TREE ISLAND WIRE INCOME FUND

Annual Report 2011

Report to Unitholders
for the year ended
December 31, 2011

TREE ISLAND WIRE INCOME FUND

FUND PROFILE

Launched on November 12, 2002, Tree Island Wire Income Fund owns 100% of Tree Island Industries Ltd. The Fund is listed on the Toronto Stock Exchange (listing symbol TIL.UN)

The Fund has convertible Debentures listed on the Toronto Stock Exchange (listing symbol TIL.DB)

Tree Island Profile

Headquartered in Richmond, British Columbia, Tree Island Industries Ltd. produces wire products for a diverse range of construction, agricultural, manufacturing and industrial applications. Its products include bright wire; a broad array of fasteners, including packaged, collated and bulk nails; stucco reinforcing products, engineered structural mesh, fencing and other fabricated wire products. The Company markets these products under the Tree Island, Halsteel, K-Lath, Industrial Alloys, TI Wire, Tough Strand and Select brand names. Tree Island also owns and operates a Hong Kong-based company that assists the international sourcing of products to Tree Island and its customers.

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TO OUR UNITHOLDERS

The persistent uncertainty in our key end markets and rising input costs were issues we continued to face in fiscal 2011. These challenging times continue to be a reflection of the economic environment we have all been hearing and reading about in the U.S. and globally over the past three years. Our objectives remain clear and solely focused on driving improved financial performance and positioning ourselves to return to profitable growth once a recovery in our markets re-surfaces.

For the year ended December 31, 2011, the Fund reported revenue of $150.0 million, compared to $132.4 million during the same period in 2010 and sales volumes of 110,314 tons, compared to 99,376 tons in 2010. Gross profit improved to $10.5 million from $6.3 million. Gross profit per ton also increased to $95 per ton from $63 per ton. The improvement in gross profit, together with our ongoing focus on cost management, resulted in an improvement in EBITDA for fiscal 2011 to $1.3 million versus an EBITDA for fiscal 2010 of $50 thousand.

Building on the previous quarters, the Fund's fourth quarter 2011 results showed an improvement on a year-over-year basis. Revenues increased to $35.1 million from $27.7 million during the fourth quarter of 2011. The Fund also reported a $0.6 million improvement in gross profit amounting to $1.1 million versus $0.5 million in the fourth quarter of 2010. EBITDA weakened to a loss of $1.1 million versus an EBITDA loss of $0.5 million in the fourth quarter of 2010 due in part to one-time expenses related to organizational restructuring in certain functional areas.

We remain intently focused on operating the business with tight controls on costs, managing working capital and maximizing capacity utilization in an effort to deliver better bottom line results.

Consistent with our message to you during the past number of years, profitability continues to be our key objective and we continue to pursue this through strict inventory and pricing discipline, an emphasis on efficiency at all levels of our operation, as well as through our renewed focus on premium products. While the external economic forces have not helped us with our efforts, I am pleased with what has been achieved in these difficult times to strengthen the business.

In closing, I would like to thank our employees for continuing to build Tree Island's reputation for product quality and service leadership and to our customers, suppliers and investors I extend my sincere appreciation for working with us.

Dale R. MacLean
President and CEO, Tree Island Industries
Trustee, Tree Island Wire Income Fund

MANAGEMENT'S DISCUSSION AND ANALYSIS

December 31, 2011 and 2010

The Management's Discussion and Analysis includes the following sections:

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The following is a discussion of the financial condition and results of operations of Tree Island Wire Income Fund (the "Fund") and its wholly owned operating subsidiary Tree Island Industries Limited ("Tree Island" or the "Company"). This discussion is current to March 29, 2012 and should be read in conjunction with the consolidated financial statements for the year ended December 31, 2011. The Fund's consolidated financial statements are prepared in accordance with International Financial Reporting Standards ("IFRS") applicable to the preparation of financial statements including IFRS 1 First Time Adoption of International Financial Reporting Standards and are reported in Canadian dollars. The 2010 prior year comparative financial information throughout this report has been restated in accordance with IFRS; however, 2009 information is presented in accordance with Canadian GAAP and has not been restated.

Additional information relating to the Fund, including the audited consolidated financial statements and Annual Information Form ("AIF") for the year ended December 31, 2011, can be found at www.sedar.com or on the Fund'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 the Fund and Tree Island, 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 contained herein that are not statements of historical fact may be deemed to be forward-looking statements. Although we believe that expectations reflected in forward-looking statements are reasonable, such statements involve risks and uncertainties, including the risks and uncertainties discussed under the heading "Risks Relating to the Company's Business" in the Fund's AIF for the year ended December 31, 2011 as well as Section 14 of this MD&A.

The forward looking statements contained herein reflect management's current beliefs and are based upon certain assumptions that management believes to be reasonable based on the information currently available to management. By their very nature, forward looking statements involve inherent risks and uncertainties, both general and specific, and a number of factors could cause actual events or results to differ materially from the results discussed in the forward looking statements. In evaluating these statements, prospective investors should specifically consider various factors including the risks outlined herein under the heading "Risk Factors" which may cause actual results to differ materially from any forward looking statement. Such risks and uncertainties include, but are not limited to: general economic, market and business conditions, the cyclical nature of our business and demand for our products, financial condition of our customers, competition, deterioration in the Company's liquidity, disruption in the supply of raw materials, volatility in the costs of raw materials, significant exposure to the Western United States due to lack of geographic diversity, dependence on the construction industry, transportation costs, foreign exchange fluctuations, leverage and restrictive covenants, labour relations, trade actions, dependence on key personnel and skilled workers, reliance on key customers, 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 Fund's Board of Trustees, and it's 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 the Fund 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 laws.

2. NON-IFRS MEASURES

References in this MD&A to "EBITDA" are to operating profit plus depreciation and references to "Adjusted Net Income (Loss)" are to net income (loss) per IFRS adjusted for certain non-cash items including non-cash financing expenses, changes in fair value of convertible instruments and loss on renegotiated debt. EBITDA is a measure used by many investors to compare issuers on the basis of ability to generate cash flows from operations. Adjusted Net Income (Loss) is a measure for investors to understand the impact of significant non-cash items that affect our results from operations. Neither EBITDA nor Adjusted Net Income (Loss) are earnings measures recognized by IFRS and do not have a standardized meaning prescribed by IFRS. We believe that EBITDA and Adjusted Net Income (Loss) are important supplemental measure in evaluating the Fund's performance. You are cautioned that EBITDA and Adjusted Net Income (Loss) should not be construed as alternatives to net income or loss, determined in accordance with IFRS, as indicators of performance or to cash flows from operating, investing and financing activities as measures of liquidity and cash flows. Our method of calculating EBITDA and Adjusted Net Income (Loss) may differ from methods used by other issuers and, accordingly, our EBITDA or Adjusted Net Income (Loss) may not be comparable to similar measures presented by other issuers.

References in this MD&A are made to "Standardized Distributable Cash" and "Adjusted Distributable Cash" which are not recognized measures under IFRS and do not have standardized meanings prescribed by IFRS. Canadian open-ended income trusts, such as this Fund, use Standardized Distributable Cash and Adjusted Distributable Cash as indicators of financial performance and ability to fund distributions. We define Standardized Distributable Cash as net cash from operating activities less all capital expenditures. We define Adjusted Distributable Cash as Standardized Distributable Cash plus the change in non-cash operating assets and liabilities, plus Non-maintenance Capital expenditures. Changes in non-cash operating assets and liabilities and Non-maintenance Capital expenditures are added back in the calculation of Adjusted Distributable Cash because they are funded through the Fund's committed credit facilities. We define Maintenance Capital expenditures as cash outlays required to maintain our plant and equipment at current operating capacity and efficiency levels. Non-maintenance Capital expenditures are defined as cash outlays required to increase business operating capacity or improve operating efficiency, and are also referred to as profit improvement capital.

Our Adjusted Distributable Cash may differ from similar computations as reported by other entities and, accordingly, may not be comparable to distributable cash as reported by such entities. We believe that in addition to net income, Adjusted Distributable Cash is a useful supplemental measure that may assist investors in assessing the return on their investment in Units.

3. THE FUND AND TREE ISLAND

3.1. About the Fund

The Fund holds a 100% ownership interest in Tree Island and is organized as a trust on a corporation structure. There were 22,790,404 Units of the Fund outstanding as of December 31, 2011 and 22,105,071 as of March 29, 2012.

There were 240,337 Phantom Units issued under the Fund's long-term incentive plan as at March 29, 2012. Each Phantom Unit is convertible, subject to vesting conditions, into one Unit.

During 2009 and the early part of 2010, the Fund completed a recapitalization of the business referred to in this MD&A as the Recapitalization Transaction. As part of the Recapitalization Transaction, on November 26, 2009 the Fund issued convertible debentures ("Debentures") by way of a private placement which was then followed by a public offering of Debentures with the same terms and conditions in January 2010. In total, 197,500 Debentures with a face value of $100 each were issued. Each $100 Debenture is convertible into 200 Fund Units at the option of the Debenture holder. As at March 29, 2012, the total number of Debentures remaining outstanding is 193,846.

In addition, as part of the same private placement transaction mentioned above, the Fund issued 4,875,000 warrants with an expiry of November 26, 2014 to certain investors. The warrants allow the holder to purchase, for a period of five years from the closing of the private placement, one Unit at an exercise price of $0.57. No warrants have been exercised since issuance.

3.2. About Tree Island

Organizational Structure

Our corporate structure has two primary entities: Tree Island Industries Ltd. which is our Canadian operating company as well as being the parent company to our operations in the United States, Tree Island Wire (USA) Inc.

Markets

Tree Island supplies to customers in five key markets: residential construction, commercial construction, agricultural, industrial and original equipment manufacturers ("OEM") and specialty applications.

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, level of quality and price point for our customers needs. We achieve this by manufacturing most of our products at our own manufacturing facilities (including premium and select brands), while outsourcing others from qualified manufacturers (direct ship). We market these products to customers in Canada, the United States and internationally.

