support customers in this rapidly changing environment.

The second quarter of 2020 demonstrated the success of our rigorous cost focus, despite the reduction in sales volume due to lower market demand from temporary non-essential business closures, as well as, shelter-at-home government orders. Although the economic effects associated with the ongoing pandemic are unknown, we remain diligently focused on meeting changing market needs while supporting new wire product opportunities.

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

Sincerely,

Amar S. Doman
Executive Chairman of the Board of Directors

MANAGEMENT DISCUSSION AND ANALYSIS

June 30, 2020

The following is a discussion of the financial condition and results of operations of Tree Island Steel ("Tree Island" or the "Company") and its wholly owned operating subsidiary Tree Island Industries (together with Tree Island Steel, referred to as "Tree Island"). This discussion is current to July 29, 2020 and should be read in conjunction with the unaudited interim condensed consolidated financial statements for six months ended June 30, 2020. Tree Island Steel's unaudited interim condensed consolidated financial statements are prepared in accordance with International Financial Reporting Standards ("IFRS") and are reported in Canadian dollars. Additional information relating to Tree Island Steel, including the audited consolidated financial statements and Annual Information Form ("AIF") for the year ended December 31, 2019, can be found at www.sedar.com or on Tree Island Steel's website at www.treeisland.com.

1 FORWARD LOOKING STATEMENTS AND RISK

This management's discussion and analysis ("MD&A") includes forward-looking information with respect to Tree Island Steel, including our business, operations and strategies, as well as financial performance and conditions. The use of forward-looking words such as, "may," "will," "expect" or similar variations generally identify such statements. Any statements that are not statements of historical fact should be considered to be forward-looking statements. Although we believe that the forward-looking statements are reasonable, they involve risks and uncertainties, including the risks and uncertainties discussed under the heading "Risks Relating to the Company's Business" in the Company's AIF for the year ended December 31, 2019.

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

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

2 NON-IFRS MEASURES

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

3 TREE ISLAND STEEL

Since 1964, Tree Island has been making products from steel wire for a diverse range of customers and applications. Tree Island Steel, following a conversion from an income trust to a corporate entity, was incorporated under the laws of Canada on August 2, 2012, and the units of the income fund were converted to common shares in Tree Island Steel.

There were 28,658,673 Shares outstanding as of June 30, 2020 and 28,628,821 Shares outstanding as of July 29, 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 Vineyard wire and barbed wire Livestock panels	Agriculture, farming	North America
Commercial Construction	Tree Island®, TI Wire®	Welded wire mesh Concrete reinforcing products	Commercial construction, mining, infrastructure projects	North America and International
Residential Construction	Tree Island®, Halsteel®, K-Lath®, True Spec® ToughPanel™	Collated, bulk and packaged nails Stucco reinforcing mesh Welded wire panels	Construction and renovation for new and existing homes	North America

3.4 SEASONALITY

Our operations are impacted by the seasonal nature of the various industries we serve, primarily the construction and agriculture industries. Accordingly, revenues, sales volumes and operating results for interim quarters are not necessarily indicative of the results that may be expected for the full fiscal year and fourth quarter results are traditionally lower than other quarters due to the onset of winter and the corresponding reduction in construction and agricultural activities.

4 2020 BUSINESS OVERVIEW AND DEVELOPMENT

4.1 BUSINESS OVERVIEW

Revenues earned in the second quarter of 2020 amounted to \$50.5 million compared to \$52.6 million in the same period last year, a 4.1% decrease. This decrease is mostly attributable to lower sales volumes in our Commercial and Residential Constructions segments, as a result of the Covid-19 regional shelter-at-home government orders negatively impacting demand. Improved product mix and cost management resulted in a gross profit increase of 21% to \$5.9 million in the quarter, compared to \$4.9 million in the same period last year. The resulting gross profit margin for the quarter was 11.8% compared to 9.3% in Q2 2019. EBITDA for the period amounted to \$4.0 million compared to \$2.6 million in the second quarter of 2019.

For the six months ending June 30, 2020, revenues amounted to \$108.5 million compared to \$105.6 in the same period in 2019, representing a 2.8% increase. The increase is primarily attributable to higher shipped volumes, with growth in the Industrial market segment. Gross profit increased during the period to \$12.6 million, which represents a 30.0% increase when compared to \$9.7 million in the same period last year. Gross margin also increased from 9.2% in 2019 to 11.6% in the current period. The increase in gross profit for the period is primarily the result of higher sales volumes, improved efficiencies and cost management. The higher gross margin and reduced selling, general and administrative (SG&A) costs also resulted in a higher EBITDA of \$9.0 million when compared to the \$4.4 million in the same period in 2019.

4.2 APPOINTMENT OF PRESIDENT

Effective May 7, 2020, Remy Stachowiak was appointed as President of the Company. Mr. Stachowiak will also continue in his role as Chief Operating Officer of the Company. As President of Tree Island Steel, Mr. Stachowiak will continue to lead all operations, as well as, global procurement, sales, marketing, customer service and engineering functions of Tree Island Steel. Remy has more than 33 years of industrial, global and management experience. Prior to joining Tree Island Steel in 2013, Mr. Stachowiak served as President and COO of STT Stanco (Division of Semcan Inc).

4.3 COVID-19 DEVELOPMENT

The Company cautions that going forward, current economic uncertainty with respect to the Covid-19 pandemic and its effect on the broader global economy could have negative effects on demand for the Company's products and could negatively impact revenues and gross profit.

The Covid-19 pandemic has resulted in wide-spread and extended shutdown of businesses throughout the world, which may in turn result in disruptions or delays to our supply chain and customer base. Such disruptions might include temporary closures of third-party supplier facilities, interruptions to construction activity or restrictions on the export or shipment of our products. Any such interruptions may impact our costs, sales and ability to pursue other strategic initiatives.

The operational and financial impact of Covid-19 on the Company's business activities are unknown at the moment, as the extent to which the pandemic could have an impact on results will depend on future developments, which are very uncertain and cannot be predicted at the time of this filing.

In the interest of protecting our employees and supply chain partners, the Company has implemented multiple measures to protect the health and safety of our employees, while limiting exposure and preventing the spread of the Covid-19 virus.

Since the beginning of this pandemic and as at July 29, 2020 all of our facilities remain open and operational.

