



WIRE & WIRE PRODUCTS

ESTABLISHED IN 1964



Quarterly Report

Q3 2021

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

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

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

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Stiff Stay Knot Agricultural Fencing

TO OUR SHAREHOLDERS

Letter to Shareholders

We continued to experience strength in market demand for our wire products during the third quarter from the progressive economic reopening, along with ongoing globally tight supply conditions for steel wire rod, our primary raw material. Increased construction activities in the residential and commercial sectors, together with heightened demand from multiple industrial wire customers, drove higher sales volumes. With wire rod costs reaching historic high levels in a constrained rod environment, as well as increased shipping costs for both raw materials and finished goods, wire product pricing continued to climb as these costs were transferred through the supply chain.

The elevated product pricing, combined with our ongoing cost discipline, continued to have a positive impact on the gross profit generated in the quarter as well as year-to-date. However, we remain prudent regarding inventory positions and raw materials purchase volumes given the inflationary environment. Current market conditions are volatile with cost increases experienced throughout production, from raw materials, consumables, labour, utilities, to shipping, as well as labour shortages to support higher production levels. This necessitates proactive and rigorous operational and cost management to protect the business when more balanced market conditions return. In addition, as we support our employees, customers and partners in this highly dynamic environment, we will continue to remain unwaveringly focused on protecting the health and safety of our employees.

We are very proud of the success which has been achieved year-to-date, and profoundly thank our employees, customers and stakeholders for supporting the Tree Island Steel brand, as a diversified North American producer of premium quality wire and wire products.

Sincerely,

Remy Stachowiak
President and Chief Operating Officer, Tree Island Steel

MANAGEMENT DISCUSSION AND ANALYSIS

September 30, 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 November 10, 2021 and should be read in conjunction with the unaudited interim condensed consolidated financial statements for nine months ended September 30, 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 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, 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 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 earnings measure 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 28,434,188 Shares outstanding as of September 30, 2021.

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

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

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:

Markets	Brand	Key Product Groups	Specific End-Use Market	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.

4 2021 BUSINESS OVERVIEW AND DEVELOPMENT

4.1 BUSINESS OVERVIEW

Revenues earned in the third quarter of 2021 amounted to \$84.6 million compared to \$53.2 million in the same period last year, a 59.0% increase. This increase in revenue is attributable to higher sales volumes and increased selling prices in our Industrial and Construction segments. The increased market demand and pricing, along with ongoing cost and inventory management actions, resulted in a gross profit increase to \$21.8 million in the quarter, compared to \$6.7 million in the same period last year. EBITDA for the period amounted to \$20.0 million compared to \$4.3 million in the third quarter of 2020, from improved gross profit and lower financing expenses compared to the prior period.

For the nine months ending September 30, 2021, revenues amounted to \$225.9 million compared to \$161.7 million in the same period in 2020, representing a 39.7% increase. The increase in revenue is attributable to higher shipped volumes and increased selling prices, with growth across all market segments. Gross profit increased during the period to \$51.3 million, compared to the \$19.2 million in the same period last year. EBITDA for the current period amounted to \$45.4 million compared to \$13.3 million in 2020, as a result of increased sales, improved cost controls and reduced financing costs.

4.2 COVID-19 DEVELOPMENT

We continue to closely follow health authority and government COVID-19 mandates in the jurisdictions we operate. Although pandemic restrictions are easing, COVID-19 safety plans continue to remain in place to safeguard our employees, their families and our community at large, as we navigate through the implementation of reopening programs and new pandemic requirements.

As the economy reopens and recovers, we anticipate staged reductions in implemented safety measures in direct alignment with regional health requirements. However, we expect ongoing, but updated, pandemic safety plans will continue to be required in all of our facilities to ensure the health and wellbeing of our employees. As such, we remain vigilant in following all local health requirements, given the uncertainty of the pandemic duration as well as potential for localized outbreaks.

5 SUMMARY FINANCIAL INFORMATION

Results from Operations:	Three Months Ended September 30,		Nine Months Ended September 30,	
	2021	2020	2021	2020
Revenue	84,642	53,236	225,894	161,697
Cost of sales	(61,326)	(45,048)	(170,187)	(137,901)
Depreciation	(1,478)	(1,504)	(4,403)	(4,548)
Gross profit	21,838	6,684	51,304	19,248
Selling, general and administrative expenses	(3,734)	(3,508)	(10,534)	(10,557)
Operating income	18,104	3,176	40,770	8,691
Foreign exchange gain (loss)	445	(383)	233	53
Financing expenses	(663)	(1,992)	(1,853)	(3,745)
Other expenses	-	(105)	(3)	(194)
Income before income taxes	17,886	696	39,147	4,805
Income tax expense	(4,488)	(176)	(10,217)	(1,363)
Net income	13,398	520	28,930	3,442
Net income per share	0.47	0.02	1.02	0.12
Dividends per share	0.08	0.02	0.14	0.06