Premium Brands

We manufacture our premium brand products internally in our North American facilities, targeting them to customers that seek value, reliability, and high performance. Our premium brands offer: consistent, high quality standards that meet customers' needs, ASTM standards and applicable codes; broad range of products; short lead times; and technical support and reliable service. Our premium brands are Tree Island, Halsteel, K-Lath, TI Wire, Industrial Alloys, and Tough Strand.

Select Brand

Most of our select brand products are externally manufactured, and are limited to high-volume commodity items. Products within this group meet general industry specifications but are not customized to individual customer requirements. Select brand products allow us to enhance our relationship with those customers that require a diverse product line including competitively priced commodity products. These products typically create complementary pull through for our premium brands.

Direct Ship

As a service to our customers, we use our network of suppliers world-wide to source commodity wire products not manufactured by Tree Island and direct ship to our customers.

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

Markets	Premium Brand	Products	Specific End Uses	Regions
Residential Construction	Tree Island, Halsteel, K-Lath	Collated, bulk and packaged nails, and stucco reinforcing mesh.	Construction and renovation for new and existing homes	North America
Commercial Construction	Tree Island, TI Wire	Welded wire reinforcement mesh and concrete reinforcing products	Commercial construction, mining, infrastructure projects	North America and International
Industrial/OEM	Tree Island, TI Wire, Tough Strand	Low carbon wire (bright/galvanized/annealed) High carbon wire (bright/galvanized/annealed) Hi-tensile baling wire	Wire fabricating, industrial applications, OEM manufacturing (i.e. mattresses, inner springs, tires), forestry, recycling	North America and International
Agricultural	Tree Island, Tough Strand	Hi-tensile game fence, farm fence, vineyard wire, barbed wire, bailing wire, vinyl coated wire	Agriculture, farming	North America
Specialty	Industrial Alloys	Spring wire, cold heading wire, shaped wire, stainless specialty alloy bar, rod and wire	Consumer products, industrial applications, telecommunications, aerospace, automotive, oil industry	North America

Seasonality

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

4. DEVELOPMENTS AND 2011 BUSINESS OVERVIEW

Market Overview

In our industrial and commercial construction markets, the demand has been steady throughout the year although all of our markets are sensitive to the continuing volatility of economic factors and consumer and business confidence. Demand for products in the residential construction in North America remains below levels prevailing before the recession began in 2009.

The steel industry tends to be highly cyclical and as a result, the price we pay for our raw materials can be affected significantly by general economic conditions, such as worldwide production capacity, regional economic factors including the price of scrap steel and fluctuations in steel imports/exports and trade actions.

Our steel costs increased sharply in 2011 compared to 2010 with the prices stabilizing in the latter part of the third quarter. Since the start of the year, North American steel suppliers have increased steel prices by as much as 25% in some cases, driven by increased raw material costs and managed supply. As part of our strategy to manage rising steel costs, we source our raw materials from a variety of suppliers either domestically or from overseas, always looking for the best pricing available for shipment to our plants. We also strive for quick turnover of our inventories. To the extent that we cannot mitigate increases in steel costs through these measures, we, along with our competitors, attempt to recover the higher costs through price increases. We implemented a series of product price increases throughout 2011, and we will continue working to align product prices with increases in raw material costs. We cannot give any assurances that we will be successful realizing prices sufficient to recover increased raw material costs.

Summary of Results

Although the fourth quarter experienced some seasonal impact, this was not as pronounced as in the prior year, and overall the Fund's performance in the fourth quarter of 2011 and for the full year 2011 compare favorably with the same periods in 2010. Market conditions were challenging during the year with the uncertainty and volatility in global economic factors. As well, the ongoing depressed housing situation in the United States is continuing to impact our traditional markets in the residential construction industry. According to the US Census Bureau, housing starts in the key Western US region were approximately 133,000 in 2011, the third lowest annual starts since 1959. However, despite these low levels in comparison to historic years, Western US region housing starts actually recovered 10.8% over 2010. In response to these challenges, we continue to manage our product mix, maintain price discipline and manage our costs closely as part of our business strategy.

For the year ended December 31, 2011, the Fund reported revenues of $150.0 million, compared to $132.4 million during the same period in 2010. Sales volumes increased to 110,314 tons, compared to 99,376 tons in 2010. Gross profit increased from $6.3 million in 2010 to $10.5 million in 2011 and gross profit per ton increased to $95 per ton (2010 – $63 per ton). EBITDA increased from $50 thousand in 2010 to $1.3 million in 2011.

Tree Island International Ltd.

During the fourth quarter the Board of Trustees approved the wind-down of the non-material operations at the Company's Asian operations, Tree Island International Ltd. and its subsidiaries, as it was determined that the current business model was not aligned with the Company's go-forward strategy. Management and the Board continue to explore options related to the ongoing use of the existing legal entities or otherwise develop the exit strategy; however it has not been finalized and the timetable remains uncertain.

Trade Action Reviews

During the fourth quarter the US Department of Commerce ("DOC") announced, preliminary antidumping duties on certain galvanized wire imported from China and Mexico and on another trade action related to certain nails imported from the United Arab Emirates. The final determinations are expected in the second quarter of 2012.

We are monitoring both cases closely and are in the process of evaluating the potential impacts and opportunities that result from both cases.

Unit Buy-Back

On September 2, 2011, the Fund announced that it had received approval from the Toronto Stock Exchange to commence a normal course issuer bid (the "Bid"). The Fund commenced the Bid on September 7, 2011 and, subject to renewal, will terminate the Bid on the earlier of September 6, 2012 and the date on which the fund has acquired the maximum number of units permitted under the Bid. The Fund may acquire up to 1,825,000 units under the Bid, such number representing approximately 10% of the public float of the Fund's issued and outstanding units at the date hereof. The Fund has no obligation to purchase any units under the Bid. Subject to certain exemptions for block purchases, the maximum number of units that the Fund may purchase on any one trading day is 3,305 units up to and including September 6, 2012. During the year ended December 31, 2011 the Fund purchased 110,500 units at an average cost of $0.23 per unit, net of commission. These units were cancelled upon being purchased by the Fund. Subsequent to year end, the Fund purchased and cancelled an additional 690,500 units for $187,565, net of commissions.

Appointment of CEO

On June 2, 2011, the Fund announced the retirement of Ted Leja and appointment of Dale MacLean as the President and Chief Executive Officer effective July 18, 2011. Mr. MacLean was also appointed as a member of the Fund's Board of Trustees effective on that date.

Mr. MacLean brings extensive knowledge of marketing, sales, operations and supply chain logistics. Previously, he served as Executive Vice President and General Manager of Taymor Industries, a leading supplier of decorative and builders' hardware to the North American building products market. In this position, he worked with many of the same clients and distribution channels that Tree Island currently serves. Mr. MacLean's career also includes over two decades with CN Rail and BC Rail where he held progressively senior positions in sales, marketing, customer service, and operations management. Prior to joining Taymor, Mr. MacLean held responsibility for BC Rail's $325 million Forest Products, Bulk and Intermodal commercial portfolios as Vice President Marketing and Sales.

Amendment of Forbearance Agreements

In 2009, as part of the Recapitalization Transaction, the Fund, through its operating subsidiaries, entered into forbearance and payment agreements (the "Forbearance Agreements") with its significant trade creditors, and their insurers, to restructure approximately $40.4 million of trade payables owing under certain purchase contracts. The original repayment term was through to December 31, 2013.

In the first quarter of 2011, to allow the Fund improved ability to manage its cash flows in the near term, these Forbearance Agreements were amended and the term was extended for an additional year with reductions in certain of the monthly payments during the term. See Section 7.2 for additional information.

Remediation on Surplus Lands Sold in 2009

As described more fully in Note 21 of the Consolidated Financial Statements for the year ended December 31, 2011, in 2009 the Fund completed the sale of 12.5 acres of surplus lands at its Richmond, BC manufacturing facility. The agreement contained a condition whereby $1.5 million was held in trust to be released upon completion of the agreed upon remediation of the site.

In 2011, the Fund completed the remediation work based on the planned requirements and submitted the results for approval in 2011. In the first quarter of 2012, the Certificates of Compliance were issued.

The Company has no further requirements or obligations under the purchase and sale agreement.

Foreign Exchange

The strengthening of the US dollar during the year had several impacts on the Fund's results including the recognition of a foreign exchange loss during the year of $0.7 million (gain of $0.2 million in 2010). As a substantial portion of Tree Island's assets, liabilities, sales and expenses are denominated in currencies other than the Canadian dollar, its functional currency; Tree Island has exposure to fluctuations in the values of these currencies, in particular the US dollar, relative to the Canadian dollar. Foreign exchange gains and losses are unpredictable in nature and therefore can be expected to vary significantly from period-to-period and over time.

Cost Management

We continued to tightly monitor and control our manufacturing and imported finished goods costs during the year, while also strictly enforcing a number of cost savings measures throughout our operations. Measures include the decision not to pay bonuses under our variable compensation plan for management and staff, applying restrictions on staff salaries and ongoing evaluation and monitoring of our operating costs.

Outlook

Given the continued economic uncertainty globally and high level of unemployment in the US, meaningful improvements in demand fundamentals for our end markets are difficult to predict. As we enter 2012, our outlook remains cautious due to the lack of visibility from a macro-economic perspective. Going forward, our focus remains on price discipline and alignment of pricing against rising raw material costs to continue the improvement in our gross profit. However, there can be no certainty that our price increases will be fully realized. To help minimize our exposure to raw material price volatility, we will continue to balance our inventory sourcing between international and domestic suppliers and closely manage our inventory levels. We will also carefully monitor and evaluate our other cost drivers including freight costs, the cost of other materials required to produce our products and our labour and staffing costs.

