TREE ISLAND STEEL

WIRE & WIRE PRODUCTS ESTABLISHED IN 1964

Management's Discussion and Analysis

Q2 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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SHAREHOLDER INFORMATION .... **back cover**

Galvanized Chain Link Fence

TO OUR SHAREHOLDERS

Letter to Shareholders

In the second quarter of 2021, we experienced ongoing market demand for wire products along with customer inventory replenishment, combined with globally tight supply conditions for steel wire rod, our primary raw material. Sales volume increased in the quarter from increased construction activities in both residential and non-residential sectors, as well as demand for multiple industrial OEM steel wire applications, such as fencing wire and spring wire, and agricultural products. Global supply of steel wire rod remains constrained as steel mills increase production and rebuild inventory to support improved market demand. This has driven both wire rod costs and manufactured wire products pricing towards historic high levels, as rising costs get transferred through the supply chain.

The elevated pricing along with ongoing inventory and cost management across the business have had a favorable impact on gross profit in the quarter. Nevertheless, as the steel supply chain rebuilds inventory and availability of product improves, we anticipate more balanced market conditions in the future. This requires continued close management of our materials purchasing and inventory positions to align with market demand, production capability and overall cost. As we support our customers in this dynamic environment, we continue to remain focused on protecting the health and safety of our employees throughout the economic reopening.

The tireless engagement, passion and contribution of our employees to the success of Tree Island Steel is sincerely acknowledged. We also wish to profoundly thank our customers and stakeholders for continuing to support the Tree Island Steel brand as a diversified producer of premium quality wire and wire products.

Sincerely,

Remy Stachowiak
President and Chief Operating Officer, Tree Island Steel

MANAGEMENT DISCUSSION AND ANALYSIS

June 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 July 27, 2021 and should be read in conjunction with the unaudited interim condensed consolidated financial statements for six months ended June 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 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 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 28,443,459 Shares outstanding as of June 30, 2021.

On July 27, 2021, the Board of Directors declared a one-time special cash dividend of $0.05 per share on the issued and outstanding Common Shares of the Company, payable on October 15, 2021, to holders of record at the close of business on September 30, 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 second quarter of 2021 amounted to $74.4 million compared to $50.5 million in the same period last year, a 47.4% increase. This increase in revenue is attributable to higher sales volumes and increased selling prices in our Agricultural, Industrial and Construction segments. The increased market demand along with ongoing cost and inventory management actions resulted in a gross profit increase to $16.8 million in the quarter, compared to $5.9 million in the same period last year. EBITDA for the period amounted to $14.7 million compared to $4.0 million in the second quarter of 2020 from improved gross profit .

For the six months ending June 30, 2021, revenues amounted to $141.3 million compared to $108.5 million in the same period in 2020, representing a 30.2% 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 $29.5 million, compared to the $12.6 million in the same period last year. EBITDA for the current period amounted to $25.4 million compared to $9.0 million in 2020, as a result of increased sales and improved cost controls.

4.2 COVID-19 DEVELOPMENT

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

As the economy reopens and recovers, we anticipate stepped 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.

5 SUMMARY FINANCIAL INFORMATION

	Three Months Ended June 30,		Six Months Ended June 30,	
Results from Operations:	2021	2020	2021	2020
Revenue	74,410	50,466	141,252	108,463
Cost of sales	(56,115)	(43,014)	(108,865)	(92,849)
Depreciation	(1,456)	(1,507)	(2,921)	(3,051)
Gross profit	16,839	5,945	29,466	12,563
Selling, general and administrative expenses	(3,473)	(3,191)	(6,800)	(7,049)
Operating income	13,366	2,754	22,666	5,514
Foreign exchange gain (loss)	(99)	(294)	(212)	436
Gain (loss) on property, plant, and equipment	-	(12)	-	(12)
Restructuring and other expenses	(3)	(77)	(3)	(77)
Financing expenses	(624)	(790)	(1,190)	(1,753)
Income before income taxes	12,640	1,581	21,261	4,108
Income tax expense	(3,572)	(481)	(5,729)	(1,191)
Net income	9,068	1,100	15,532	2,917
Net income per share	0.32	0.04	0.55	0.10
Dividends per share	0.03	0.02	0.06	0.04

Financial position as of:	June 30, 2021	December 31, 2020
Total assets	172,111	146,549
Total non-current financial liabilities	77,273	71,236