Financial position as of:	September 30, 2021	December 31, 2020
Total assets	189,827	146,549
Total non-current financial liabilities	64,966	71,236

EBITDA:	Three Months Ended September 30,		Nine Months Ended September 30,	
	2021	2020	2021	2020
Operating income	18,104	3,176	40,770	8,691
Add back depreciation	1,478	1,504	4,403	4,548
Foreign exchange gain (loss)	445	(383)	233	53
EBITDA	20,027	4,297	45,406	13,292

6 COMPARISON OF RESULTS FOR THE THREE MONTHS ENDED SEPTEMBER 30, 2021 AND 2020

<i>(\$'000 unless otherwise stated)</i>	<u>2021</u>	<u>2020</u>	<u>Variance Fav/(Unfav)</u>	
SALES	84,642	53,236	31,406	59.0%

The increase in revenues over the prior period is primarily attributable to higher sales volumes and increased selling prices.

Revenue by Market Segment

	Three Months Ended September 30,					
	<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	35,374	41.8%	18,471	34.7%	16,903	91.5%
Commercial	21,859	25.8%	11,774	22.1%	10,085	85.7%
Agricultural	6,719	7.9%	7,280	13.7%	(561)	(7.7%)
Residential	20,690	24.5%	15,711	29.5%	4,979	31.7%
Total	84,642	100.0%	53,236	100.0%	31,406	59.0%

Overall revenues increased, over the same period last year, as a result of higher demand and increased selling prices experienced in the quarter.

Revenue by Location

	Three Months Ended September 30,					
	<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	60,011	70.9%	34,037	63.9%	25,974	76.3%
Canada	22,889	27.0%	17,340	32.6%	5,549	32.0%
International	1,742	2.1%	1,859	3.5%	(117)	(6.3%)
Total	84,642	100%	53,236	100%	31,406	59.0%

Average C\$/U.S.\$ 1.26 1.33

<i>(\$'000 unless otherwise stated)</i>	<u>2021</u>	<u>2020</u>	<u>Variance Fav/(Unfav)</u>	
COST OF SALES	61,326	45,048	(16,278)	(36.1%)

The cost of goods sold increased when compared to prior year due to the higher sales volume and material costs in the quarter offset by a lower currency Canadian dollar transaction of costs denominated in US dollars and improved operating leverage from higher volumes.

<i>(\$'000 unless otherwise stated)</i>	<u>2021</u>	<u>2020</u>	<u>Variance Fav/(Unfav)</u>	
GROSS PROFIT	21,838	6,684	15,154	226.7%

Gross profit for the quarter amounted to \$21.8 million versus \$6.7 million during the same period in 2020, predominantly from increased sales volumes, pricing and ongoing cost and inventory management.

<i>(\$'000 unless otherwise stated)</i>	<u>2021</u>	<u>2020</u>	<u>Variance Fav/(Unfav)</u>	
SG&A EXPENSES	3,734	3,508	(226)	(6.4%)

SG&A expenses are higher than prior year, as the result of compensation related items.

<i>(\$'000 unless otherwise stated)</i>	<u>2021</u>	<u>2020</u>	<u>Variance Fav/(Unfav)</u>	
FINANCING EXPENSES	663	1,992	1,329	66.7%

Financing expenses decreased mainly due to settlement of the long-term debt in the prior year.

Financing Expenses

	Three Months Ended September 30,			
	<u>2021</u>	<u>2020</u>	<u>Variance Fav/(Unfav)</u>	
			<u>Amount</u>	<u>%</u>
Long term debt accretion	-	1,370	1,370	100.0%
Interest on senior credit facility	111	121	10	8.3%
Interest on senior term facility	69	54	(15)	(27.8%)
Interest on lease liability	305	333	28	8.4%
Other interest and financing costs	175	112	(63)	(56.3%)
Deferred financing costs	3	2	(1)	(50.0%)
Total financing expenses	663	1,992	1,329	66.7%

<i>(\$'000 unless otherwise stated)</i>	<u>2021</u>	<u>2020</u>	<u>Variance Fav/(Unfav)</u>	
FOREIGN EXCHANGE	445	(383)	828	216.2%

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 September 30, 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>	
INCOME TAX EXPENSE	(4,488)	(176)	(4,312)	(2450.0%)

The income tax expense for 2021 has increased due to higher income this year. Income tax expense is based on a statutory rate of 27.0% for Canadian taxable income and 29.8% for U.S. based taxable income applied to the income of the respective subsidiaries before taxes, with adjustments for permanent differences between accounting and taxable income.

(\$'000 unless otherwise stated)	2021	2020	Variance Fav/(Unfav)	
NET INCOME	13,398	520	12,878	2476.5%

The net income increase over the comparative period is attributable to the higher gross profit plus reduction in financing expenses, when compared to prior period.