5. RESULTS FROM OPERATIONS

	Year Ended December 31		
	2011 [1]	**2010 [1]**	**2009 [1]**
Summary of Results *($000's except for tonnage and per unit amounts)*			
Sales Volumes – Tons [2]	***110,314***	***99,376***	***136,198***
Revenue	$ 150,030	$ 132,411	$ 165,581
Cost of goods sold	(136,331)	(120,487)	(183,445)
Depreciation	(3,241)	(5,657)	(7,135)
Gross profit	10,458	6,267	(24,999)
Selling, general and administrative expenses	(12,411)	(11,874)	(21,057)
Operating loss	(1,953)	(5,607)	(46,056)
Foreign exchange gain (loss)	(722)	157	2,441
Financing expenses	(8,500)	(11,265)	(7,660)
Changes in financial liabilities recognized at fair value	2,331	4,362	243
Gain on sale of property, plant and equipment	11	66	5,448
Impairment of property, plant and equipment	(858)	(116)	(346)
Gain (loss) on renegotiated debt	(3,234)	-	17,835
Amortization of deferred gain	-	-	529
Impairment and amortization of intangible assets	-	-	(6,022)
Loss before income taxes	(12,925)	(12,403)	(33,588)
Income tax recovery	64	1,193	6,712
Net loss	**(12,861)**	**(11,210)**	**(26,876)**
Operating loss	**(1,953)**	**(5,607)**	**(46,056)**
Add back depreciation	3,241	5,657	7,135
EBITDA [3]	**1,288**	**50**	**(38,921)**
Foreign exchange gain (loss)	(722)	157	2,441
Adjusted EBITDA	**566**	**207**	**(36,480)**
Net loss	**(12,861)**	**(11,210)**	**(26,876)**
Add back (deduct) significant non-cash items			
Non-cash financing expenses	5,349	7,288	588
Non-cash loss (gain) on renegotiated debt	3,234	-	(17,835)
Changes in fair value of convertible instruments	(2,331)	(4,362)	(243)
Adjusted net loss [3]	**(6,609)**	**(8,284)**	**(44,366)**
Per Uunit			
Net loss per unit - basic and fully diluted	(0.56)	(0.50)	(0.65)
Adjusted distributable cash per unit - basic and fully diluted [3]	0.05	0.19	(1.20)
Per ton			
Gross profit per ton	95	63	(184)
EBITDA per ton	12	1	(286)
Adjusted EBITDA per ton	5	2	(268)

Financial position	As at December 31, 2011 [1]	As at December 31, 2010 [1]	As at December 31, 2009 [1]
Total assets	91,005	87,450	99,693
Total non-current financial liabilities	42,789	35,910	28,779

(1) Balances for 2011 and 2010 are prepared in accordance with IFRS. Balances for 2009 are prepared in accordance with Canadian GAAP.

(2) Sales volumes exclude tons which were processed as part of tolling arrangements

6. COMPARISON OF RESULTS FOR THE YEARS ENDED DECEMBER 31, 2011 AND 2010

Results for the year ended December 31, 2011 are prepared in accordance with IFRS. Comparative financial information for the same period in 2010 has been restated in accordance with IFRS. For further information on the transition to IFRS, please refer to Section 12 of this management discussion and analysis as well as Note 24 of the Fund's December 31, 2011 consolidated financial statements.

Revenue

During the year ended December 31, 2011, we generated revenues of $150.0 million, an increase of $17.6 million, or 13.3%, from the same period in 2010. The improvement in revenue primarily reflects higher sales volumes, higher selling prices and increased tolling revenue. Revenues from tolled baling wire for the pulp industry increased by $1.8 million in 2011, compared to 2010.

The gains in revenue were partially offset by the negative impact throughout most of the year of a stronger Canadian dollar on our US dollar-denominated revenues. In 2011, the average exchange rate for the Canadian to US dollar was 4.0% stronger than in 2010. Holding all other factors constant, had exchange rates for the Canadian to US dollar remained consistent with that of 2010, our 2011 revenues would have been approximately $3.8 million higher.

Sales volumes for the year ended December 31, 2011 increased by 11% to 110,314 tons, from 99,376 tons in 2010. These gains reflect our continued efforts towards targeted growth in key markets and increasing throughput in our facilities despite continuing economic challenges in particular residential construction.

Industrial/OEM market volumes improved by 3,568 tons or 9.3% reflecting increased sales of nail wire, hanger wire and volumes to the recycling industry (high carbon galvanized wire) and the upholstery industries (high carbon wire) representing 38.1% of our total sales portfolio, compared to 38.7% in 2010. Primarily driven by increased sales of concrete reinforcing products, construction fabric rolls and sheets and welded wire mesh products to the mining industry, our volumes to the commercial construction sector grew by 5,502 tons or 32.3% year-over-year and represented 20.4% of our total sales portfolio, compared to 17.1% in 2010. Despite the weakness in the housing market, our volumes to the residential construction market grew 1,895 tons or 6.3% compared to the same period last year, primarily due to higher fastener sales. Sales to the residential construction market represented 29.2% of 2011 total sales, compared to 30.5% in 2010. Sales volumes to the agricultural sector increased by 391 tons or 5.5% and specialty products sales for 2011 increased by 1,799 tons year-over-year as US demand for stainless steel products increased. International trading sales decreased by 2,217 tons year-over-year, reflecting the discontinuation of certain projects in our Asian subsidiaries.

Sales volumes by market were as follows:

	Twelve Months Ended Dec 31, 2011		Twelve Months Ended Dec 31, 2010	
Market	Tons	% of Sales Volumes [(2)]	Tons	% of Sales Volumes [(2)]
Industrial/OEM	42,043	38.1%	38,475	38.7%
Residential Construction	32,214	29.2%	30,319	30.5%
Commercial Construction	22,525	20.4%	17,023	17.1%
Agricultural	7,557	6.9%	7,166	7.2%
Specialty	4,261	3.9%	2,462	2.5%
International Trading [(1)]	1,714	1.6%	3,931	4.0%
Total	110,314	100.0%	99,376	100.0%

(1) International includes Tree Island International trading sales and does not include North American import sales, which are reflected in our sales volumes to other markets

(2) Sales volumes exclude tons which were processed as part of tolling arrangements

The share of sales volumes from our import and trading activities, compared to the share of sales from products manufactured at our domestic manufacturing facilities, was as follows:

	Twelve Months Ended Dec 31, 2011		Twelve Months Ended Dec 31, 2010	
	Tons	% of Sales Volumes	Tons	% of Sales Volumes
North American Manufactured	102,216	92.7%	86,579	87.1%
Imported & Trading	8,098	7.3%	12,797	12.9%
Total	110,314	100.0%	99,376	100.0%

During the year ended December 31, 2011, sales volumes of our North American manufactured products increased both in total tons and as a percentage of total sales volumes. The increase in manufactured product volumes relative to import and trading product volumes reflects our increased emphasis on manufacturing as a core competency as well as our efforts to increase throughput at our North American manufacturing operations. By contrast, combined import and trading sales declined to 8,098 tons in 2011 from 12,797 tons in 2010, and represented a smaller percentage of total sales at 7.3% in 2011 compared to 12.9% in 2010. Going forward, we will continue to review and optimize the mix of manufactured versus imported products as we work to enhance profitability and provide our customers with value and the specific products they need.

Cost of Sales

For the year ended December 31, 2011, cost of sales increased by $15.8 million or 13.2% from the same period last year due to higher raw material costs and higher sales volumes. Our average cost of carbon rod (representing 53.5% of total cost of sales) increased by 9.5% when compared to the same period in 2010. Because carbon rod is usually transacted in US dollars, the cost of carbon rod for our Canadian operations was positively impacted by the stronger Canadian dollar in 2011. Stainless steel costs (representing 7.3% of total cost of sales) increased 16.6% on a per-ton basis, compared to 2010 and the cost of zinc (representing 3.4% of total cost of sales) increased 14.6%.

Gross Profit

During the year ended December 31, 2011, gross profit improved to $10.5 million, while gross profit per ton increased by $32 per ton to $95 per ton, compared to $63 per ton in the same period in 2010. The increase in gross profit and gross profit per ton primarily reflects higher sales and tolling volumes and increased selling prices. These were offset by higher raw material costs as noted above. Gross profit also benefited from a decrease in depreciation expense resulting from a comprehensive review of our property, plant and equipment in the first quarter. This review resulted in an extension of the remaining useful lives of certain of our manufacturing equipment and buildings. Although throughput at the manufacturing facilities has been increasing, gross profit in both 2011 and 2010 continued to be negatively impacted by the suboptimal utilization of our manufacturing facilities.

Expenses

SG&A expenses increased to $12.4 million in 2011 from $11.9 million in 2010, an increase of $0.5 million, or 4.5%. The increase in SG&A expense is primarily the result of organizational staffing and restructuring charges.

EBITDA

EBITDA for the year ended December 31, 2011 increased to $1.3 million from $50 thousand in 2010. The $1.2 million improvement reflects profitability gains made through our focus on profitable markets and products, management of costs and increased volume through our manufacturing facilities.

Adjusted EBITDA, which includes foreign exchange gains and losses in the period, increased to $0.6 million from $0.2 million in the equivalent period in 2010.

Financing Expenses

For the year ended December 31, 2011, financing expenses decreased by $2.8 million to $8.5 million. The components of financing expense are below:

	Year Ended December 31	
	2011	**2010**
Non-cash accretion of debt discount and interest on long term debt and Convertible Debentures	$ 5,349	$ 7,288
Cash interest on debentures	1,938	1,478
Interest on revolving credit	586	538
Other interest and financing costs	347	363
Amortization and write-off of deferred financing costs	280	1,598
	$ 8,500	$ 11,265

The decrease from the prior year in the non-cash accretion on our long term debt and Debentures of $1.9 million is due to amendments to our Forbearance Agreements which resulted in a change of terms on the debt and consequent reduction in discount rate from approximately 22% to 13%. For further information on the change of accounting on the Forbearance Agreements, see the discussion regarding the Loss on Renegotiated Debt below and Note 11 of the December 31, 2011

consolidated financial statements. Financing transaction costs decreased by $1.3 million due to expensing in 2010 of $0.3 million of transaction costs relating to the issuance of Debentures in the quarter and the remaining amortization of $1.0 million of deferred financing fees associated with our previous senior credit facilities whose term ended in March 2010.