	Three Months Ended June 30,		Six Months Ended June 30,	
EBITDA:	2021	2020	2021	2020
Operating income	13,366	2,754	22,666	5,514
Add back depreciation	1,456	1,507	2,921	3,051
Foreign exchange gain (loss)	(99)	(294)	(212)	436
EBITDA	14,723	3,967	25,375	9,001

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

($'000 unless otherwise stated)	**2021**	**2020**	**Variance Fav/(Unfav)**	
SALES	74,410	50,466	23,944	47.4%

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

Revenue by Market Segment

	Three Months Ended June 30,					
	2021		2020		Variance	
	Revenue	% of Total	Revenue	% of Total	Amount	%
Industrial	26,292	35.4%	18,121	35.9%	8,171	45.1%
Commercial	17,102	23.0%	11,507	22.8%	5,595	48.6%
Agricultural	11,412	15.3%	7,608	15.1%	3,804	50.0%
Residential	19,604	26.3%	13,230	26.2%	6,374	48.2%
Total	74,410	100.0%	50,466	100.0%	23,944	47.4%

Overall revenues increased across all geographical locations, 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 June 30,					
	2021		2020		Variance	
	Revenue	% of Total	Revenue	% of Total	Amount	%
United States	49,959	67.1%	33,243	65.9%	16,716	50.3%
Canada	22,618	30.4%	15,454	30.6%	7,164	46.4%
International	1,833	2.5%	1,769	3.5%	64	3.6%
Total	74,410	100%	50,466	100%	23,944	47.4%
Average C$/U.S.$	1.23		1.38			

($'000 unless otherwise stated)	**2021**	**2020**	**Variance Fav/(Unfav)**	
COST OF SALES	56,115	43,014	(13,101)	(30.5%)

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

($'000 unless otherwise stated)	**2021**	**2020**	**Variance Fav/(Unfav)**	
GROSS PROFIT	16,839	5,945	10,894	183.2%

Gross profit for the quarter amounted to $16.8 million versus $5.9 million during the same period in 2020, predominantly from increased sales volumes and ongoing costs and inventory management.

($'000 unless otherwise stated)	**2021**	**2020**	**Variance Fav/(Unfav)**	
SG&A EXPENSES	3,473	3,191	(282)	(8.8%)

SG&A expenses are higher when compared to prior year, as a result of higher volumes.

($'000 unless otherwise stated)	**2021**	**2020**	**Variance Fav/(Unfav)**	
FINANCING EXPENSES	624	790	166	21.0%

Financing expenses decreased mainly due to reduced interest payment and settlement of the long-term debt, compared to prior year.

Financing Expenses

	Three Months Ended June 30,			
			Variance Fav/(Unfav)	
	2021	2020	Amount	%
Long term debt accretion	-	145	145	100.0%
Interest on senior credit facility	116	173	57	32.9%
Interest on senior term facility	144	89	(55)	32.9%
Interest on lease liability	302	347	45	13.0%
Other interest and financing costs	59	30	(29)	-96.7%
Deferred financing costs	3	6	3	50.0%
Total financing expenses	624	790	166	21.0%

($'000 unless otherwise stated)	**2021**	**2020**	**Variance Fav/(Unfav)**	
FOREIGN EXCHANGE	(99)	(294)	195	66.3%

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, 2021, the Company did not have any U.S. dollar currency forward contracts outstanding.

($'000 unless otherwise stated)	**2021**	**2020**	**Variance Fav/(Unfav)**	
INCOME TAX EXPENSE	(3,572)	(481)	(3,091)	(642.6%)

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% for Canadian taxable income and 21% for U.S. based taxable income applied to the income of the respective subsidiaries before taxes, with adjustments for permanent differences between accounting and taxable income.

($'000 unless otherwise stated)	**2021**	**2020**	**Variance Fav/(Unfav)**	
NET INCOME	9,068	1,100	7,968	724.4%

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

7 COMPARISON OF RESULTS FOR THE SIX MONTHS ENDED JUNE 30, 2021 AND 2020

($'000 unless otherwise stated)	**2021**	**2020**	**Variance Fav/(Unfav)**	
SALES	141,252	108,463	32,789	30.2%

The revenue increase in the first half of the year is primarily due to higher shipped volumes and increased selling prices across all market segments as a result of the economic reopening.