5 RESULTS FROM OPERATIONS

(\$'000 unless otherwise stated)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2020	2019	2020	2019
Revenue	50,466	52,618	108,463	105,560
Cost of sales	(43,014)	(46,158)	(92,849)	(92,847)
Depreciation	(1,507)	(1,547)	(3,051)	(3,046)
Gross profit	5,945	4,913	12,563	9,667
Selling, general and administrative expenses	(3,191)	(3,776)	(7,049)	(8,028)
Operating income	2,754	1,137	5,514	1,639
Foreign exchange gain (loss)	(294)	(85)	436	(256)
Gain (loss) on property, plant and equipment	(12)	3	(12)	3
Restructuring and other expenses	(77)	(255)	(77)	(267)
Financing expenses	(790)	(1,258)	(1,753)	(2,479)
Income (loss) before income taxes	1,581	(458)	4,108	(1,360)
Income tax (expense) recovery	(481)	(77)	(1,191)	(271)
Net income (loss)	1,100	(535)	2,917	(1,631)
Net income/ (loss) per share	0.04	(0.02)	0.10	(0.06)
Dividends per share	0.02	0.02	0.04	0.04

Financial Position as at:	June 30, 2020	December 31, 2019
Total assets	156,227	159,122
Total non-current financial liabilities	79,773	85,627

6 EBITDA

(\$'000 unless otherwise stated)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2020	2019	2020	2019
Operating income (loss)	2,754	1,137	5,514	1,639
Add back depreciation	1,507	1,547	3,051	3,046
Foreign exchange gain (loss)	(294)	(85)	436	(256)
EBITDA ¹	3,967	2,599	9,001	4,429

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

(\$'000 unless otherwise stated)	2020	2019	Variance Fav/(Unfav)	
SALES	50,466	52,618	(2,152)	(4.1%)

The decrease in revenues over the prior year by 4.1% is primarily attributable to lower sales volumes in our Commercial and Residential Constructions segments, in both U.S. and Canada, as a result of the Covid-19 regional shelter-at-home government orders. Industrial segment sales increased over the comparative period; however, sales in the comparative period were suppressed on account of the U.S. Section 232 import tariff implementation against Canada.

Revenue by Market Segment

(\$'000 unless otherwise stated)

	Three months ended June 30,					
	2020		2019		Variance	
	Revenue	% of Total	Revenue	% of Total	Amount	%
Industrial	18,121	35.9%	15,732	29.9%	2,389	4.5%
Commercial	11,507	22.8%	14,747	28.0%	(3,240)	(6.2%)
Agricultural	7,608	15.1%	6,475	12.3%	1,133	2.2%
Residential	13,230	26.2%	15,664	29.8%	(2,434)	(4.6%)
Total revenue	50,466	100.0%	52,618	100.0%	(2,152)	(4.1%)

Revenues generated in Canada decreased over the same period last year as a result of lower demand with the Covid-19 regional shelter-at-home government orders, and temporary closure of certain customer's facilities.

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

Revenue by Location

(\$'000 unless otherwise stated)

	Three months ended June 30,					
	2020		2019		Variance	
	Revenue	% of Total	Revenue	% of Total	Amount	%
United States	33,243	65.9%	32,153	61.1%	1,090	3.4%
Canada	15,454	30.6%	18,639	35.4%	(3,185)	(17.1%)
International	1,769	3.5%	1,826	3.5%	(57)	(3.1%)
Total	50,466	100.0%	52,618	100.0%	(2,152)	(4.1%)
Average C\$/U.S.\$	1.3826		1.3374			

(\$'000 unless otherwise stated)	2020	2019	Variance Fav/(Unfav)	
COST OF SALES	43,014	46,158	3,144	6.8%

The cost of goods sold decreased when compared to prior year due to a rebalance in production mix to match the lower volumes in the quarter as part of our ongoing commitment to cost and inventory management.

(\$'000 unless otherwise stated)	2020	2019	Variance Fav/(Unfav)	
GROSS PROFIT	5,945	4,913	1,032	21.0%

Gross profit for the quarter amounted to \$5.9 million versus \$4.9 million during the same period in 2019, mainly the result improved product mix and better cost management. The gross profit margin for the period was 11.8% compared to 11.6% in the comparative period.

(\$'000 unless otherwise stated)	2020	2019	Variance Fav/(Unfav)	
SG&A EXPENSES	3,191	3,776	585	15.5%

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

(\$'000 unless otherwise stated)	2020	2019	Variance Fav/(Unfav)	
FINANCING EXPENSES	790	1,258	468	37.2%

Financing expenses decreased primarily due to a combination of lower average balance outstanding during the period and decreasing interest rates compared to the prior year period.

Financing Expense

(\$'000 unless otherwise stated)

	Three months ended June 30,			
	2020	2019	Variance Fav / (Unfav)	
			Amount	%
Non-cash financing expenses	145	210	65	31.0%
Interest on senior credit facility	173	422	249	59.0%
Interest on lease liability	347	359	12	3.3%
Other interest and financing costs	119	258	139	53.9%
Deferred financing costs	6	9	3	33.3%
Total financing expenses	790	1,258	468	37.2%

<i>(\$'000 unless otherwise stated)</i>	<u>2020</u>	<u>2019</u>	<u>Variance Fav/(Unfav)</u>	
FOREIGN EXCHANGE	(294)	(85)	(209)	(245.9%)

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

<i>(\$'000 unless otherwise stated)</i>	<u>2020</u>	<u>2019</u>	<u>Variance Fav/(Unfav)</u>	
INCOME TAX RECOVERY (EXPENSE)	(481)	(77)	(404)	(524.7%)

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

<i>(\$'000 unless otherwise stated)</i>	<u>2020</u>	<u>2019</u>	<u>Variance Fav/(Unfav)</u>	
NET INCOME (LOSS)	1,100	(535)	1,635	305.6%

The net income increase over the comparative period is attributable to the higher gross profit plus reductions in selling, general and administrative as well as financing expenses when compared to prior year.

8 COMPARISON OF RESULTS FOR THE SIX MONTHS ENDED JUNE 30, 2020 AND 2019

<i>(\$'000 unless otherwise stated)</i>	<u>2020</u>	<u>2019</u>	<u>Variance Fav/(Unfav)</u>	
SALES	108,463	105,560	2,903	2.8%

The increase in year-to-date revenues by 2.8% is primarily due to higher shipped volumes. Industrial segment sales increased over the comparative period; however, sales in the comparative period were suppressed on account of the U.S. Section 232 import tariff implementation against Canada. Residential and Commercial Construction market demand was softer during the period as a result of the Covid-19 regional shelter-at-home government orders.