The overall decrease was offset by a $0.5 million increase in the cash interest on the Debentures. This reflects the fact that Debentures issued under the rights offering in the first quarter of 2010 were only outstanding for a portion of that quarter.

Changes in Fair Value on convertible instruments

Under IFRS, certain of our financial instruments are recorded at fair market value and are re-measured each period. These instruments are the conversion feature on the Debentures, change of control option and warrants issued as part of the Recapitalization Transaction. The change in fair value for the year ended December 31, 2011 was a gain of $2.3 million versus a gain of $4.4 million in 2010.

The fair market value of these financial liabilities incorporates the market value of the Fund's units and as such, the fair value of these instruments will fluctuate inversely with the changes in the Fund's unit price or in the risk-free rate. The sensitivity of the change in fair value on convertible instruments is discussed in Section 12.

Property, Plant and Equipment Impairment

The Fund has reviewed certain machinery and equipment and concluded that impairment was indicated and likely and as a result an impairment charge of $0.9 million was recognized during the year ended December 31, 2011 (2010 - $0.1 million related to idled machinery and equipment in China).

Loss on renegotiated debt

For accounting purposes, it was determined that the January 31, 2011 amendment to the Forbearance Agreements resulted in an exchange of debt instruments with substantially different terms. As a result, in the first quarter of 2011 the Forbearance Agreements were accounted for as an extinguishment of the original financial liabilities and recognition of new financial liabilities at their present value resulting in a loss on renegotiation of debt of $3.2 million. Present value was determined using discounted cash flows and a credit-adjusted discount rate of 13%. The discount rate, together with the stated interest, comprises the debt discount. Using the effective interest rate method, the debt discount is amortized as accretion and charged to interest expense over the term of the Forbearance Agreement

Foreign Exchange

During the year ended December 31, 2011 the Canadian dollar weakened relative to the US dollar and as a result the Fund reported a loss on foreign exchange of $0.7 million for the year ended December 31, 2011, compared to a gain of $0.2 million in 2010. As a portion of Tree Island's assets, liabilities, sales and expenses are denominated in currencies other than the Canadian dollar, its functional currency, Tree Island has exposure to fluctuations in the values of these currencies, in particular the US dollar, relative to the Canadian dollar. Foreign exchange gains and losses are unpredictable in nature and therefore can be expected to vary significantly from period-to-period and over time.

Income Taxes

In the year ended December 31, 2011, we recorded an income tax recovery of $0.1 million, compared to an income tax recovery of $1.2 million in 2010. The income tax recovery represents a deferred income tax recovery of $13 thousand (2010 - $1.3 million recovery) and a current income tax recovery of $51 thousand (2010 - $0.1 million expense). The income tax expense was based on the statutory tax rate of 26.5% (2010 – 28.5%) applied to the income of subsidiaries before taxes, with adjustments for permanent differences between accounting and taxable income.

Net Loss

We reported a net loss of $12.9 million in the year ended December 31, 2011 (2010 - net loss of $11.2 million), or a loss of $0.56 per unit basic and diluted (2010 - net loss of $0.50 per unit basic and diluted). The increase in the net loss primarily reflects the non-cash loss on renegotiation of debt of $3.2 million (2010 - $nil), the impairment of property, plant and equipment of $0.9 million (2010 - $0.1 million), a foreign exchange loss of $0.7 million (2010 - gain of $0.2 million), a decrease in the gain recognized for the change in fair value of convertible instruments of $2.3 million (2010 – gain of $4.4 million), and an income tax recovery of $0.1 million (2010 - income tax recovery of $1.2 million). These were offset by a decrease in the operating loss to $2.0 million (2010 – $5.6 million) and decrease in financing expense to $8.5 million (2010 - $11.3 million).

Adjusted Net Loss

Adjusted for the impact of certain non-cash items recognized in net loss, Adjusted Net Loss for the year ended December 31, 2011 decreased to $6.6 million, from a loss of $8.3 million during the same period in 2010. The $1.7 million decrease in Adjusted Net Loss is primarily due to a decrease in operating loss of $3.6 million offset by the loss on foreign exchange of $0.7

million (2010 – gain of $0.2 million), impairment of property, plant and equipment of $0.9 million (2010 - $0.1 million), and increase in cash interest in debentures of $0.5 million.

7. FINANCIAL CONDITION AND LIQUIDITY

7.1. Working Capital

Our business requires an ongoing investment in working capital, comprised primarily of accounts receivable and inventories, offset by credit in the form of our Senior Credit Facility, accounts payable and accrued liabilities, interest payable, income taxes payable and current payments due on our long term debt. Our largest investment in working capital is in our inventories. We rely on credit from our key suppliers to finance 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 commercial construction, residential construction, and agricultural markets are seasonal in nature. As a result, sales and working capital requirements may be higher in the first and second quarters when demand is historically highest. A summary of the composition of our working capital during the periods ended December 31, 2011 and December 31, 2010 is provided below ($000's):

		December 31 2011		December 31 2010
Investment in working capital assets				
Cash	$	3,852	$	5,634
Accounts receivable		13,835		9,698
Inventories		36,123		30,878
Other current assets		2,533		2,917
	$	56,343	$	49,127
Less current liabilities				
Senior Credit Facility		(11,247)		-
Accounts payable & accrued liabilities		(13,745)		(13,329)
Other current liabilities		(2,251)		(2,242)
Current portion of long-term debt		(4,882)		(5,271)
		(32,125)		(20,842)
Net investment in working capital	$	24,218	$	28,285

During the year ended December 31, 2011 there were significant increases in accounts receivable, inventories and the Senior Credit Facility. The increase in accounts receivable resulted from stronger sales during the fourth quarter of 2011 as compared to 2010. Inventories increased to support additional sales volumes and to meet demand in the first quarter of 2012 as the first quarter is seasonally our strongest volume period. Offsetting the increases in accounts receivable and inventories was an increase in the Senior Credit Facility to fund the inventory build and operating expenses until cash is collected on our accounts receivable.

Our objective for managing the investment in working capital is to maximize the turnover of productive current assets, being accounts receivable and inventories. We manage our cash to keep utilization of our revolving credit line as low as practicable to maintain borrowing capacity for when it is needed and to reduce ongoing interest costs. We also work with our key vendors to avail ourselves of vendor credit where possible and on advantageous terms.

We manage our inventories, our largest working capital asset, in part by purchasing raw materials more frequently and in smaller quantities than in past years, with an emphasis on a continuous inflow of inventories to meet our production needs. Making smaller and more frequent purchases, typically from suppliers located closer to our manufacturing facilities, enables us to hold less inventory at a cost more closely related to the current market price. We have also established processes to regularly adjust the levels of finished goods stocked in our warehouses so that we can both satisfy customer needs and meet our objective of minimizing inventories on hand.

Our second largest working capital asset is our accounts receivable. We manage our accounts receivable and the related credit risk by focusing on well-established customers with favourable credit profiles. 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. We have established guidelines for customer credit limits and when thresholds in these areas are reached, appropriate precautions are taken to improve collectability. We maintain provisions for potential credit losses (allowance for doubtful accounts) and such losses to date have been within our expectations.

7.2. Liquidity and Capital

Cash Flow

Following is a summary of our cash flow for the years ended December 31, 2011 and 2010 ($000's – bracketed figures indicate use of cash):

	December 31 2011	December 31 2010
Net cash provided by operating activities	$ 1,195	$ 4,400
Working capital adjustments	$ (8,336)	$ (2,796)
Net cash provided by (used in) investing activities	$ (422)	$ 1
Net cash used for (provided by) financing activities		
Issuance of Convertible Debentures, net of transaction costs	-	9,519
Repayment of long-term debt	(2,892)	(2,996)
Interest paid	(2,524)	(2,016)
Financing transaction costs incurred	-	(961)
Normal Course Issuer Bid	(26)	-
Amounts drawn from the Senior Credit Facility	11,247	(3,637)
	$ 5,805	$ (91)
Exchange rate changes on foreign cash balances	(25)	(33)
Increase (decrease) in cash balances	$ (1,782)	$ 1,481

During the year ended December 31, 2011, the cash flow from operating activities decreased over the same period in the prior year due to a $6.0 million income tax refund in 2010 which was offset by improvements in gross profit (net of depreciation expense). However, during 2011, non-cash operating assets and liabilities increased by $5.5 million primarily as a result of an increase in inventories of $5.2 million. In comparison, in 2010, cash of $2.8 million was provided primarily from an increase in inventories in that period.

Investing activities consumed $0.4 million in cash for capital expenditures during the year ended December 31, 2011 and minimal cash during the year ended December 31, 2010.

In regards to the long-term debt, the Fund made payments of $2.9 million during the year ended December 31, 2011 (2010 - $3.0 million) in accordance with the terms of the debt agreements.

During the year ended December 31, 2011, we drew advances of $11.3 million on the Senior Credit Facility, increasing the amount outstanding from $nil as at December 31, 2010 to $11.3 million as at December 31, 2011. This was primarily due to an increase in inventories to support higher sales volumes and accounts receivable from a stronger fourth quarter in 2011 as compared to the fourth quarter in 2010.

Senior Credit Facility

Under the terms of the Senior Credit Facility, up to $35 million may be borrowed for operating requirements in Canadian and US currency. Interest is charged at variable rates based on the Canadian and/or US prime rate and the Canadian B.A. and/or Euro dollar rate. The Senior Credit Facility matures on March 25, 2013.

The Senior Credit Facility is a revolving loan and the Fund expects that it is sufficient to accommodate its current daily operating needs. The credit available at any given time under the Senior Credit Facility is limited to the amount of the calculated borrowing base, less a minimum availability of $2.5 million.

The Senior Credit facility has defined covenants, primarily a quarterly test whereby the Fund is required to meet a defined fixed charge coverage ratio if the availability on the Senior Credit Facility falls below $7.5 million ("Availability Test"). In addition, there are other restrictive covenants that limit the discretion of our management with respect to certain business matters.