Revenue by Market Segment

	Six months ended June 30,					
	2021		2020		Variance	
	Revenue	% of Total	Revenue	% of Total	Amount	%
Industrial	48,721	34.5%	37,332	34.4%	11,389	30.5%
Commercial	29,931	26.3%	24,797	26.2%	5,134	30.8%
Agricultural	25,487	21.2%	17,954	22.9%	7,533	20.7%
Residential	37,113	18.0%	28,380	16.6%	8,733	42.0%
Total revenue	141,252	100.0%	108,463	100.0%	32,789	30.2%

U.S. and Canadian revenues increased due to increasing demand and higher selling prices, while International sales are impacted by fluctuations in demand.

Revenue by Location

	Six months ended June 30,					
	2021		2020		Variance	
	Revenue	% of Total	Revenue	% of Total	Amount	%
United States	92,607	65.6%	67,626	62.3%	24,981	36.9%
Canada	45,613	32.3%	36,684	33.9%	8,929	24.3%
International	3,032	2.1%	4,153	3.8%	(1,121)	-27.0%
Total	141,252	100.0%	108,463	100.0%	32,789	30.2%
Average C$/U.S.$	1.24		1.36			

($'000 unless otherwise stated)	**2021**	**2020**	**Variance Fav/(Unfav)**	
COST OF SALES	108,865	92,849	(16,016)	(17.2%)

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

($'000 unless otherwise stated)	**2021**	**2020**	**Variance Fav/(Unfav)**	
GROSS PROFIT	29,466	12,563	16,903	134.5%

Gross profit for the quarter amounted to $29.5 million versus $12.6 million during the same period in 2020, as the result of increased sales volumes and ongoing inventory management.

($'000 unless otherwise stated)	**2021**	**2020**	**Variance Fav/(Unfav)**	
SG&A	6,800	7,049	249	3.5%

SG&A expenses are lower when compared to prior year, from lower costs incurred in the first quarter of 2021.

($'000 unless otherwise stated)	**2021**	**2020**	**Variance Fav/(Unfav)**	
FINANCING EXPENSES	1,190	1,753	563	32.1%

Financing expenses decreased primarily due to payment and settlement of the long-term debt, compared to prior year.

Finance expenses

	Six Months Ended June 30,			
			Variance Fav/(Unfav)	
	2021	2020	Amount	%
Long term debt accretion	-	306	306	100.0%
Interest on senior credit facility	234	460	226	49.1%
Interest on lease liability	614	693	79	11.4%
Other interest and financing costs	336	278	(58)	-20.9%
Deferred financing costs	6	16	10	62.5%
Total financing expenses	1,190	1,753	563	32.1%

($'000 unless otherwise stated)	**2021**	**2020**	**Variance Fav/(Unfav)**	
FOREIGN EXCHANGE	(212)	436	(648)	(148.6%)

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 June 30, 2021, the Company did not have any U.S. dollar currency forward contracts outstanding.

($'000 unless otherwise stated)	**2021**	**2020**	**Variance Fav/(Unfav)**	
INCOME TAX EXPENSE	(5,729)	(1,191)	(4,538)	(381.0%)

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

($'000 unless otherwise stated)	**2021**	**2020**	**Variance Fav/(Unfav)**	
NET INCOME	15,532	2,917	12,615	432.5%

The net income increase over the comparative period is attributable to higher gross profits, lower SG&A and decreased 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 June 30, 2021 compared to 2020 is provided

	As at June 30,	
	2021	2020
Cash	3,585	1,991
Accounts receivable	36,040	27,711
Inventories	58,690	48,032
Other current assets	6,458	2,255
	104,773	79,989
Accounts payable and accrued liabilities	(20,112)	(20,271)
Dividends payable	(853)	(573)
Other current liabilities	(4,502)	(1,134)
	(25,467)	(21,978)
Net balance	79,306	58,011

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 June 30, 2021 were higher when compared to the same period last year, reflecting the increasing sales in Q2 2021 compared to the same period in the prior year.

Inventories levels were higher as at June 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).