7 COMPARISON OF RESULTS FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2021 AND 2020

(\$'000 unless otherwise stated)	2021	2020	Variance Fav/(Unfav)	
SALES	225,894	161,697	64,197	39.7%

The revenue increase during the year-to-date period, is primarily due to higher shipped volumes and increased selling prices across all market segments as a result of the ongoing economic reopening.

Revenue by Market Segment

	Nine Months Ended September 30,					
	2021		2020		Variance	
	Revenue	% of Total	Revenue	% of Total	Amount	%
Industrial	84,095	37.2%	55,802	34.5%	28,293	50.7%
Commercial	51,790	22.9%	36,571	22.6%	15,219	41.6%
Agricultural	32,206	14.3%	25,234	15.6%	6,972	27.6%
Residential	57,803	25.6%	44,090	27.3%	13,713	31.1%
Total revenue	225,894	100.0%	161,697	100.0%	64,197	39.7%

U.S. and Canadian revenues increased due to increasing demand and higher selling prices.

Revenue by Location

	Nine Months Ended September 30,					
	2021		2020		Variance	
	Revenue	% of Total	Revenue	% of Total	Amount	%
United States	152,618	67.6%	101,663	62.9%	50,955	50.1%
Canada	68,502	30.3%	54,024	33.4%	14,478	26.8%
International	4,774	2.1%	6,010	3.7%	(1,236)	-20.6%
Total	225,894	100.0%	161,697	100.0%	64,197	39.7%
 Average C\$/U.S.\$	 1.25		 1.35			

<i>(\$'000 unless otherwise stated)</i>	<u>2021</u>	<u>2020</u>	<u>Variance Fav/(Unfav)</u>	
COST OF SALES	170,187	137,901	(32,286)	(23.4%)

The cost of goods sold increased when compared to prior period, due to the increase in sales volume and material costs, which was offset by continued inventory cost management and operating leverage.

<i>(\$'000 unless otherwise stated)</i>	<u>2021</u>	<u>2020</u>	<u>Variance Fav/(Unfav)</u>	
GROSS PROFIT	51,304	19,248	32,056	166.5%

Gross profit for the quarter amounted to \$51.3 million versus \$19.2 million during the same period in 2020, as the result of increased sales volumes, pricing and ongoing cost and inventory management.

<i>(\$'000 unless otherwise stated)</i>	<u>2021</u>	<u>2020</u>	<u>Variance Fav/(Unfav)</u>	
SG&A	10,534	10,557	23	0.2%

SG&A expenses are in line with the comparative period.

<i>(\$'000 unless otherwise stated)</i>	<u>2021</u>	<u>2020</u>	<u>Variance Fav/(Unfav)</u>	
FINANCING EXPENSES	1,853	3,745	1,892	50.5%

Financing expenses decreased primarily due to payment and settlement of the long-term debt, compared to prior year and lower interest cost on the senior credit facility.

Finance expenses

	Nine Months Ended September 30,			
	<u>2021</u>	<u>2020</u>	<u>Variance Fav/(Unfav)</u>	
			<u>Amount</u>	<u>%</u>
Long term debt accretion	-	1,679	1,679	100.0%
Interest on senior credit facility	346	580	234	40.3%
Interest on senior term facility	212	209	(3)	(1.4%)
Interest on lease liability	918	1,021	103	10.1%
Other interest and financing costs	368	240	(128)	(53.3%)
Deferred financing costs	9	16	7	43.8%
Total financing expenses	<u>1,853</u>	<u>3,745</u>	<u>1,892</u>	<u>50.5%</u>

<i>(\$'000 unless otherwise stated)</i>	<u>2021</u>	<u>2020</u>	<u>Variance Fav/(Unfav)</u>	
FOREIGN EXCHANGE	233	53	180	339.6%

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 September 30, 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>	
INCOME TAX EXPENSE	(10,217)	(1,363)	(8,854)	(649.6%)

The income tax expense for 2021 increased compared to prior year due to increased income. Income tax expense is based on a statutory rate of 27.0% for Canadian taxable income and 29.8% 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>	
NET INCOME	28,930	3,442	25,488	740.5%

The net income increase over the comparative period is attributable to higher gross profits and reduced financing expenses compared to prior period.

8 FINANCIAL CONDITION AND LIQUIDITY

8.1 WORKING CAPITAL

A summary of the composition of our working capital accounts as at September 30, 2021 compared to 2020 is:

	As at September 30,	
	<u>2021</u>	<u>2020</u>
Cash	2,640	3,449
Accounts receivable	43,503	26,717
Inventories	71,481	44,365
Other current assets	5,071	2,604
	<u>122,695</u>	<u>77,135</u>
Accounts payable and accrued liabilities	(34,767)	(22,827)
Dividends payable	(2,275)	(572)
Other current liabilities	(7,441)	(734)
	<u>(44,483)</u>	<u>(24,133)</u>
Net balance	<u>78,212</u>	<u>53,002</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 September 30, 2021 were higher when compared to the same period last year, reflecting the increasing sales in Q3 2021 compared to the same period in the prior year.