As at December 31, 2011 the Fund's availability was in excess of the Availability Test and the Fund was in compliance with its financial and other covenants on the Senior Credit Facility. For more details on the Senior Credit Facility please refer to Note 9 of the Fund's consolidated financial statements for December 31, 2011.

Debentures

As part of the Recapitalization Transaction, between Q4 2009 and the early part of 2010, $19.75 million (less transaction costs of $2.2 million) was raised through the issuance of Debentures offered through a private placement and rights offering. The Debentures are issued in $100 increments and pay interest quarterly, 30 days in arrears, at a stated rate of 10%. They mature on November 26, 2014 and are convertible into units at $0.50.

No Debentures were converted during the year ended December 31, 2011 (in 2010 a total of $365,400 Debentures were converted to 730,800 units in the year).

Forbearance Agreements

As discussed in Section 4, the Fund, through its operating subsidiaries, has entered into Forbearance Agreements with its significant trade creditors, and their insurers. The principal payments over the original and amended terms are as follows:

		Amended		Original
2011	$	2,375	$	4,774
2012		4,882		15,494
2013		13,392		15,522
2014		15,141		-
	$	35,790	$	35,790

Long-term Incentive Plan

Subject to vesting conditions determined by the Board of Trustees, the Phantom Units can be exchanged by holders at any time for Units of the Fund to be issued from treasury for no further consideration. When the Fund pays distributions, distributions on vested and unvested Phantom Units are paid in additional Phantom Units.

During the year ended December 31, 2011, 200,000 Phantom units were granted to Mr. MacLean when he joined Tree Island as President and Chief Executive Officer on July 18, 2011. The maximum number of Units reserved for issuance pursuant to awards of Phantom Units is 500,000 and there are 254,496 remaining available.

7.3. Distributable Cash

To provide a transparent measure of cash available for distribution to unitholders that would be comparable between entities and consistent over time, the Canadian Institute of Chartered Accountants ("CICA") has recommended the use of Standardized Distributable Cash. Standardized Distributable Cash is defined as net cash from operating activities less all capital expenditures, less restrictions on distributions arising from compliance issues with financial covenants and less any minority interests. References in this MD&A to Standardized Distributable Cash is in all material respects in accordance with the recommendations provided in CICA's publication Standardized Distributable Cash in Income Trusts and Other Flow-Through Entities: Guidance on Preparation and Disclosure.

We believe that the calculation of Standardized Distributable Cash distorts the Fund's quarter-to-quarter distributable cash and payout ratios, given that our non-cash operating working capital fluctuates significantly as a result of the seasonality of our business. As a result, we believe that our historical measure of Adjusted Distributable Cash, which excludes the impact of changes in non-cash working capital, is a better measure for determining our operating performance. Adjusted Distributable Cash for the years ended December 31, 2011 and 2010 were calculated as follows ($000's except for unit, per unit and % amounts):

	Three Months Ended December 31		Year Ended December 31	
	2011	2010	2011	2010
Standardized Distributable Cash	$ 1,829	$ 8,546	$ (7,141)	$ 1,604
Change in Non-cash Operating Assets & Liabilities	3,732	3,959	8,336	2,796
Non-maintenance Capital Expenditures	-	-	-	-
Adjusted Distributable Cash	***$ 5,561***	***$ 12,506***	***$ 1,195***	***$ 4,400***
Distributions Paid or Payable	$ -	$ -	$ -	$ -
Weighted Average Units Issued and Outstanding				
Basic	22,843,741	22,861,661	22,856,544	22,641,642
Fully Diluted	22,843,741	22,861,661	22,856,544	22,641,642
Adjusted Distributable Cash per Unit				
Basic	0.2434	0.5470	0.0523	0.1943
Fully Diluted	0.2434	0.5470	0.0523	0.1943
Distributions Paid or Payable per Unit - Basic & Fully Diluted	$ -	$ -	$ -	$ -
Adjusted Distribution Payout Percentage [1]	0%	0%	0%	0%

(1) *Adjusted distribution payout percentage is calculated as distributions paid or payable per Unit, divided by adjusted distributable cash per Unit*

The Adjusted Distributable Cash generated since inception is as follows ($000's except for % amounts):

	Since Inception
Adjusted Distributable Cash Generated Since Inception [1]	135,430
Distributions Paid or Payable Since Inception	158,997
Adjusted Distribution Payout Percentage Since Inception [1]	117%

(1) *Includes pre-tax proceeds on the sale of a property option during the year ended December 31, 2006 and the pre-tax proceeds on the sale of surplus land (the tax provision for these proceeds on sale is included in the net cash provided from operating activities) for the year ended December 31, 2006.*

Historically, our policy was to make equal monthly distributions to unitholders based on our estimate of the annual Adjusted Distributable Cash available for distribution. The amount of Adjusted Distributable Cash available for distribution was based on the Adjusted Distributable Cash generated, after allowances for cash redemption of units, payment of debt service obligations, and any reserve deemed prudent by the Trustees of the Fund. Distributions were declared to unitholders of record on the last business day of each month. Distributions were payable on the 15th day (or closest business day following) of the month following the declaration. Due to the impact of the global economic crisis, limited credit availability and cash constraints, the Fund reduced distributions in November 2008 and subsequently suspended them in January 2009. As a result, for the year ended December 31, 2011, no distributions were declared or paid out of cash generated by the Fund.

8. Capital Expenditures and Capacity

For the year ended December 31, 2011, we made capital expenditures of $0.5 million (2010 - $0.1 million) made up primarily of maintenance capital. We have planned capital expenditures for the 2012 fiscal year to a level which we believe will be sufficient to maintain the existing productive capacity of our manufacturing operations. Non-maintenance capital is funded out of our Senior Credit Facility and maintenance capital is funded from cash generated by operations. We anticipate that we will continue to have sufficient capacity to meet projected future demand.

9. Contractual Obligations and Commitments

As of December 31, 2011, 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.

	2012	2013	2014	2015	2016	Thereafter	Total
Commitments							
Wire Rod Purchases	$ 27,725	$ -	$ -	$ -	$ -	$ -	$ 27,725
Finished Goods	385	-	-	-	-	-	385
Operating Lease Agreements	2,035	1,093	818	800	707	-	5,453
	30,145	1,093	818	800	707	-	33,563
Financial Liabilities							
Revolving Credit	11,247	-	-	-	-	-	11,247
Accounts Payable and accrued liabilities	13,745	-	-	-	-	-	13,745
Long-term debt	4,882	13,392	25,313	-	-	-	43,587
Debentures	1,938	1,938	21,132	-	-	-	25,008
Total	$ 61,957	$ 16,423	$ 47,263	$ 800	$ 707	$ -	$ 127,150

The wire rod purchases are for raw materials to be used in the day-to-day operations of our manufacturing facilities and are expected to be delivered within the first half of 2012.

We have leases for facilities and equipment that are considered to be operating leases for accounting purposes and as such are not recorded on the statement of financial position. We do not have any leases that would be considered finance leases.

We have an ongoing and renewing tolling agreement for contract manufacturing whereby our customer retains ownership of the raw materials and finished goods and we charge the customer a tolling fee for processing the raw material into finished goods, thereby reducing our working capital requirements.

10. SUMMARY OF QUARTERLY FINANCIAL INFORMATION

The table below provides selected quarterly financial information for the eight most recent fiscal quarters to December 31, 2011. This information reflects all adjustments of a normal, recurring nature which are, in our opinion, necessary to present fairly the results of operations for the periods presented ($000's, except tons and per unit amounts). Fourth quarter results are traditionally lower than the other quarters due to the seasonality of our business. Quarter-over-quarter results may also be impacted by unusual or infrequently occurring items.

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

	Dec-31 2011	Sep-30 2011	Jun-30 2011	Mar 31 2011	Dec 31 2010 [1]	Sep 30 2010	Jun 30 2010 [1]	Mar 31 2010
Sales Volumes – Tons [2]	*25,282*	*27,408*	*27,676*	*29,948*	*20,565*	*23,192*	*27,733*	*27,886*
Revenue	$ 35,081	$ 38,005	$ 38,000	$ 38,944	$ 27,746	$ 31,392	$ 38,741	$ 34,532
Gross Profit	$ 1,103	$ 1,411	$ 3,564	$ 4,380	$ 510	$ (488)	$ 3,841	$ 2,404
EBITDA	$ (1,133)	$ (1,276)	$ 1,725	$ 1,972	$ (319)	$ (2,173)	$ 2,281	$ 261
Foreign exchange gain (loss)	$ 517	$ (1,817)	$ 160	$ 418	$ 763	$ 710	$ (759)	$ (557)
Adjusted EBITDA	$ (616)	$ (3,093)	$ 1,885	$ 2,390	$ 444	$ (1,463)	$ 1,522	$ (296)
Net Income (Loss)	$ (4,257)	$ (4,594)	$ 29	$ (4,039)	$ (3,210)	$ (5,459)	$ (190)	$ (2,351)
Net Income (Loss) per Unit – Basic	$ (0.19)	$ (0.20)	$ 0.00	$ (0.17)	$ (0.14)	$ (0.24)	$ (0.01)	$ (0.11)
Gross Profit per Ton	*$ 40*	*$ 51*	*$ 119*	*$ 146*	*$ 25*	*$ (21)*	*$ 138*	*$ 86*
EBITDA per Ton	*$ (41)*	*$ (46)*	*$ 58*	*$ 66*	*$ (16)*	*$ (94)*	*$ 78*	*$ 9*
Distributions Paid or Payable	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -

(1) Reclassified for comparative purposes

(2) Sales volumes exclude tons which are part of tolling arrangements

- Q1 2010: We raised $10.0 million, less $1.1 million in transaction costs from the rights offering of the Recapitalization Transaction and entered into the Senior Credit Facility for $35.0 million led by Wells Fargo Capital Finance Corporation Canada. The new credit agreement replaced the Fund's credit facilities with GE. On February 2, 2010 we received final approval from the Toronto Stock Exchange to list the aggregate $19.75 million principal amount of Debentures issued in terms of the Recapitalization Transaction. The Debentures began trading on February 4, 2010.
- Q2 2010: Our "Back to Basics" strategy, the focus on profitability and cost control continued to result in improved profitability and EBITDA for the quarter despite reduced volumes.