8.2 CASH FLOW

	Three Months Ended June 30,		Six Months Ended June 30,	
	2021	2020	2021	2020
Cash provided by operating activities	11,016	2,604	19,396	8,220
Working capital adjustments	(11,289)	3,977	(20,874)	7,188
Net cash provided by (used in) operating activities	(273)	6,581	(1,478)	15,408
Net cash used in investing activities	(278)	(42)	(556)	(1,599)
Repayment of senior term loans	(693)	(498)	(1,402)	(994)
Repayment of long-term debt	-	(286)	-	(581)
Lease interest paid	(302)	(347)	(614)	(693)
Lease principal payments	(393)	(389)	(786)	(821)
Other interest paid	(314)	(347)	(566)	(822)
Advance on (repayment of) senior revolving facility	3,803	(6,411)	9,353	(7,397)
Dividend paid	(853)	(573)	(1,424)	(1,149)
Share buyback	(29)	(236)	(168)	(284)
Net cash provided by (used in) financing activities	1,219	(9,087)	4,393	(12,741)
Exchange rate changes on foreign cash balances	(12)	(29)	(19)	16
Increase in cash balances	656	(2,577)	2,340	1,084

In the second quarter of 2021, net cash for operating activities has decreased compared to Q2 2020 primarily as a result of increased accounts receivable and inventory balances from higher volumes of sales. The net cash used in investing activities was from capital investments which are further described in Section 9. The net cash provided by financing activities resulted from advances on out 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 June 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 June 30, 2021, we made capital expenditures of $0.3 million and for the year-to-date we made capital expenditures of $0.6 million. These expenditures were for capital maintenance activities.

10 CONTRACTUAL OBLIGATIONS AND COMMITMENTS

As of June 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 Q4 2021.

From time to time, we make investments to update, replace or make additions to our existing capital assets, which includes, but is not limited to, the buildings we occupy and capital equipment. These investments are in the normal course of our business activity. For the capital assets we have committed to purchase but have not yet received, amounts remaining to be paid are disclosed as purchase commitments. As of June 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 June 30, 2021, the Company did not have any U.S. dollar currency forward contracts outstanding.

Contractual Obligations and Commitments

	2021	2022	2023	2024	2025	Thereafter	Total
Production materials	70,950	-	-	-	-	-	70,950
AP and accrued liabilities	20,112	-	-	-	-	-	20,112
Other current liabilities	87	-	-	-	-	-	87
Dividends	853	-	-	-	-	-	853
Lease liabilities	1,402	2,850	2,505	2,372	2,336	30,885	42,351
Senior revolving facility	-	-	34,220	-	-	-	34,220
Senior term loans (principal)	1,394	2,788	2,788	2,788	2,227	2,413	14,398
Senior term loans (interest)	212	247	190	132	79	83	943
Total obligations and commitments	95,010	5,885	39,703	5,292	4,642	33,381	183,914

11 SUMMARY OF QUARTERLY FINANCIAL RESULTS

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

	Jun 30, 2021	Mar 31, 2021	Dec 31, 2020	Sep 30, 2020	Jun 30, 2020	Mar 31, 2020	Dec 31, 2019	Sep 30, 2019
Revenue	74,410	66,842	54,199	53,236	50,466	57,993	45,144	49,701
Gross profit	16,839	12,627	6,607	6,684	5,945	6,614	3,482	4,623
Foreign exchange gain (loss)	(99)	(113)	(226)	(383)	(294)	730	(490)	70
Net income (loss)	9,068	6,464	1,682	520	1,100	1,829	(3,199)	(359)
Net income (loss) per share - basic	0.32	0.22	0.05	0.02	0.04	0.06	(0.11)	(0.01)

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 impacts of COVID-19 were offset by proactive cost management measures, including decreases in expenditures and improved product mix.
- In Q3 and Q4 2020 sales increased as a result of improved demand after the initial pandemic related reductions in demand and temporary closures of certain customer and project sites.
- 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.

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 June 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 July 27, 2021, Futura owns 34.4% 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 six months ended June 30, 2021, Tree Island sold, net of rebates, approximately $1.0 million and $1.9 million ($0.6 million and $1.3 million in 2020) of goods to DBM and trade accounts receivable owing from DBM as at June 30, 2021 is approximately $0.5 million (approximately $0.2 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 six months ended June 30, 2021 was approximately $0.5 million and $0.8 million respectively ($0.3 million and $0.6 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 June 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 June 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 June 30, 2021 unaudited interim condensed consolidated financial statements and this MD&A prior to its release.

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:

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amahdavi@treeisland.com

Auditors:

KPMG LLP Vancouver, B.C.