Inventories levels were higher as at September 30, 2021, when compared to the same period in 2020, as a result of higher volumes and higher raw material costs.

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 September 30,		Nine Months Ended September 30,	
	2021	2020	2021	2020
Cash provided by operating activities	15,772	4,269	35,172	12,463
Working capital adjustments	(828)	6,811	(22,364)	14,117
Net cash provided by operating activities	14,944	11,080	12,808	26,580
Net cash used in investing activities	(179)	(112)	(734)	(1,711)
Repayment of senior term loans	(703)	6,844	(2,104)	5,850
Repayment of long-term debt	-	(7,221)	-	(7,895)
Lease interest paid	(305)	(333)	(919)	(1,025)
Lease principal payments	(397)	(388)	(1,183)	(1,209)
Other interest paid	(356)	(313)	(923)	(1,135)
Repayment of senior revolving facility	(12,428)	(7,344)	(3,074)	(14,742)
Dividend paid	(852)	(573)	(2,277)	(1,722)
Share buyback	(32)	(174)	(200)	(458)
Net cash used in financing activities	(15,073)	(9,502)	(10,680)	(22,336)
Exchange rate changes on foreign cash balances	19	(8)	1	9
Increase in cash balances	(289)	1,458	1,395	2,542

In the third quarter of 2021, net cash for operating activities has increased compared to Q3 2020 primarily as a result of an increased income from higher volumes of sales and pricing. The net cash used in investing activities was from capital investments which are further described in Section 9. The net cash used by the financing activities resulted from repayments of our Senior Revolving Facility.

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 September 30, 2021 the Company was in compliance with its covenants on the Senior Credit Facility.

9 CAPITAL EXPENDITURES AND CAPACITY

For the three months ended September 30, 2021, we made capital expenditures of \$0.2 million, and for the year-to-date we made capital expenditures of \$0.7 million. These expenditures were for capital maintenance activities.

10 CONTRACTUAL OBLIGATIONS AND COMMITMENTS

As of September 30, 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 Q1 2022.

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 September 30, 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 September 30, 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	40,733	19,303	-	-	-	-	60,036
AP and accrued liabilities	34,767	-	-	-	-	-	34,767
Other current liabilities	74	-	-	-	-	-	74
Dividends	2,275	-	-	-	-	-	2,275
Lease liabilities	728	2,925	2,580	2,448	2,413	31,792	42,886
Senior revolving facility	-	-	22,268	-	-	-	22,268
Senior term loans (principal)	706	2,826	2,826	2,826	2,263	2,481	13,928
Senior term loans (interest)	74	256	197	137	83	88	835
Total obligations and commitments	79,357	25,310	27,871	5,411	4,759	34,361	177,069

11 SUMMARY OF QUARTERLY FINANCIAL RESULTS

The table below provides selected quarterly financial information for the eight most recent fiscal quarters to September 30, 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.

	Sep 30, <u>2021</u>	Jun 30, <u>2021</u>	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>
Revenue	84,642	74,410	66,842	54,199	53,236	50,466	57,993	45,144
Gross profit	21,838	16,839	12,627	6,607	6,684	5,945	6,614	3,482
Foreign exchange gain (loss)	445	(99)	(113)	(226)	(383)	(294)	730	(490)
Net income (loss)	13,398	9,068	6,464	1,682	520	1,100	1,829	(3,199)
Net income (loss) per share - basic	0.47	0.32	0.22	0.05	0.02	0.04	0.06	(0.11)

Commentary:

- 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 impact 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.
- During the first half of 2021, sales and gross profit increased as a result of the economic recovery experienced in the markets we serve amid a rising price environment.
- In Q3 2021 demand continues to remain strong across our geographic regions, with increased pricing and ongoing cost discipline supporting improved results.

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 September 30, 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 November 10, 2021, Futura owns 34.5% of the fully diluted Shares of the Company.

In addition, Mr. Doman is Chairman and CEO of Doman Building Materials Group Ltd. ("DBM" and formerly CanWel Building Materials Group Ltd). For the three and nine months ended September 30, 2021, Tree Island sold, net of rebates, approximately \$0.9 million and \$2.8 million (\$0.8 million and \$2.1 million in 2020) of goods to DBM and trade accounts receivable owing from DBM as at September 30, 2021 is approximately \$0.5 million (approximately \$0.3 million in 2020). Outstanding trade accounts receivable from DBM at period end are unsecured, interest free and settlement occurs in cash.

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 and nine months ended September 30, 2021 was approximately \$0.6 million and \$1.4 million respectively (\$0.4 million and \$1.0 million approximately in 2020) which includes wages, salaries and retirement contributions, paid annual and sick leave, vehicle costs and also includes directors' fees paid to members of the Board.

14 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.

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.

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 September 30, 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 September 30, 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 September 30, 2021 unaudited interim condensed consolidated financial statements and this MD&A prior to its release.