- Q3 2010: Continued weakness in the economy and in particular many of our key markets, impacted our Q3 sales compounded by our decision to focus working capital on higher-margin product lines rather than higher volume product lines, and by customers in certain markets took action to reduce inventories in line with low demand.
- Q4 2010: Continuing weakness in our key markets resulted in lower volumes compared to the same quarter in the prior year. However, the focus on profitability and cost control helped mitigate the negative impact.
- Q1 2011: Significant increases in steel prices required us to announce a series of price increases to mitigate the impact on our margins. A strong Canadian dollar also negatively impacted our US dollar-denominated sales but contributed to reductions in costs of sales and expenses relating to our US dollar-denominated costs.
- Q2 2011: Continuing increases in steel prices required further price increases however the extent of realizing those price increases was not sufficient to fully mitigate the impact on gross profit. The continued strength of the Canadian dollar negatively impacted our US dollar-denominated sales but contributed to reductions in costs of sales and expenses relating to our US dollar-denominated costs.
- Q3 2011: Growth in our key markets resulted in higher volumes and as a result a better recovery of overhead costs contributing to an improved gross profit when compared to the same quarter in the prior year. However, when compared to the first and second quarters, rising raw material costs resulted in margin compression and consequently in lower gross profit as compared to the first and second quarters of 2011.

11. Comparison of Results for the Three Months Ended December 31, 2011 and 2010

Results for the three months ended December 31, 2011 are prepared in accordance with IFRS. Comparative financial information for the same period in 2010 has been restated in accordance with IFRS. For further information on the transition to IFRS, please refer to Section 12 of this management discussion and analysis as well as Note 24 of the Fund’s December 31, 2011 consolidated financial statements.

Summary of Results *($000's except for tonnage and per unit amounts)*	Three Months Ended December 31 2011	2010
***Sales Volumes – Tons* [1]**	***25,282***	***20,565***
Sales	$ 35,081	$ 27,746
Cost of sales	(33,196)	(25,825)
Depreciation	(782)	(1,411)
Gross profit	1,103	510
Selling, general and administrative expenses	(3,018)	(2,240)
Operating loss	(1,915)	(1,730)
Foreign exchange gain (loss)	517	763
Financing expenses	(2,241)	(2,403)
Changes in financial liabilities recognized at fair value	30	768
Gain (loss) on sale of property, plant and equipment	-	(14)
Impairment of property, plant and equipment	(858)	(116)
Loss on renegotiated debt	-	-
Loss before income taxes	(4,467)	(2,732)
Income tax recovery (expense)	210	(478)
Net loss	**(4,257)**	**(3,210)**
Operating loss	(1,915)	(1,730)
Add back depreciation	782	1,411
EBITDA [2]	**(1,133)**	**(319)**
Foreign exchange gain (loss)	517	763
Adjusted EBITDA	**(616)**	**444**
Net loss	**(4,257)**	**(3,210)**
Add back (deduct) significant non-cash items		
Non-cash financing expenses	1,387	1,782
Non-cash loss on renegotiated debt	-	-
Changes in fair value of convertible instruments	(30)	(768)
Adjusted net loss [2]	**(2,900)**	**(2,196)**
Per unit		
Net loss per unit - basic and fully diluted	(0.19)	(0.14)
Adjusted Distributable Cash per Unit - basic and fully diluted [2]	0.05	0.19
Per ton		
Gross profit per ton	40	25
EBITDA per ton	(41)	(16)
Adjusted EBITDA per ton	(24)	21

Financial position	As at December 31, 2011 [1]	As at December 31, 2010 [1]
Total assets	91,005	87,450
Total non-current financial liabilities	42,789	35,910

(1) Sales volumes exclude tons which were processed as part of tolling arrangements

(2) See definition of EBITDA, Adjusted Net Loss and Adjusted Distributable Cash in footnote 3 to the press release

Revenue

For the three months ended December 31, 2011, we generated revenues of $35.1 million, an increase of $7.3 million, or 26.4%, from the same period in 2010. The increase in revenue primarily reflects increased sales volumes, price increases implemented to address rising raw material costs, and increased revenues from our tolling. Revenues from tolled baling wire for the pulp industry increased by $0.4 million in the fourth quarter of 2011, compared to the same period in 2010.

Sales volumes for the fourth quarter of 2011 increased by 22.9% to 25,282 tons, from 20,565 tons during the same period in 2010. Domestic sales increased 5,084 tons or 25.6%. The increase in volumes reflects an overall improved demand in our end

markets compared to the prior year as well as our strategy for targeted growth. This has helped us maintain sales volumes into the fourth quarter in a highly competitive environment and through challenging market conditions.

Industrial/OEM market sales volume representing 40.5% of our total sales volumes in the quarter grew 1,341 tons or 15.1% compared to prior year. The increase was due to higher volumes of galvanized low carbon wire. Our volumes to the commercial construction sector, which accounts for 20.3% of our sales portfolio in Q4 2011, increased 1,037 tons or 25.4%, primarily driven by increased sales of concrete reinforcing wire. Sales volumes to the residential construction market represented 27.8% of our total sales (27.2% in 2010). Driven by improved fastener sales, residential construction sales volumes increased by 1,426 tons or 25.5% year-over-year. This is indicative of our strategy for targeted growth in this market as well as the 36.1% improvement in the US Western housing starts over the same period in 2010. The agricultural sector, making up 5.7% of our sales (3.4% in 2010) improved by 741 tons or 106.6% when compared to Q4 2010. Fourth quarter 2011 sales in the specialty market increased by 538 tons year-over-year as US demand for stainless steel products increased. Our international trading sales decreased by 367 tons year-over-year due to the discontinuation of certain projects in our Asian subsidiaries.

Sales volumes by market were as follows:

	Three Months Ended Dec 31, 2011		Three Months Ended Dec 31, 2010	
Market	Tons	% of Sales Volumes (2)	Tons	% of Sales Volumes (2)
Industrial/OEM	10,235	40.5%	8,894	43.2%
Residential Construction	7,027	27.8%	5,601	27.2%
Commercial Construction	5,126	20.3%	4,089	19.9%
Agricultural	1,436	5.7%	695	3.4%
Specialty	1,127	4.5%	589	2.9%
International Trading (1)	331	1.3%	698	3.4%
Total	25,282	100.0%	20,565	100.0%

(1) International includes Tree Island International trading sales and does not include North American import sales, which are reflected in our sales volumes to other markets

(2) Sales volumes exclude tons which were processed as part of tolling arrangements

The share of sales volumes from our import and trading activities, compared to the share of sales from products manufactured at our domestic manufacturing facilities, were as follows:

	Three Months Ended Dec 31, 2011		Three Months Ended Dec 31, 2010	
	Tons	% of Sales Volumes	Tons	% of Sales Volumes
North American Manufactured	23,446	92.7%	18,670	90.8%
Imported & Trading	1,836	7.3%	1,895	9.2%
Total	25,282	100.0%	20,565	100.0%

During the fourth quarter, sales volumes of our North American manufactured products increased in total volume by 4,776 or 25.6% and remained a high percentage of total sales volumes at 92.7%. Combined import and trading sales declined by 59 tons or 3.1% and represented a smaller percentage of the total sales at 7.3%. The high ratio of manufactured product volumes relative to import and trading product volumes reflects our increased emphasis on manufacturing as a core competency and our efforts to increase throughput at our North American manufacturing operations. Going forward, we will continue to review and optimize the mix of manufactured versus imported products as we work to enhance profitability and provide our customers with value and the specific products they need.

Cost of Sales

Cost of sales for the fourth quarter of 2011 increased $7.4 million or 28.5% from the same period in 2010 as a result of higher volumes through our facilities as well as higher costs of raw materials. Our average cost of carbon rod (representing 50.2% of total cost of sales) increased by 19.1% when compared to the same period in 2010. Stainless steel costs (representing 5.9% of total cost of sales) increased 5.7% on a per-ton basis, compared to 2010 and the cost of zinc (representing 2.4% of total cost of sales) decreased 3.1%.

Gross Profit

Fourth quarter gross profit increased by $0.6 million, to $1.1 million, while gross profit per ton increased to $40 per ton compared to $25 per ton in the same period in 2010. The increase in gross profit and gross profit per ton primarily reflects increased volumes through our facilities and increased selling prices. Gross profit also benefited from a decrease in depreciation expense resulting from a comprehensive review of our property, plant and equipment in the first quarter. This review resulted in an extension of the remaining useful lives of certain of our manufacturing equipment and buildings. Although throughput at

the manufacturing facilities has been increasing, gross profit in both 2011 and 2010 continued to be negatively impacted by the suboptimal utilization of our manufacturing facilities.

Expenses

Selling, general and administrative ("SG&A") expenses were $3.0 million in fourth quarter of 2011, an increase of $0.8 million compared to the same period in 2010. The increase in SG&A expense relates to organizational and staffing charges.

EBITDA

EBITDA for the fourth quarter of 2011 was a loss of $1.1 million, compared to a loss of $0.3 million in Q4 2010. The year-over-year change in EBITDA reflects the $0.8 million increase in SG&A expense.

Adjusted EBITDA, which includes foreign exchange gains and losses in the period, was a loss of $0.6 million compared to $0.4 million in the equivalent period in 2010 resulting from a foreign exchange gain of $0.5 million in Q4 2011 versus a foreign exchange gain of $0.8 million in Q4 2010.