Revenue by Market Segment

(\$'000 unless otherwise stated)

	Six months ended June 30,					
	2020		2019		Variance	
	<u>Revenue</u>	<u>% of Total</u>	<u>Revenue</u>	<u>% of Total</u>	<u>Amount</u>	<u>%</u>
Industrial	37,332	34.3%	31,511	29.9%	5,821	5.5%
Commercial	24,797	22.9%	27,270	25.8%	(2,473)	(2.3%)
Agricultural	17,954	16.6%	18,111	17.2%	(157)	(0.1%)
Residential	28,380	26.2%	28,668	27.2%	(288)	(0.3%)
Total revenue	<u>108,463</u>	<u>100.0%</u>	<u>105,560</u>	<u>100.0%</u>	<u>2,903</u>	<u>2.8%</u>

Revenues generated in Canada decreased over the same period last year as a result of lower demand following the Covid-19 regional shelter-at-home government orders and temporary closures of certain customer's facilities. U.S. revenues increased due to increasing demand in products that had been impacted by Section 232 tariffs in the prior year.

Revenue by Location

(\$'000 unless otherwise stated)

	Six months ended June 30,					
	2020		2019		Variance	
	Revenue	% of Total	Revenue	% of Total	Amount	%
United States	67,628	62.4%	58,723	55.6%	8,905	15.2%
Canada	36,686	33.8%	42,603	40.4%	(5,917)	(13.9%)
International	4,149	3.8%	4,234	4.0%	(85)	(2.0%)
Total	108,463	100.0%	105,560	100.0%	2,903	(2.8%)
Average C\$/U.S.\$	1.3632		1.3335			

(\$'000 unless otherwise stated)	2020	2019	Variance Fav/(Unfav)	
COST OF SALES	92,849	92,847	(2)	(0.0%)

The cost of goods sold remained flat when compared to prior period, despite the increase in product volume shipped, due to a rebalance in production mix, lower raw materials costs, and reduction in inventory levels as part of our ongoing commitment to cost management.

(\$'000 unless otherwise stated)	2020	2019	Variance Fav/(Unfav)	
GROSS PROFIT	12,563	9,667	2,896	30.0%

Gross profit for the period amounted to \$12.6 million versus \$9.7 million during the same period in 2019, which represent a 29.9% increase, mainly the result of higher sales volumes, improved efficiencies and cost management. The gross profit margin for the year-to date period was 11.6% compared to 9.2% in the comparative period.

(\$'000 unless otherwise stated)	2020	2019	Variance Fav/(Unfav)	
SG&A EXPENSES	7,049	8,028	979	12.2%

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

(\$'000 unless otherwise stated)	2020	2019	Variance Fav/(Unfav)	
FINANCING EXPENSES	1,753	2,479	726	29.3%

Financing expenses decreased primarily due to a lower average balance outstanding during the six month period and decreasing interest rates compared to the prior year period.

Financing Expense

(\$'000 unless otherwise stated)

	Six months ended June 30,			
	2020	2019	Variance Fav / (Unfav)	
			Amount	%
Non-cash financing expenses	306	425	119	28.0%
Interest on senior credit facility	460	884	424	48.0%
Interest on lease liability	693	716	23	3.2%
Other interest and financing costs	278	436	158	36.2%
Deferred financing costs	16	18	2	11.1%
Total financing expenses	1,753	2,479	726	29.3%

<i>(\$'000 unless otherwise stated)</i>	<u>2020</u>	<u>2019</u>	<u>Variance Fav/(Unfav)</u>	
FOREIGN EXCHANGE	436	(256)	692	270.3%

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

<i>(\$'000 unless otherwise stated)</i>	<u>2020</u>	<u>2019</u>	<u>Variance Fav/(Unfav)</u>	
INCOME TAX RECOVERY (EXPENSE)	(1,191)	(271)	(920)	(339.5%)

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

<i>(\$'000 unless otherwise stated)</i>	<u>YTD 2020</u>	<u>YTD 2019</u>	<u>Variance Fav/(Unfav)</u>	
NET INCOME (LOSS)	2,917	(1,631)	4,548	278.8%

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

9 FINANCIAL CONDITION AND LIQUIDITY

9.1 WORKING CAPITAL

A summary of the composition of our working capital at June 30, 2020 compared to prior year is provided below:

Working Capital

(\$'000 unless otherwise stated)

	As at June 30,	
	<u>2020</u>	<u>2019</u>
Cash	1,991	916
Accounts receivable	27,711	28,240
Inventories	48,032	66,129
Other current assets	2,255	4,469
Total current assets	<u>79,989</u>	<u>99,754</u>
Accounts payable and accrued liabilities	(20,271)	(19,154)
Dividends payable	(573)	(577)
Other current liabilities	(1,134)	(519)
Current portion of long term debt	(3,103)	(4,618)
Current portion of ROU lease liability	(1,595)	(1,751)
Total current liabilities	<u>(26,676)</u>	<u>(26,619)</u>
Net working capital	<u>53,313</u>	<u>73,135</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 at June 30, 2020 were slightly lower than the same period last year, reflecting the decrease in sales in Q2 2020 compared to the same period in the prior year.

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

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

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

9.2 CASH FLOW

Cash Flow

(\$'000 unless otherwise stated)

	Three Months Ended		Six months ended	
	June 30,		June 30,	
	2020	2019	2020	2019
Cash provided by operating activities	2,580	2,031	8,196	3,466
Working capital adjustments	4,001	2,755	7,212	6,213
Net cash provided by (used in) operating activities	6,581	4,786	15,408	9,679
Net cash used in investing activities	(42)	(340)	(1,599)	(938)
Advance on (repayment of) senior term loans	(498)	(494)	(994)	(986)
Repayment of long-term debt	(286)	(566)	(581)	(1,042)
Other payables	-	(13)	-	(22)
Lease interest paid	(347)	(359)	(693)	(716)
Interest paid	(347)	(689)	(822)	(1,345)
Deferred financing expenses	-	-	-	(39)
Advance on (repayment of) senior revolving facility	(6,411)	(1,694)	(7,397)	(2,217)
Dividend paid	(573)	(583)	(1,149)	(1,167)
Lease principal paid	(389)	(423)	(821)	(874)
Share buyback	(236)	(594)	(284)	(690)
Net cash provided by (used in) financing activities	(9,087)	(5,415)	(12,741)	(9,098)
Exchange rate changes on foreign cash balances	(29)	(1)	16	(4)
Increase (decrease) in cash balances	(2,577)	(970)	1,084	(361)

In the second quarter, net cash from operating activities has increased compared to Q2 2019 as a direct result of improved operational performance and income, and reductions in inventory. The net cash used in investing activities was from capital investments which are further described in Section 10. The net cash used by financing activities was primarily due to repayments on the senior revolving facility, long terms debt, lease obligations, dividend payments and share buybacks.