INTERIM UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

September 30, 2021 and 2020

NOTICE OF NO AUDITOR REVIEW OF INTERIM FINANCIAL STATEMENTS

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

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

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

November 10, 2021

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

(\$'000 unless otherwise stated)

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

See accompanying Notes to the Interim Unaudited Condensed Consolidated Financial Statements

Approved on behalf of Tree Island Steel.

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

INTERIM UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
September 30, 2021 and 2020
CONSOLIDATED STATEMENT OF OPERATIONS

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

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

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

See accompanying Notes to the Interim Unaudited Condensed Consolidated Financial Statements

INTERIM UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

September 30, 2021 and 2020

CONSOLIDATED STATEMENT OF SHAREHOLDERS' EQUITY

<i>(\$'000 unless otherwise stated)</i>	Shareholders' Capital (Note 12)	Retained Earnings	Accumulated Other Comprehensive Loss	Total
Balance as at December 31, 2020	223,363	(169,726)	(2,568)	51,069
Repurchase of shares	(139)	-	-	(139)
Net income	-	6,464	-	6,464
Dividends	-	(854)	-	(854)
Other comprehensive income (loss)	-	-	8	8
Balance as at March 31, 2021	223,224	(164,116)	(2,560)	56,548
Repurchase of shares	(29)	-	-	(29)
Net income	-	9,068	-	9,068
Dividends	-	(853)	-	(853)
Other comprehensive income (loss)	-	-	155	155
Balance as at June 30, 2021	223,195	(155,901)	(2,405)	64,889
Repurchase of shares	(32)	-	-	(32)
Net income	-	13,398	-	13,398
Dividends	-	(2,275)	-	(2,275)
Other comprehensive income (loss)	-	-	(162)	(162)
Balance as at September 30, 2021	223,163	(144,778)	(2,567)	75,818
Balance as at December 31, 2019	223,994	(172,566)	(2,775)	48,653
Repurchase of shares	(48)	-	-	(48)
Net income	-	1,822	-	1,822
Dividends	-	(576)	-	(576)
Other comprehensive income (loss)	-	-	(213)	(213)
Balance as at March 31, 2020	223,946	(171,320)	(2,988)	49,638
Repurchase of shares	(236)	-	-	(236)
Net income	-	1,100	-	1,100
Dividends	-	(573)	-	(573)
Other comprehensive income (loss)	-	-	136	136
Balance as at June 30, 2020	223,710	(170,793)	(2,852)	50,065
Repurchase of shares	(174)	-	-	(174)
Net income	-	520	-	520
Dividends	-	(572)	-	(572)
Other comprehensive income (loss)	-	-	81	81
Balance as at September 30, 2020	223,536	(170,845)	(2,771)	49,920

See accompanying Notes to the Interim Unaudited Condensed Consolidated Financial Statements

INTERIM UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
September 30, 2021 and 2020
CONSOLIDATED STATEMENT OF CASH FLOWS

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

See accompanying Notes to the Interim Unaudited Condensed Consolidated Financial Statements

1 NATURE OF BUSINESS

These interim unaudited condensed consolidated financial statements of Tree Island Steel ("Tree Island" or the "Company") for the nine months ended September 30, 2021 and 2020 were authorized for issue in accordance with a resolution of the Board of Directors on November 10, 2021. The Company is headquartered at 3933 Boundary Road, Richmond, British Columbia, Canada and the Shares are publicly traded on the Toronto Stock Exchange ("TSX") under the symbol TSL. Tree Island Steel owns 100% of the shares of Tree Island Industries ("TI Canada") (collectively "Tree Island"). TI Canada supplies a diverse range of steel wire and fabricated steel wire products to customers in Canada, the United States, and internationally.

2 BASIS OF PREPARATION

2.1 BASIS OF PREPARATION

The interim unaudited condensed consolidated financial statements as at and for the nine months ended September 30, 2021 have been prepared in accordance with International Accounting Standard ("IAS" 34, "Interim Financial Reporting"). They should be read in conjunction with the annual consolidated financial statements and the notes thereto for the year ended December 31, 2020 and do not include all information required for the full annual financial statements. Certain comparative information has been reclassified to conform to the presentation adopted during the period.

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

2.2 FUNCTIONAL CURRENCY AND PRESENTATION CURRENCY

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

3 SIGNIFICANT ACCOUNTING POLICIES, CRITICAL ACCOUNTING JUDGEMENTS AND ESTIMATES

The accounting policies, methods of application and critical judgements and estimates used in the preparation of these interim unaudited condensed consolidated financial statements are consistent with those disclosed in the annual consolidated financial statements as at December 31, 2020.

4 FUTURE IFRS STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE

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

September 30, 2021 and 2020

5 REVENUE AND ACCOUNTS RECEIVABLE

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

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

	As at September 30, 2021	As at December 31, 2020
Current	41,152	22,386
Over 30 days past due	2,785	2,764
Total accounts receivable	43,937	25,150
Allowance for doubtful accounts	(434)	(331)
Net accounts receivable	43,503	24,819

Accounts receivable are non-interest bearing and are generally due on 30-day to 90-day terms. The credit risk that Tree Island was exposed to by way of its accounts receivable is equal to the net amount of \$43.5 million as at September 30, 2021 (\$24.8 million as at December 31, 2020).