Financing Expenses

For the three month ended December 31, 2011, financing expenses decreased by $0.2 million to $2.2 million. The components of financing expense are below:

	Three months ended December 31			
		2011		2010
Non-cash accretion of debt discount and interest on long term debt and Convertible Debentures	$	1,387	$	1,782
Cash interest on Convertible Debentures		488		488
Interest on Senior Credit Facility		204		85
Other interest and financing costs		91		48
Financing transaction costs and amortization of deferred financing costs		71		-
	$	2,241	$	2,403

The decrease is primarily due to a decrease in the non-cash accretion of debt discount and interest on long term debt and convertible debentures of $0.4 million, primarily due to a reduction in the discount rate on the Forbearance Agreements as a result of the renegotiation of payment terms in the first quarter of 2011. This was offset by an increase of interest costs on our Senior Credit Facility as a result of carrying a higher outstanding balance in Q4 2011 compared to the same period in 2010. For further information on the change of accounting on the Forbearance Agreements, see the discussion regarding the Loss on Renegotiated Debt below and Note 11 of the December 31, 2011 consolidated financial statements.

Changes in Fair Value on convertible instruments

Under IFRS, certain of our financial instruments are recorded at fair market value and are re-measured each period. These instruments are the conversion feature on the Debentures, change of control option and warrants issued as part of the Recapitalization Transaction. The change in fair value for the three months ended December 31, 2011 was a gain of $30 thousand versus a gain of $0.8 million in the prior period.

The fair market value of these financial liabilities incorporates the market value of the Fund's units and as such, the fair value of these instruments will fluctuate inversely with the changes in the Fund's unit price or in the risk-free rate. The sensitivity of the change in fair value on convertible instruments is discussed in Section 12.

Property, Plant and Equipment Impairment

The Fund has reviewed certain machinery and equipment and concluded that impairment was indicated and likely and as a result an impairment charge of $0.9 million was recognized during the three months ended December 31, 2011 (2010 - $0.1 million related to idled machinery and equipment in China).

Foreign Exchange

During the fourth quarter the Fund reported a gain on foreign exchange of $0.5 million in the fourth quarter of 2011, compared to a gain of $0.8 million in Q4 2010. This gain resulted from the strengthening of the US dollar against the Canadian dollar at the end of the quarter in 2011. As a portion of Tree Island's assets, liabilities, sales and expenses are denominated in currencies other than the Canadian dollar, its functional currency, Tree Island has exposure to fluctuations in the values of these currencies, in particular the US dollar, relative to the Canadian dollar. Foreign exchange gains and losses are unpredictable in nature and therefore can be expected to vary significantly from period-to-period and over time.

Income Taxes

We recorded a Q4 2011 income tax recovery of $210 thousand, compared to an income tax expense of $478 thousand in Q4 2010. The income tax recovery represents a deferred income tax recovery of $100 thousand (Q4 2010 - $145 thousand expense) and a current income tax recovery of $110 thousand (Q4 2010 - $333 thousand expense). The income tax recovery was based on the statutory tax rate of 26.5% (2010 – 28.5%) applied to the income of subsidiaries before taxes, with adjustments for permanent differences between accounting and taxable income.

Net Loss

We reported a net loss of $4.3 million in the fourth quarter of 2011 (2010 - net loss of $3.2 million), or a loss of $0.19 per unit basic and diluted (2010 - net loss of $0.14 per unit basic and diluted). The increase in net loss reflects an increase in the operating loss to $1.9 million (2010 – loss of $1.7 million), a decrease in foreign exchange gain to $0.5 million (2010 – $0.8 million), and a decrease in the gain recognized for the change in fair value of convertible instruments to $30 thousand (2010 – gain of $0.8 million), and a impairment loss on property, plant and equipment of $0.9 million (2010 - $nil). This was offset by decrease in financing expenses of $0.2 million and a tax recovery of $0.2 million.

Adjusted Net Loss

Adjusted for the impact of certain non-cash items recognized in net loss, the Adjusted Net Loss was a loss of $2.9 million versus a loss of $2.2 million in the prior period. The $0.7 million increase in Adjusted Net Loss is primarily due to the impairment loss on property, plant and equipment of $0.9 million (2010 - $0.1).

12. Accounting Policies and Estimates

The Fund's significant accounting policies are contained in Note 3 of the consolidated financial statements for the year ended December 31, 2011. Certain of these policies involve critical accounting estimates that require the Fund 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. The Fund evaluates these estimates and assumptions regularly.

Critical Accounting Estimates

The areas that we consider to have critical accounting estimates are: going concern, financial instruments valued at fair value through profit and loss, inventory valuation, allowance for doubtful accounts, property, plant and equipment and income taxes. These critical estimates and the judgments involved are discussed further in the Fund's consolidated financial statements for the year ended December 31, 2011 (Note 4).

Property, plant and equipment

During the first quarter of 2011, the Fund conducted a comprehensive review of its property, plant and equipment remaining useful lives. As a result of this review, for certain equipment and property, the estimated useful lives were extended ranging between 3 to 17 years. This change in estimate has been accounted for prospectively from January 1, 2011 and reduced depreciation by approximately $2.4 million in the year.

In the fourth quarter of 2011, an impairment loss of $0.9 million was recorded on certain machinery and equipment.

Price Risk on Convertible Instruments

Our results of operations are exposed to changes in our unit price because the Debenture conversion feature and warrants are valued at fair value, which will vary with changes in the Fund's unit price and changes in the risk free rate. A $0.01 increase in the Funds unit price or a 1% increase in the risk free rate would have an insignificant impact on the value of the convertible instruments as at December 31, 2011; however, a significant increase in the unit price could materially impact future earnings.

Adoption of International Financial Reporting Standards ("IFRS")

The Fund has adopted IFRS effective January 1, 2011 and prepared comparative financial information using IFRS for the year ended December 31, 2010. Prior to the adoption of IFRS, the Fund prepared its consolidated financial statements under Canadian GAAP.

While the adoption of IFRS has not changed the actual cash flows of the Fund, the adoption has resulted in significant changes to the reported financial position and results of operations of the Fund. Reconciliations between IFRS and Canadian GAAP have been prepared for the comparative 2010 periods to reconcile the financial position, unitholders' equity, statement of operations and comprehensive income (loss).

These reconciliations and description of the impact of the conversion to IFRS are available in the Fund's December 31, 2011 consolidated financial statements (Note 24). Below is a summary of the more significant changes.

Property, plant and equipment ("PPE")

As a result of one of the available transitional elections upon adoption of IFRS, the Fund elected to value machinery and equipment on transition at fair value which then becomes the deemed cost on which to amortize/depreciate in future periods. This resulted in an increase to the carrying value of the "PPE" of $0.8 million as at the transition date and the resulting adjustment being charged to retained earnings and a minimal change to depreciation for the year ended December 31, 2011.

Fund units and instruments convertible into Fund units

Under Canadian GAAP, the Fund's units were classified as equity. Upon transition to IFRS, the equity classification of the units was evaluated because the units can be redeemed at the option of the holder, subject to certain terms and restrictions (see Note 14 of the December 31, 2011 consolidated financial statements). Based on IAS 32, the units meet the conditions for equity classification and therefore continue to be classified as equity under IFRS.

Convertible Debentures

The Fund has issued Convertible Debentures which are considered to be compound instruments and under Canadian GAAP the proceeds received were bifurcated to record the fair value of the associated elements which included the embedded financial derivative for the change of control premium, the conversion feature and any warrants issued with the residual being allocated to the debt portion of the Convertible Debentures. Transaction costs were allocated pro rata between the elements of the Convertible Debentures. The Convertible Debentures and change of control option were classified as financial liabilities and the conversion feature and warrants were classified as equity.

Under IFRS, the Convertible Debentures continue to be considered compound instruments and the original determination of fair values at issuance are consistent between Canadian GAAP and IFRS. The accounting and classification of the Convertible Debentures and of the change of control premium have not changed on conversion to IFRS. However, the conversion feature and warrants under IFRS are classified as financial liabilities and fair value is re-measured at each reporting period with changes in fair value being recorded in the statement of operations. Under Canadian GAAP, the conversion feature and warrants were recorded in unitholders' equity net of allocated transaction costs. Under IFRS, as a result of being classified as financial liabilities, the associated transactions costs have been expensed when incurred. At the transition date, the transaction costs related to the conversion feature and warrants from the Convertible Debentures of $0.3 million issued in 2009 have been adjusted to retained earnings and for the year ended December 31, 2010 the transaction costs of $27 thousand and $0.4 million relating to the conversion feature and warrants from the Convertible Debentures issued in January 2010 have been charged to financing expenses in the restated statement of operations.

This change in classification of the conversion feature and warrants and resulting recognition of fair value changes in the statement of operations will result in increased volatility of net income and earnings per share. This has resulted in a gain of $2.3 million for the year ended December 31, 2011 (2010 – gain of $4.4 million) on the revaluation of these instruments to fair value at each period end.

Deferred gain on sale of option

In 2006 the Fund sold a purchase option on its leased property in Pomona, California. The net pre-tax cash proceeds received on the sale was $5.3 million. The sale was treated as a sale and lease back under Canadian GAAP and the gain was deferred and amortized over the ten year life of the new lease.

Under IAS 17, the Pomona option sale would have been accounted for as a gain at the time of the transaction. As such, retained earnings as at January 1, 2010 has been adjusted for the balance of the deferred gain of $3.3 million under Canadian GAAP and for the year ended December 31, 2010, the amount of deferred gain recognized under Canadian GAAP in the statement of operations of $0.5 million has been reversed.

13. Related Party Transactions

Transactions with associated companies

One of the investors in the Recapitalization Transaction, The Futura Corporation ("Futura"), is considered to be a related party to the Fund because of its 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 Trustees. Futura has purchased $5,000 of convertible debentures and was issued 1,875,000 warrants as part of the Recapitalization Transaction. During the year ended December 31, 2011, Futura received interest settled in cash of $500 (2010 - $392) on the convertible debentures at the stated rate of interest.

As well, the Fund sells products to subsidiaries of a company controlled by Futura, CanWel Building Materials Group Ltd. ("CanWel"), which amounted to, net of rebates, $4,507 (2010 - $4,878) during the year and trade accounts receivable owing

from CanWel is $140 as at December 31, 2011 ($4 – December 31, 2010). Outstanding trade accounts receivable from CanWel at period end are unsecured, interest free and settlement occurs in cash.