9.3 SENIOR CREDIT FACILITY

On July 1, 2018, the Company renewed its senior secured committed banking facility, maturing in June of 2023, which enables the Company to borrow up to \$80.0 million in Canadian and/or U.S. funds. Interest payable on funds borrowed in Canadian currency is at variable rates based on the Canadian Dollar Offered Rate ("CDOR") for Canadian dollar banker's acceptance. Interest payable on funds borrowed in U.S. currency is at variable rates based on the London Interbank Offered Rate ("LIBOR") for U.S. dollar deposits. For the revolving facility, up to \$60 million may be borrowed at any time in Canadian and/or U.S. dollars with the amount advanced under the revolving facility limited to a defined percentage of inventories, accounts receivable, machinery and equipment, and real estate, less certain reserves. In addition, up to \$20 million may be borrowed as term debt, in Canadian and/or U.S. dollars for financing existing machinery and equipment and future capital expenditures.

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

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

9.4 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 June 30, 2020 is \$6.1 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 consolidated financial statements).

10 CAPITAL EXPENDITURES AND CAPACITY

For the three months ended June 30, 2020, we made capital expenditures of \$0.1 million and for the year-to-date we made capital expenditures of \$2.1 million. These expenditures were for capital maintenance activities and new manufacturing equipment. As noted in section 11 of this MD&A there are no further capital equipment commitments in 2020.

11 CONTRACTUAL OBLIGATIONS AND COMMITMENTS

As of June 30, 2020, we were committed to the contracts, operating leases and debt repayments (including scheduled interest payments on interest bearing debt) set out below, which will be financed through working capital and our Senior Credit Facility.

The production materials include raw materials, such as wire rod and zinc, and finished goods. 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 Q4 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 disclosed as purchase commitments. As of June 30, 2020, the Company did not have any capital equipment commitments outstanding.

From time to time, the Company enters into U.S. dollar currency forward contracts for periods consistent with a portion of U.S. dollar currency transaction exposures, generally from one to three months. These are not designated as cash flow, fair value or net investment hedges. As of June 30, 2020, the Company did not have any U.S. dollar currency forward contracts outstanding.

Contractual Obligations and Commitments

(\$'000 unless otherwise stated)

	<u>2020</u>	<u>2021</u>	<u>2022</u>	<u>2023</u>	<u>2024</u>	<u>Thereafter</u>	<u>Total</u>
Production materials	32,721	-	-	-	-	-	32,721
AP and accrued liabilities	20,271	-	-	-	-	-	20,271
Other current liabilities	142	-	-	-	-	-	142
Dividends	573	-	-	-	-	-	573
Lease liabilities	1,464	2,935	2,985	2,638	2,506	36,249	48,777
Senior revolving facility	-	-	-	31,635	-	-	31,635
Senior term loans (principal)	993	1,986	1,986	1,986	1,986	1,416	10,353
Senior term loans (interest)	97	139	107	74	41	6	464
Long-term debt	564	1,128	1,128	814	775	4,537	8,946
Total financial liabilities	24,104	6,188	6,206	37,147	5,308	42,208	121,161
Total obligations and commitments	56,825	6,188	6,206	37,147	5,308	42,208	153,882

12 SUMMARY OF QUARTERLY FINANCIAL RESULTS

The table below provides selected quarterly financial information for the eight most recent fiscal quarters to June 30, 2020. Sales volumes in the fourth quarter of the year are traditionally lower in the year due to the seasonality of our business. Quarter-over-quarter results may also be impacted by unusual or infrequently occurring items. On adoption of IFRS 16 Leases, the comparative information presented for 2018 have not been restated and is presented as previously reported.

Summary of Quarterly Financial Results

(\$'000 unless otherwise stated)

	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>	Mar 31, <u>2019</u>	Dec 31, <u>2018</u>	Sep 30, <u>2018</u>
Revenue	50,466	57,993	45,144	49,701	52,618	52,942	44,882	55,846
Gross profit	5,945	6,614	3,482	4,623	4,912	4,754	3,686	6,936
Foreign exchange gain (loss)	(294)	730	(490)	70	(85)	(171)	408	(77)
Net income (loss)	1,100	1,829	(3,199)	(359)	(536)	(1,096)	(2,334)	1,030
Net income (loss) per unit - basic	0.04	0.6	(0.11)	(0.01)	(0.02)	(0.04)	(0.08)	0.03

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, 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.

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

13 ACCOUNTING POLICIES AND STATEMENTS

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

Our significant accounting policies are described in Note 3 of the December 31, 2019 Consolidated Financial Statements and in the Annual Information Form for the year ended December 31, 2019 and Note 3 of the June 30, 2020 interim unaudited condensed consolidated financial statements.

13.1 CRITICAL ACCOUNTING ESTIMATES

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

14 RELATED PARTY TRANSACTIONS

14.1 TRANSACTIONS WITH ASSOCIATED COMPANIES

The Futura Corporation (“Futura”) is considered to be a related party to the Company because of its share ownership interest and the fact that Mr. Doman, the sole shareholder and president of Futura, and Mr. Rosenfeld, the Executive Vice President of Futura, sit on the Board of Directors.

Based on Tree Island Steel’s outstanding Shares as at July 29, 2020, Futura owns 32.7% of the fully diluted Shares of the Company.

In addition, Mr. Doman is Chairman and CEO of CanWel Building Materials Group Ltd. (“CanWel”). For the three and six months ended June 30, 2020, Tree Island sold, net of rebates, approximately \$0.6 million and \$1.3 million respectively (\$1.0 million and \$1.9 million in 2019) of goods to CanWel and trade accounts receivable owing from CanWel as at June 30, 2020 is approximately \$0.2 million (approximately \$0.3 million in 2019). Outstanding trade accounts receivable from CanWel at period end are unsecured, interest free and settlement occurs in cash.

14.2 TRANSACTIONS WITH KEY MANAGEMENT PERSONNEL

Included in the definition of key management for purposes of disclosure of related party transactions are members of Board of Directors and officers of Tree Island Steel. Amounts for key management personnel for the three and Six months ended June 30, 2020 was approximately \$0.3 million and \$0.6 million respectively (\$0.5 million and \$1.2 million approximately in 2019) which includes wages, salaries and retirement contributions, paid annual and sick leave, vehicle costs and also includes directors’ fees paid to members of the Board.

15 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.