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

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

	As at September 30, 2021	As at December 31, 2020
Opening balance - beginning of period	331	580
Additions during the period	178	169
Reversals during the period	-	(20)
Collections	(77)	(36)
Write-offs during the period	-	(366)
Foreign exchange revaluation	2	4
Closing balance - end of period	434	331

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

6 INVENTORIES

Tree Island had the following categories of inventory:

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

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

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

The reserves for slow moving inventory as at September 30, 2021 were \$1.3 million (\$1.2 million at September 30, 2020).

7 PROPERTY, PLANT AND EQUIPMENT

The carrying value of property, plant and equipment is reviewed each reporting period. For the purposes of testing for impairment, or the reversal of impairment, assets are grouped and tested at the Cash Generating Unit level. Tree Island considers both qualitative and quantitative factors when determining whether an asset may be impaired, or when a reversal of impairment is required. Where the carrying value of the assets is not expected to be recoverable from future cash flows, they are written down to their recoverable amount. Tree Island has noted no indicators of impairment for this reporting period.

From time to time the Company makes investments to update, replace or make additions to existing capital assets, which includes, but is not limited to, the buildings occupied and capital equipment. These investments are part of the normal course of business activity.

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

	Land & Improvement	Building & Improvement	Machinery & Equipment	Capital in Progress	Total
Cost					
As at December 31, 2019	9,765	46,702	41,267	1,494	99,228
Additions	23	451	2,148	(763)	1,859
Disposals	-	-	(109)	-	(109)
Foreign exchange translation	(39)	(194)	(278)	13	(498)
As at December 31, 2020	9,749	46,959	43,028	744	100,480
Additions	-	148	908	(356)	700
Disposals	-	-	(22)	-	(22)
Foreign exchange translation	-	8	91	(9)	90
As at September 30, 2021	9,749	47,115	44,005	379	101,248
Depreciation and impairment					
As at December 31, 2019	55	34,930	19,263	-	54,248
Depreciation for the period	17	1,394	2,135	-	3,546
Disposals	-	-	(108)	-	(108)
Foreign exchange translation	(2)	(130)	(141)	-	(273)
As at December 31, 2020	70	36,194	21,149	-	57,413
Depreciation for the period	13	1,045	1,599	-	2,657
Disposals	-	-	(22)	-	(22)
Foreign exchange translation	-	10	15	-	25
As at September 30, 2021	83	37,249	22,741	-	60,073
Net book value as at:					
December 31, 2020	9,679	10,765	21,879	744	43,067
September 30, 2021	9,666	9,866	21,264	379	41,175

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
Cost			
As at December 31, 2019	32,825	2,477	35,302
Additions	-	149	149
Disposals	(885)	(403)	(1,288)
Foreign exchange translation	(467)	(24)	(491)
As at December 31, 2020	31,473	2,199	33,672
Additions	-	262	262
Disposals	-	(230)	(230)
Foreign exchange translation	18	7	25
As at September 30, 2021	31,491	2,238	33,729
Depreciation and impairment			
As at December 31, 2019	5,609	993	6,602
Depreciation for period	2,033	457	2,490
Disposals	(880)	(393)	(1,273)
Foreign exchange translation	(109)	(20)	(129)
As at December 31, 2020	6,653	1,037	7,690
Depreciation for period	1,439	307	1,746
Disposals	-	(206)	(206)
Foreign exchange translation	13	5	18
As at September 30, 2021	8,105	1,143	9,248
Carrying value as at:			
December 31, 2020	24,820	1,162	25,982
September 30, 2021	23,386	1,095	24,481

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

8.2 LEASE LIABILITY

	Land & buildings	Machinery & equipment	Total lease liability
Lease liability			
As at December 31, 2019	30,614	1,471	32,085
New contracts and renewals	-	143	143
Contract Disposal	-	(9)	(9)
Interest adjustment	(10)	-	(10)
Interest expense	1,290	54	1,344
Payment of lease liability	(2,463)	(488)	(2,951)
Foreign exchange translation	(456)	2	(454)
Lease liability as at December 31, 2020	28,975	1,173	30,148
New contracts and renewals	-	268	268
Interest adjustment	-	(23)	(23)
Interest expense	887	31	918
Payment of lease liability	(1,772)	(330)	(2,102)
Foreign exchange translation	16	(2)	14
Lease liability as at September 30, 2021	28,106	1,117	29,223
Less: current portion	(1,334)	(400)	(1,734)
Total as at September 30, 2021	26,772	717	27,489

9 SENIOR CREDIT FACILITY

The Company has a senior banking facility with Wells Fargo Capital Finance Corporation Canada (“Wells Fargo”). The five-year senior secured committed banking facility (the “Senior Credit Facility”) which matures in June of 2023, may be used for Tree Island’s financing requirements in Canadian and/or U.S. dollars, and comprises of the

- \$60 million of Senior Revolving Credit facility; and
- \$20 million of Senior Term facility.