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 June 30, 2020. These executives also certified that they are responsible for the design of disclosure controls and procedures and internal control over financial reporting. There have been no changes in internal control over financial reporting during the quarter ended June 30, 2020, that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

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

INTERIM UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2020 and 2019

NOTICE OF NO AUDITOR REVIEW OF INTERIM FINANCIAL STATEMENTS

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

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

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

July 29, 2020

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

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

(\$'000 unless otherwise stated)

	As at June 30, 2020	As at December 31, 2019
Cash	1,991	907
Accounts receivable <i>(Notes 5, 13.1)</i>	27,711	24,250
Inventories <i>(Note 6)</i>	48,032	55,034
Prepaid and other current assets	2,255	3,332
Income taxes recoverable	-	427
Current assets	79,989	83,950
Property, plant and equipment <i>(Notes 7, 19.2)</i>	45,591	44,980
Right of use assets <i>(Note 8)</i>	28,601	28,700
Other non-current assets	2,046	1,492
Total assets	156,227	159,122
Accounts payable and accrued liabilities	20,271	18,402
Income taxes payable	992	-
Other current liabilities	142	238
Dividends payable	573	577
Current portion of long-term debt and senior term loans <i>(Notes 9.2, 10)</i>	3,103	4,057
Current portion of lease liabilities <i>(Note 8)</i>	1,595	1,568
Current liabilities	26,676	24,842
Senior revolving facility <i>(Note 9.1)</i>	31,635	38,162
Senior term loans <i>(Note 9.2)</i>	8,367	9,234
Long-term debt <i>(Note 10)</i>	5,019	4,010
Lease Liability <i>(Note 8)</i>	30,986	30,517
Other non-current liabilities	543	518
Deferred income tax liability <i>(Note 14.1)</i>	3,223	3,186
Total liabilities	106,449	110,469
Shareholders' equity	49,778	48,653
Total liabilities and shareholders' equity	156,227	159,122

See accompanying Notes to the Consolidated Financial Statements

Approved on behalf of Tree Island Steel.

[Signed]

"Amar S. Doman"

Chairman of the Board of Directors

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

CONSOLIDATED STATEMENTS OF OPERATIONS

(\$'000 unless otherwise stated)

	Three Months Ended		Six months ended	
	June 30,		June 30,	
	2020	2019	2020	2019
Sales (Notes 13.1, 20)	50,466	52,618	108,463	105,560
Cost of sales (Note 6)	(43,014)	(46,158)	(92,849)	(92,847)
Depreciation	(1,507)	(1,547)	(3,051)	(3,046)
Gross profit	5,945	4,913	12,563	9,667
Selling, general and administrative expenses	(3,191)	(3,776)	(7,049)	(8,028)
Operating income	2,754	1,137	5,514	1,639
Foreign exchange gain (loss)	(294)	(85)	436	(256)
Gain (loss) on sale of property, plant and equipment	(12)	3	(12)	3
Restructuring and other expenses	(77)	(255)	(77)	(267)
Financing expenses (Note 11)	(790)	(1,258)	(1,753)	(2,479)
Income (loss) before income taxes	1,581	(458)	4,108	(1,360)
Income tax recovery (expense) (Note 14)	(481)	(77)	(1,191)	(271)
Net income (loss)	1,100	(535)	2,917	(1,631)
Net income (loss) per share (Note 18)	0.04	(0.02)	0.10	(0.06)
Dividends per share	0.02	0.02	0.04	0.04
Weighted average number of shares (Note 18)	28,792,141	28,991,481	28,958,196	29,081,635

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

(\$'000 unless otherwise stated)

	Three Months Ended		Six months ended	
	June 30,		June 30,	
	2020	2019	2020	2019
Net income (loss) for the year	1,100	(535)	2,917	(1,631)
Unrealized gain (loss) on foreign exchange translation	(161)	(33)	(371)	(84)
Comprehensive income (loss)	939	(568)	2,546	(1,715)

See accompanying Notes to the Consolidated Financial Statements

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

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

(\$'000 unless otherwise stated)

	Shareholders' Capital <i>(Note 12)</i>	Retained Earnings	Accumulated Other Comprehensive Loss	Total
Balance as at December 31, 2019	223,994	(172,566)	(2,775)	48,653
Repurchase of shares	(48)	-	-	(48)
Net income	-	1,829	-	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
Repurchase of shares	(236)	-	-	(236)
Net income	-	1,100	-	1,100
Dividends	-	(573)	-	(573)
Other comprehensive income (loss)	-	-	(161)	(161)
Balance as at June 30, 2020	223,710	(170,786)	(3,146)	49,778
Balance as at December 31, 2018	224,715	(163,354)	(2,735)	58,626
Accounting policy change <i>(Note 8)</i>	-	(1,708)	-	(1,708)
Adjusted balance at January 1, 2019	224,715	(165,062)	(2,735)	56,918
Repurchase of shares	(96)	-	-	(96)
Net income (loss)	-	(1,095)	-	(1,095)
Dividends	-	(583)	-	(583)
Other comprehensive income (loss)	-	-	(51)	(51)
Balance as at March 31, 2019	224,619	(166,740)	(2,786)	55,093
Repurchase of shares	(594)	-	-	(594)
Net income (loss)	-	(535)	-	(535)
Dividends	-	(577)	-	(577)
Other comprehensive income (loss)	-	-	(33)	(33)
Balance as at June 30, 2019	224,025	(167,852)	(2,819)	53,368

See accompanying Notes to the Consolidated Financial Statements

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

(\$'000 unless otherwise stated)

	Three Months Ended		Six months ended	
	June 30,		June 30,	
	2020	2019	2020	2019
Net income (loss)	1,100	(535)	2,917	(1,631)
Depreciation	1,507	1,547	3,051	3,046
Loss (Gain) on sale of property, plant and equipment	(12)	(3)	(12)	(3)
Net financing costs	790	1,258	1,753	2,479
Deferred income tax expense (recovery)	(416)	(15)	38	40
Exchange revaluation of foreign denominated debt <i>(Note 9, 10)</i>	(389)	(221)	449	(465)
Working capital adjustments				
Accounts receivable	4,613	2,884	(3,461)	(4,113)
Inventories	5,114	730	7,003	15,491
Accounts payable and accrued liabilities	(7,129)	(1,524)	2,139	(3,955)
Prepaid expenses	718	2,476	543	244
Income and other taxes	897	(40)	1,149	98
Other	(212)	(1,771)	(161)	(1,552)
Net cash provided by (used in) operating activities	6,581	4,786	15,408	9,679
Government rebates	165	-	816	-
Purchase of property, plant and equipment	(207)	(340)	(2,415)	(938)
Net cash used in investing activities	(42)	(340)	(1,599)	(938)
Term loans – advances (repayment), net <i>(Note 9.2)</i>	(498)	(494)	(994)	(986)
Repayment of long-term debt <i>(Note 10)</i>	(286)	(566)	(581)	(1,042)
Other financing liabilities	-	(13)	-	(22)
Lease interest paid	(347)	(359)	(693)	(716)
Lease principal payments	(389)	(423)	(821)	(874)
Other interest paid	(347)	(689)	(822)	(1,345)
Deferred financing fees	-	-	-	(39)
Advance on (repayment of) senior revolving facility	(6,411)	(1,694)	(7,397)	(2,217)
Dividend paid	(573)	(583)	(1,149)	(1,167)
Repurchase of common shares	(236)	(594)	(284)	(690)
Net cash provided by (used in) financing activities	(9,087)	(5,415)	(12,741)	(9,098)
Effect of exchange rate change on cash	(29)	(1)	16	(4)
Increase (decrease) in cash	(2,577)	(970)	1,084	(361)
Cash - beginning of period	4,568	1,886	907	1,277
Cash - end of period	1,991	916	1,991	916

See accompanying Notes to the Consolidated Financial Statements

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2020 and 2019

1 NATURE OF BUSINESS

These interim unaudited condensed consolidated financial statements of Tree Island Steel ("Tree Island Steel" or the "Company") for the six months ended June 30, 2020 and 2019 were authorized for issue in accordance with a resolution of the Board of Directors on July 29, 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 six months ended June 30, 2020 have been prepared in accordance with International Accounting Standard ("IAS" 34, "Interim Financial Reporting"). They should be read in conjunction with the annual consolidated financial statements and the notes thereto for the year ended December 31, 2019 and do not include all information required for the full annual financial statements. Certain comparative information has been reclassified to conform to the presentation adopted during the period.

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

3 SIGNIFICANT ACCOUNTING POLICIES, CRITICAL ACCOUNTING JUDGEMENTS AND ESTIMATES

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

4 FUTURE IFRS STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2020 and 2019

5 ACCOUNTS RECEIVABLE

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

(\$'000 unless otherwise stated)

	As at June 30, 2020	As at December 31, 2019
Current	25,095	21,462
Over 30 days past due	3,136	3,368
Total accounts receivable	28,231	24,830
Allowance for doubtful accounts	(520)	(580)
Net accounts receivable	27,711	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 \$27.7 million as at June 30, 2020 (\$24.3 million as at December 31, 2019).

At the end of each reporting period a review of the allowance for bad and doubtful accounts is performed. It is an assessment of the expected credit loss associated with trade accounts receivable after the consolidated statement of financial position date. The assessment is made by reference to age, status and risk of each receivable, current economic conditions and historical information. The trade accounts receivable balance is reduced through the use of the allowance for doubtful accounts and the amount of the loss is recognized in the consolidated statement of operations. Reversals to the allowance for doubtful accounts occur when previously allowed for trade accounts receivable are collected. Individual trade accounts receivable, together with any associated allowance previously recognized, are written off when there is no realistic prospect of future recovery. Accounts receivable with related parties are discussed in Note 13.1.

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

(\$'000 unless otherwise stated)

	As at June 30, 2020	As at December 31, 2019
Opening balance – beginning of period	580	324
Additions during the period	95	294
Reversals during the period	(60)	18
Collections	-	(6)
Write-offs during the period	(75)	(72)
Foreign exchange revaluation	(20)	22
Closing balance – end of period	520	580

See Note 16 on credit risk of trade receivables to understand how credit quality of accounts receivable that are neither past due nor impaired are managed and measured.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2020 and 2019

6 INVENTORIES

Tree Island had the following categories of inventory:

(\$'000 unless otherwise stated)

	As at June 30, 2020	As at December 31, 2019
Raw materials	13,755	13,319
Finished and semi-finished products	22,513	29,708
Consumable supplies and spare parts	11,764	12,007
Total inventory	<u>48,032</u>	<u>55,034</u>

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

(\$'000 unless otherwise stated)

	Three months ended June 30,		Six months ended June 30,	
	<u>2020</u>	<u>2019</u>	<u>2020</u>	<u>2019</u>
Opening inventory	53,146	66,858	55,034	81,619
Material purchases	25,174	33,174	59,156	52,398
Conversion costs	12,726	12,255	26,691	24,959
Closing inventory	<u>(48,032)</u>	<u>(66,129)</u>	<u>(48,032)</u>	<u>(66,129)</u>
Cost of sales	<u>43,014</u>	<u>46,158</u>	<u>92,849</u>	<u>92,847</u>

At each year end, the ending inventories on hand are reviewed to determine if a write down to net realizable value is required. Based on this review, it was determined that no write-downs were necessary in the three and six months ended June 30, 2020 and 2019. The reserves for slow moving inventory as at June 30, 2020 were \$1.2 million (\$1.3 million at June 30, 2019).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2020 and 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 no capital commitments as at June 30, 2020.

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	-	31	1,618	(48)	1,601
Disposals	-	-	-	-	-
Foreign exchange translation	102	482	692	26	1,302
As at June 30, 2020	9,867	47,215	43,577	1,472	102,131
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	8	699	1,062	-	1,769
Disposals	-	-	-	-	-
Foreign exchange translation	3	258	262	-	523
As at June 30, 2020	66	35,887	20,587	-	56,540
Net book value as at					
December 31, 2019	9,710	11,772	22,004	1,494	44,980
June 30, 2020	9,801	11,328	22,990	1,472	45,591

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2020 and 2019

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 period:

(\$'000 unless otherwise stated)

	Land & buildings	Machinery & equipment	Total right-of-use assets
Cost			
As at January 1, 2019	33,580	2,405	35,985
Additions	1,217	270	1,487
Disposals	-	(151)	(151)
Change in lease duration	(782)	-	(782)
Foreign exchange translation	(1,190)	(47)	(1,237)
As at December 31, 2019	32,825	2,477	35,302
Additions	-	149	149
Disposals	(885)	(404)	(1,289)
Foreign exchange translation	1,165	45	1,210
As at June 30, 2020	33,105	2,267	35,372
Depreciation and impairment			
As at January 1, 2019	(3,460)	(643)	(4,103)
Depreciation for the period	(2,230)	(492)	(2,722)
Disposals	-	115	115
Foreign exchange translation	81	27	108
As at December 31, 2019	(5,609)	(993)	(6,602)
Depreciation for the period	(1,049)	(233)	(1,282)
Disposals	885	404	1,289
Foreign exchange translation	(144)	(32)	(176)
As at June 30, 2020	(5,917)	(854)	(6,771)
Carrying value as at:			
December 31, 2019	27,216	1,484	28,700
June 30, 2020	27,188	1,413	28,601