9.1 SENIOR REVOLVING CREDIT FACILITY

The amount advanced under the Senior Credit Facility at any time is limited to a defined percentage of inventories, accounts receivable, machinery and equipment, and real estate, less certain reserves. The Senior Credit Facility is secured by a first charge over Tree Island’s assets supported by the appropriate guarantees, pledges and assignments, and requires that certain covenants be met by Tree Island.

The Senior Credit Facility includes a \$10.0 million Letter of Credit sub-facility which enables TI Canada and TI USA to open documentary and standby letters of credit for raw material purchases. There was a \$166 thousand Letter of Credit outstanding as at September 30, 2021.

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

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

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

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

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

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

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

9.2 SENIOR TERM FACILITY

Under the terms of the Senior Credit Facility, the Company has designated portions up to a total of \$20 million denominated in either Canadian or U.S. dollars.

The following amounts are outstanding under the Senior Term Facility:

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

10 LONG-TERM DEBT

On September 17, 2020, the long-term debt was settled in full with funds advanced under the Company's Senior Term Facility for a total amount of \$7.2 million. Upon settlement all encumbrances were released and discharged.

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

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

11 FINANCING EXPENSES

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

12 SHAREHOLDERS' CAPITAL

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

	Shares	Gross	Issuance Cost ⁽¹⁾	Net
Shareholders' capital - December 31, 2019	28,831,637	235,394	11,400	223,994
Repurchase of common shares	(328,123)	(631)	-	(631)
Shareholders' capital - December 31, 2020	28,503,514	234,763	11,400	223,363
Repurchase of common shares	(69,326)	(200)	-	(200)
Shareholders' capital - September 30, 2021	28,434,188	234,563	11,400	223,163

⁽¹⁾ Issuance costs relate to the initial public offering in 2002.

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

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

For the period January 1, 2021 to September 30, 2021 the Company canceled 69,326 Shares purchased under the Bid at a total cost of \$200 thousand (at an average price of \$2.88 per Share).

13 RELATED PARTY TRANSACTIONS

13.1 TRANSACTIONS WITH ASSOCIATED COMPANIES

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

Based on Tree Island Steel's outstanding Shares as at November 10, 2021, Futura owns 34.5% of the fully diluted Shares of the Company.

In addition, Mr. Doman is Chairman and CEO of Doman Building Materials Group Ltd. ("DBM" and formerly CanWel Building Materials Group Ltd). For the three and nine months ended September 30, 2021, Tree Island sold, net of rebates, approximately \$0.9 million and \$2.8 million respectively (\$0.8 million and \$2.1 million in 2020) of goods to DBM and trade accounts receivable owing from DBM as at September 30, 2020 is approximately \$0.5 million (approximately \$0.3 million in 2020). Outstanding trade accounts receivable from DBM at period end are unsecured, interest free and settlement occurs in cash (Note 5).

13.2 TRANSACTION WITH KEY MANAGEMENT PERSONNEL

Included in the definition of key management for purposes of disclosure of related party transactions are members of Board of Directors and officers of Tree Island Steel. Amounts for key management personnel for the three months and nine months ended September 30, 2021 was approximately \$0.6 million and \$1.4 million respectively (\$0.4 million and \$1.0 million approximately in 2020) which includes wages, salaries and retirement contributions, paid annual and sick leave, vehicle costs and also includes directors' fees paid to members of the Board.

14 INCOME TAXES

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

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

15 FINANCIAL INSTRUMENTS

15.1 FAIR VALUE OF FINANCIAL INSTRUMENTS

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

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

- Cash, accounts receivable and accounts payable and accrued liabilities approximate their carrying amounts largely due to the short-term nature of these instruments and interest rates being variable for the senior credit facility;
- Fair value on amounts under the Company's Senior Term Facility are based on estimated market interest rate on similar borrowings. The carrying value approximates fair value as the interest rates approximate market. A 1% change in the market interest rate would change the fair value of Senior Term Facility by \$0.1 million.
- Fair value of the forward exchange forward contracts is estimated using observable foreign exchange spot and forward rates. The Company does not consider interest rates or the credit quality of counterparties as significant inputs to the valuation; and
- Fair value on the Company's lease liabilities are based on estimated market interest rate on similar borrowings. The carrying value of the lease liabilities approximates fair value as the interest rates approximate market.

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

15.2 FAIR VALUE HIERARCHY

The financial instruments have been categorized on a fair value hierarchy based on whether the inputs to those valuation techniques are observable (inputs reflect market data obtained from independent sources) or unobservable (inputs reflect the Company's market assumptions).