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2020 and 2019

(\$'000 unless otherwise stated)

	Land & buildings	Machinery & equipment	Total lease liability
Lease liability			
As at January 1, 2019	32,670	1,781	34,451
New contracts and renewals	1,217	270	1,487
Contract disposal	-	(38)	(38)
Change in lease duration	(856)	-	(856)
Interest expense	1,354	63	1,417
Payment of lease liability	(2,550)	(581)	(3,131)
Foreign exchange translation	(1,221)	(24)	(1,245)
Lease liability as at December 31, 2019	30,614	1,471	32,085
Less: current portion	(1,164)	(404)	(1,568)
Total	29,450	1,067	30,517
As at December 31, 2019	30,614	1,471	32,085
New contracts and renewals	-	149	149
Interest expense	660	33	693
Payment of lease liability	(1,264)	(250)	(1,514)
Foreign exchange translation	1,158	10	1,168
Lease liability as at June 30, 2020	31,168	1,413	32,581
Less: current portion	(1,169)	(426)	(1,595)
Total	29,999	987	30,986

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 \$41 thousand Letter of Credit outstanding as at June 30, 2020.

The amount available under the revolving portion of the Senior Credit Facility is limited to the amount of the borrowing base calculated based on certain formulas mandated by the Senior Facility, less issued Letters of Credit.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2020 and 2019

Interest payable on funds borrowed in Canadian currency is at variable rates based on the Canadian Dollar Offered Rate (“CDOR”) for Canadian dollar banker’s acceptance. Interest payable on funds borrowed in U.S. currency is at variable rates based on the London Interbank Offered Rate (“LIBOR”) for U.S. dollar deposits.

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

(\$’000 unless otherwise stated)

	As at June 30, 2020	As at December 31, 2019
Revolving portion of the senior credit facility	31,635	38,162
Deferred financing costs	(46)	(59)
Total	<u>31,589</u>	<u>38,103</u>

The revolving portion of the Senior Credit Facility denominated in U.S. dollars as at June 30, 2020 is \$14.7 million (\$19.6 million at June 30, 2019).

Deferred financing costs are included in other non-current assets on the consolidated statement of financial position.

The Senior Credit Facility has financial tests and other covenants with which the Company and its subsidiaries must comply, the primary one being based on the remaining funds within the senior credit facility that is available (“Availability Test”). Only if the Availability Test falls below a certain threshold then other covenants, which include a rolling four quarters defined fixed charge coverage ratio of 1:1, are tested. As well, the Senior Credit Facility contains restrictive covenants that limit the discretion of the Company’s management with respect to certain business matters. These covenants place restrictions on, among other things, the ability of the Company’s operating subsidiaries to incur additional indebtedness, to create liens or other encumbrances, to pay dividends or make certain other payments, investments, loans and guarantees and to sell or otherwise dispose of assets and merge or consolidate with another entity.

As at June 30, 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 June 30, 2020	As at December 31, 2019
Senior term loans - beginning of period	11,194	13,335
Advances	-	-
Foreign exchange revaluation	153	(171)
Payments	(994)	(1,970)
Senior term loans - end of period	<u>10,353</u>	<u>11,194</u>
Less: current portion	(1,986)	(1,960)
Total	<u>8,367</u>	<u>9,234</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2020 and 2019

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. 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 June 30, 2020	As at December 31, 2019
Beginning of period	6,106	7,916
Payments	(575)	(2,224)
Foreign exchange revaluation	299	(352)
Accretion of debt discount	306	767
End of period	6,136	6,107
Less: current portion	(1,117)	(2,097)
Net long-term debt	<u>5,019</u>	<u>4,010</u>

11 FINANCING EXPENSES

(\$'000 unless otherwise stated)

	Three months ended June 30,		Six months ended June 30,	
	2020	2019	2020	2019
Non-cash accretion of debt discount and interest on long term debt	145	210	306	425
Interest on senior credit facility (Note 9.1)	173	422	460	884
Interest on lease liability	347	359	693	716
Other interest and financing costs	119	258	278	436
Amortization of deferred financing costs	6	9	16	18
Total	<u>790</u>	<u>1,258</u>	<u>1,753</u>	<u>2,479</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2020 and 2019

12 SHAREHOLDERS' CAPITAL

Tree Island is authorized to issue an unlimited number of shares. The Shares have no par value. There were no shares issued and 172,964 shares were repurchased (totaling \$284 thousand at an average price of \$1.64 per share) and cancelled in the period ended June 30, 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	(172,964)	(284)	-	(284)
Shareholders' capital - June 30, 2020	28,658,673	235,110	11,400	223,710

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 June 30, 2020 the Company purchased 172,964 Shares under the Bid at a total cost of \$284 thousand (at an average price of \$1.64 per Share). An additional 29,852 Shares were purchased under the Bid for the period July 1, 2020 to July 29, 2020 at an average price of \$1.97 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 July 29, 2020, Futura owns 32.7% of the fully diluted Shares of the Company.

In addition, Mr. Doman is Chairman and CEO of CanWel Building Materials Group Ltd. ("CanWel"). For the three and six months ended June 30, 2020, Tree Island sold, net of rebates, approximately \$0.6 million and \$1.3 million respectively (\$1.0 million and \$1.9 million in 2019) of goods to CanWel and trade accounts receivable owing from CanWel as at June 30, 2020 is approximately \$0.2 million (approximately \$0.3 million in 2019). Outstanding trade accounts receivable from CanWel at period end are unsecured, interest free and settlement occurs in cash (Note 5).

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2020 and 2019

13.2 TRANSACTIONS WITH KEY MANAGEMENT PERSONNEL

Included in the definition of key management for purposes of disclosure of related party transactions are members of Board of Directors and officers of Tree Island Steel. Amounts for key management personnel for the three and Six months ended June 30, 2020 was approximately \$0.3 million and \$0.6 million respectively (\$0.5 million and \$1.2 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		Six months ended	
	June 30,		June 30,	
	2020	2019	2020	2019
Current tax expense	(897)	(92)	(1,153)	(231)
Deferred tax recovery (expense)	416	15	(38)	(40)
Total in the Consolidated Statement of Operations	<u>(481)</u>	<u>(77)</u>	<u>(1,191)</u>	<u>(271)</u>

15 FINANCIAL INSTRUMENTS

15.1 FAIR VALUE OF FINANCIAL INSTRUMENTS

Tree Island records certain of its financial instruments at fair value using various techniques. These include estimates of fair values based on prevailing market rates (bid and ask prices, as appropriate) for instruments with similar characteristics and risk profiles or internal or external valuation models, such as discounted cash flow analysis and option pricing models, using, to the extent possible, observable market-based inputs.