The three levels of fair value estimation are:

- Level 1: Quoted (unadjusted) market prices in active markets for identical assets or liabilities;
- Level 2: Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable; and
- Level 3: Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

16 RISK EXPOSURE AND MANAGEMENT

Tree Island is exposed to various risks associated with its financial instruments. These risks are categorized as credit risk, liquidity risk and market risk.

16.1 CREDIT RISK

Credit risk consists of credit losses arising in the event of non-payment of accounts receivable of customer accounts. However, the credit risk is minimized through selling to well-established customers of high-credit quality. The credit worthiness of customers is assessed using credit scores supplied by a third party and through direct monitoring of their financial well-being on a continual basis. Management establishes guidelines for customer credit and appropriate precautions are taken to manage credit risk. Provisions for potential credit losses (allowance for doubtful accounts) are maintained and any such losses to date have been within management's expectations.

16.2 LIQUIDITY RISK

Liquidity arises from our financial obligations and in the management of our assets, liabilities and capital structure. This risk is managed by regular evaluation of our liquid financial resources to fund current and long-term obligations and to meet its capital commitments in a cost-effective manner.

The main factors that affect liquidity include realized sales prices, production levels, cash production costs, working capital requirements, future capital expenditure requirements, scheduled payments on financial liabilities and lease obligations, credit capacity and expected future debt and equity capital market conditions.

Liquidity requirements are met through a variety of sources including cash balances on hand, cash generated from operations, existing credit facilities, and debt and equity capital markets. Management monitors and manages liquidity risk by preparing annual budgets, monthly projections to the end of the fiscal year and regular monitoring of financial liabilities against the constraints of the available revolving credit facilities.

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

The table below summarizes the future undiscounted contractual cash flow requirements for financial liabilities (including scheduled interest payments on interest bearing liabilities) as at September 30, 2021 and December 31, 2020:

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

16.3 FOREIGN CURRENCY RISK

Tree Island's U.S. dollar-denominated cash, accounts receivable, accounts payable and accrued liabilities, and Senior Credit Facility are exposed to foreign currency exchange rate risk because the value of these financial instruments will fluctuate with changes in the U.S./Canadian dollar exchange rate. The Company may enter into U.S. dollar currency forward contracts for periods consistent with a portion of U.S. dollar currency transaction exposures, generally from one to three months. These are not designated as cash flow, fair value or net investment hedges. As of September 30, 2021, the Company had no outstanding U.S. dollar currency forward contracts.

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

16.4 INTEREST RATE RISK

Tree Island is exposed to interest rate risk on its Senior Credit Facility. Interest payable on the funds advanced under the Senior Credit Facility are based on variable rates.

A one percent increase in the interest rates charged on the Senior Credit Facility would increase financing expenses by \$0.2 million annually. Tree Island does not use derivative instruments to manage the interest rate risk.

16.5 RAW MATERIAL PRICE RISK

Tree Island is exposed to changes in the price of the materials used in its production process and, from time to time, enters into forward contracts to purchase a portion of the zinc used. These are not designated as cash flow or fair value hedges. As at September 30, 2021 the Company had no outstanding zinc forward contracts.

17 MANAGEMENT OF CAPITAL

The Company’s objectives when managing its capital are:

- To maintain a capital base so as to preserve and enhance investor, creditor, and market confidence and to sustain viability and future development of the business; and
- To manage capital in a manner that will comply with the financial covenants on the Senior Credit Facility and Senior Term Loan agreements as described further in Notes 9.1 and 9.2.

The Company manages the capital structure in accordance with these objectives, with considerations given to changes in economic conditions and the risk characteristics of the underlying assets in particular, by closely monitoring cash flows and compliance with external debt covenants. The table below is what management considers capital:

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

18 NET INCOME PER SHARE

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

Diluted earnings per Share amount is calculated by dividing the net income for the year by the weighted average number of Shares outstanding during the year plus the weighted average number of Shares that would be issued on conversion of all the dilutive potential units into Shares. As at September 30, 2021 the Company does not have any instruments issued that could be dilutive.

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

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

19 PROVISIONS AND COMMITMENTS

19.1 LITIGATION AND CLAIMS

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

19.2 PURCHASE COMMITMENTS

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

20 SEGMENTED INFORMATION**20.1 MARKET SEGMENTS**

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

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

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

20.2 GEOGRAPHIC SEGMENTS

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

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

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

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

21 SUBSEQUENT EVENTS

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

SHAREHOLDER INFORMATION

TREE ISLAND STEEL

Board of Directors:

Amar S. Doman –
Executive Chairman of
the Board

Peter Bull

Harry Rosenfeld

Sam Fleiser

Theodore A. Leja

Joe Downes

Executive Officers:

Remy Stachowiak
*President,
Chief Operating Officer*

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

Shares:

Market Information

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

Registrar and Transfer Agent

Computershare Investor
Services Inc.

Corporate Head Office:

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Website:

www.treeisland.com

Investor Relations:

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Auditors:

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