The fair values of the financial assets and financial liabilities are included at the amount at which the instrument could be exchanged in a current transaction between willing parties, other than a forced or liquidation sale. The following methods and assumptions were used to estimate the fair values:

- Cash, accounts receivable, 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 \$0.2 million and Senior Term Loans by \$0.1 million. A 1% change in the discount rate used in determining the Present Value of the Long-Term Debt cash flows would change the fair value by \$168 thousand;
- 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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2020 and 2019

- 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 June 30, 2020		As at December 31, 2019	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Cash and cash investments	1,991	1,991	907	907
Accounts receivable	27,711	27,711	24,250	24,250
Total financial assets	29,702	29,702	25,157	25,157
Senior revolving facility	31,635	31,635	38,162	38,162
Accounts payable, accrued and other current liabilities	20,271	20,271	18,402	18,402
Senior term loans	10,353	10,353	11,194	11,194
Long-term debt	6,136	4,970	6,107	5,622
Lease Liabilities	32,581	32,581	32,085	32,085
Total financial liabilities	100,976	99,810	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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2020 and 2019

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 June 30, 2020 and December 31, 2019:

(\$'000 unless otherwise stated)

	Carrying Amount	Contractual Cash Flow	Less Than 1 Year	1 – 2 Years	Greater Than 2 Years
Senior revolving facility	31,635	31,635	-	-	31,635
Accounts payable, accrued and other liabilities	20,413	20,413	20,413	-	-
Senior term loans (principal)	10,353	10,353	1,986	3,972	4,395
Senior term loans (interest)	-	464	97	139	228
Long-term debt	6,136	8,946	1,117	2,256	5,573
Lease liability	32,581	48,777	1,464	2,935	44,378
As at June 30, 2020	101,118	120,588	25,077	9,302	86,209
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 June 30, 2020, the Company had no outstanding U.S. dollar currency forward contracts.

For the three months ended June 30, 2020, a \$0.01 increase (decrease) in the Canadian dollar to U.S. dollar exchange rate will increase (decrease) net comprehensive income by \$22.4 thousand.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2020 and 2019

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 \$0.3 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 June 30, 2020, the Company had no outstanding zinc forward contracts.

17 MANAGEMENT OF CAPITAL

The Company's objectives when managing its capital are:

- To maintain a capital base so as to preserve and enhance investor, creditor, and market confidence and to sustain viability and future development of the business; and
- To manage capital in a manner that will comply with the financial covenants on the Senior Credit Facility, 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 June 30, 2020	As at December 31, 2019
Total shareholders' equity	49,778	48,653
Senior revolving facility	31,635	38,162
Lease liabilities	32,581	32,085
Senior term loans	10,353	11,194
Long-term debt	6,136	6,107
Total capital	<u>130,483</u>	<u>136,201</u>

18 NET INCOME PER SHARE

Basic earnings per Share amount is calculated by dividing net income for the year by the weighted average number of Shares outstanding during the period.

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 period plus the weighted average number of Shares that would be issued

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2020 and 2019

on conversion of all the dilutive potential units into Shares. As at June 30, 2020 the Company does not have any instruments issued that could be dilutive.

During six months ended June 30, 2020, 172,964 shares were repurchased and cancelled (Note 12). An additional 29,852 Shares were purchased under the Bid for the period July 1, 2020 to July 29, 2020 at an average price of \$1.97 per share.

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

(\$'000 unless otherwise stated)

	Three months ended		Six months ended	
	June 30,		June 30,	
	<u>2020</u>	<u>2019</u>	<u>2020</u>	<u>2019</u>
Net income (loss) for the period	1,100	(535)	2,917	(1,631)
Weighted average number of Shares outstanding:	28,792,141	28,991,481	28,958,196	29,081,635
Net income per share (\$/share)	0.04	(0.02)	0.10	(0.06)

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 June 30, 2020, Tree Island's wholly owned subsidiaries have committed to material purchases (including finished goods) totalling \$32.7 million (\$31.2 million - June 30, 2019).

20 SEGMENTED INFORMATION

20.1 MARKET SEGMENTS

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

(\$'000 unless otherwise stated)

	Three months ended		Six months ended	
	June 30,		June 30,	
	<u>2020</u>	<u>2019</u>	<u>2020</u>	<u>2019</u>
Industrial	18,121	15,732	37,332	31,511
Commercial	11,507	14,747	24,797	27,270
Agricultural	7,608	6,475	17,954	18,111
Residential	13,230	15,664	28,380	28,668
Total revenue	<u>50,466</u>	<u>52,618</u>	<u>108,463</u>	<u>105,560</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2020 and 2019

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

20.2 GEOGRAPHIC SEGMENTS

The products are sold primarily to customers in the United States and Canada and are attributed to geographic areas based on the location of customers:

(\$'000 unless otherwise stated)

	Three months ended		Six months ended	
	June 30,		June 30,	
	2020	2019	2020	2019
United States	33,243	32,153	67,628	58,723
Canada	15,454	18,639	36,686	42,603
International	1,769	1,826	4,149	4,234
Total revenue	<u>50,466</u>	<u>52,618</u>	<u>108,463</u>	<u>105,560</u>

Non-current assets for this purpose consist of property, plant and equipment, right-of-use assets and other non-current assets. These assets are attributed to geographic areas based on the locations of the subsidiary Company owning the assets.

(\$'000 unless otherwise stated)

	As at June 30,	As at December 31,
	2020	2019
United States	38,680	36,720
Canada	37,558	38,452
Total non-current assets	<u>76,238</u>	<u>75,172</u>

SHAREHOLDER INFORMATION

TREE ISLAND STEEL

Board of Directors:

Amar S. Doman –
Executive Chairman of the
Board

Peter Bull

Harry Rosenfeld

Sam Fleiser

Theodore A. Leja

Joe Downes

Executive Officers:

Remy Stachowiak
*President,
Chief Operating Officer*

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

Shares:

Market Information

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

Registrar and Transfer Agent

Computershare Investor
Services Inc.

Corporate Head Office:

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Richmond, B.C.
Canada, V6V 1T8

Website:

www.treeisland.com

Investor Relations:

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Investor Relations
(416)-962-3300 or
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Auditors:

KPMG LLP
Vancouver, B.C.