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 the Fund and officers of Tree Island. Short term employee benefits for key management personnel was $2,147 (2010 - $1,868) which includes wages, salaries, unit-based compensation and social security contributions, paid annual and sick leave, vehicle costs and bonuses. It also includes Trustees fees for members of the Board.

14. Risks and Uncertainties

Investment in the Fund is subject to a number of risks. Cash distributions to unitholders are dependent upon the ability of Tree Island to pay its interest and principal obligations under the notes, and to declare and pay dividends in respect of the voting common shares. Tree Island's income is dependent upon the fabricated wire products business, which is susceptible to a number of risks. A detailed discussion of our significant business risks is provided in the Fund's 2011 Annual Information Form under the heading "Risk Factors" which can be found at www.sedar.com.

15. Disclosure Controls and Procedures and Internal Control over Financial Reporting

Disclosure Controls and Procedures

Disclosure controls and procedures are controls and other procedures that are designed to: (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, with the participation of the Chief Executive Officer and the Chief Financial Officer, has evaluated the effectiveness of our disclosure controls and procedures as of December 31, 2011. Based upon this evaluation, the Chief Executive Officer and Chief Financial Officer have concluded that these disclosure controls and procedures, as defined by National Instrument 52-109, Certification of Disclosure in Issuers' Annual and Interim Filings, are effective for the purposes set out above.

Internal Control over Financial Reporting

Our management is responsible for designing, establishing and maintaining an adequate system of internal control over financial reporting. Our internal control system was designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes, in accordance with IFRS.

Our management, with the participation of the Chief Executive Officer and the Chief Financial Officer, has conducted an evaluation of the effectiveness of our internal control over financial reporting as of December 31, 2011 based on the framework from the Committee of Sponsoring Organizations of the Treadway Commission ("COSO"). Based on that evaluation, management concluded that our internal control over financial reporting, as defined by National Instrument 52-109, Certification of Disclosure in Issuers' Annual and Interim Filings, is effective to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements in accordance with Canadian IFRS.

Changes in Internal Control over Financial Reporting

Under the supervision and with the participation of management, including the Chief Executive Officer and Chief Financial Officer, we have evaluated changes in internal control over financial reporting that occurred during the fiscal quarter ended December 31, 2011 and found no change that has materially affected, or is reasonably likely to materially affect, internal control over financial reporting.

The Fund's Board of Trustees and Audit Committee reviewed and approved the 2011 audited consolidated financial statements and this management's discussion and analysis prior to its release.

MANAGEMENT'S STATEMENT OF RESPONSIBILITIES

The accompanying consolidated financial statements are the responsibility of management and have been reviewed and approved by the Board of Directors and the Trustees. The consolidated financial statements have been prepared by management, in accordance with International Financial Reporting Standards and, where appropriate, reflect management's best estimates and judgments. Management has also prepared financial and all other information in the annual report and has ensured that this information is consistent with the consolidated financial statements.

The fund maintains appropriate systems of internal control, policies and procedures, which provide management with reasonable assurance that assets are safeguarded and the financial records are reliable and form a proper basis for preparation of the consolidated financial statements.

The Board of Directors and the Trustees ensure that management fulfills its responsibilities for financial reporting and internal control through an Audit Committee. This committee reviews the consolidated financial statements and reports to the Trustees. The auditors have full and direct access to the Audit Committee.

The consolidated financial statements have been independently audited by Ernst & Young LLP, in accordance with Canadian generally accepted auditing standards. Their report below expresses their opinion on the consolidated financial statements of the Fund.

Dale R. MacLean
President and CEO, Tree Island Industries
Trustee, Tree Island Wire Income Fund

INDEPENDENT AUDITORS' REPORT

To the Unitholders of Tree Island Wire Income Fund

We have audited the accompanying consolidated financial statements of Tree Island Wire Income Fund (the "Fund"), which comprise the consolidated statements of financial position as at December 31, 2011 and 2010, and January 1, 2010, and the consolidated statements of operations, comprehensive loss, changes in equity and cash flows for the years ended December 31, 2011 and 2010, and a summary of significant accounting policies and other explanatory information.

Management's responsibility for the consolidated financial statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Tree Island Wire Income Fund as at December 31, 2011 and 2010, and January 1, 2010 and its financial performance and its cash flows for the years ended December 31, 2011 and 2010 in accordance with International Financial Reporting Standards.

Ernst & Young LLP

Chartered Accountants
March 29, 2012
Vancouver, Canada

Tree Island Wire Income Fund

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

(in thousands of Canadian dollars)

	December 31 2011	December 31 2010	January 1 2010
Assets			
Current			
Cash	$ 3,852	$ 5,634	$ 4,153
Accounts receivable (Note 6)	13,835	9,698	9,064
Income and other taxes receivable	-	56	6,121
Inventories (Note 7)	36,123	30,878	33,626
Prepaid expenses	2,533	2,861	3,113
	56,343	49,127	56,077
Property, plant and equipment (Note 8)	34,303	37,752	43,867
Other non-current assets	359	571	1,453
	$ 91,005	$ 87,450	$ 101,397
Liabilities			
Current			
Senior credit facility (Note 9)	$ 11,247	$ -	$ 3,730
Accounts payable and accrued liabilities	13,745	13,329	18,521
Income taxes payable	2,093	2,141	2,342
Other current liabilities	158	101	76
Fair value of convertible instruments (Note 10)	322	2,653	4,204
Current portion of long-term debt (Note 11)	4,882	5,271	3,030
	32,447	23,495	31,903
Convertible Debentures (Note 10)	14,298	13,108	5,716
Long-term debt (Note 11)	28,491	22,802	23,435
Other non-current liabilities	364	411	203
Deferred income taxes (Note 17)	766	779	2,091
	76,366	60,595	63,348
Unitholders' Equity	14,639	26,855	38,049
	$ 91,005	$ 87,450	$ 101,397

Approved on behalf of Tree Island Wire Income Fund

[Signed]	*[Signed]*
"Amar Doman"	*"Dale R. MacLean"*
Trustee	Trustee

See accompanying Notes to the Consolidated Financial Statements

Tree Island Wire Income Fund
CONSOLIDATED STATEMENT OF OPERATIONS
(in thousands of Canadian dollars, except units and per-unit amounts)

	Year Ended December 31	
	2011	**2010**
Sales	$ 150,030	$ 132,411
Cost of sales (Note 7)	136,331	120,487
Depreciation	3,241	5,657
Gross profit	10,458	6,267
Selling, general and administrative expenses	12,411	11,874
Operating loss	(1,953)	(5,607)
Foreign exchange (loss) gain	(722)	157
Gain on sale of property, plant and equipment	11	66
Property, plant and equipment impairment	(858)	(116)
Changes in financial liabilities recognized at fair value	2,331	4,362
Loss on renegotiated debt (Note 11)	(3,234)	-
Financing expenses (Note 12)	(8,500)	(11,265)
Loss before income taxes	(12,925)	(12,403)
Income tax recovery (Note 17)	64	1,193
Net loss for the year	$ (12,861)	$ (11,210)
Net loss per unit		
Basic	$ (0.56)	$ (0.50)
Diluted	$ (0.56)	$ (0.50)
Weighted-average number of units (Note 20)		
Basic	22,856,544	22,641,642
Diluted	22,856,544	22,641,642

See accompanying Notes to the Consolidated Financial Statements

Tree Island Wire Income Fund
CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
(in thousands of Canadian dollars)

		Year Ended December 31		
		2011		2010
Net loss for the year	$	(12,861)	$	(11,210)
Other comprehensive income (loss)				
Unrealized gain (loss) on translating financial statements of subsidiary operations		655		(319)
Comprehensive loss for the year	$	(12,206)	$	(11,529)

See accompanying Notes to the Consolidated Financial Statements

Tree Island Wire Income Fund

CONSOLIDATED STATEMENT OF UNITHOLDERS' EQUITY

(in thousands of Canadian dollars)

	Unitholders' Capital (Note 14)	Accumulated Deficit	Distributions	Accumulated Other Comprehensive Income (Loss)	Total
Balance as at December 31, 2010	$ 211,460	$ (25,038)	$ (159,248)	$ (319)	$ 26,855
Conversion of phantom units (Note 14)	16	-	-	-	16
Normal course issuer bid (Note 14)	(26)	-	-	-	(26)
Net loss	-	(12,861)	-	-	(12,861)
Other comprehensive income	-	-	-	655	655
Balance as at December 31, 2011	$ 211,450	$ (37,899)	$ (159,248)	$ 336	$ 14,639
Balance as at January 1, 2010	$ 211,125	$ (13,828)	$ (159,248)	$ -	$ 38,049
Conversion of debentures (Note 14)	326	-	-	-	326
Conversion of phantom units (Note 14)	9	-	-	-	9
Net loss	-	(11,210)	-	-	(11,210)
Other comprehensive loss	-	-	-	(319)	(319)
Balance as at December 31, 2010	$ 211,460	$ (25,038)	$ (159,248)	$ (319)	$ 26,855

See accompanying Notes to the Consolidated Financial Statements

Tree Island Wire Income Fund
CONSOLIDATED STATEMENT OF CASH FLOWS
(in thousands of Canadian dollars)

	Year Ended December 31	
	2011	**2010**
Cash flows from operating activities		
Net loss for the period	$ (12,861)	$ (11,210)
Items not involving cash		
Depreciation	3,241	5,657
Fair value changes on convertible instruments	(2,331)	(4,362)
Gain on sale of property, plant and equipment	(11)	(66)
Amortization and write-off of deferred financing	280	1,598
Property, plant and equipment impairment	858	116
Loss on renegotiated debt	3,234	-
Non cash accretion of debt discount	5,349	7,288
Deferred income tax recovery	(13)	(1,312)
Change in fair value of phantom units	33	7
Conversion of convertible debentures and phantom units	16	335
Exchange revaluation on foreign denominated debt	817	(1,300)
Working capital adjustments (Note 23)	(8,336)	(2,796)
	(9,724)	(6,045)
Add interest paid for financing activities	2,524	2,016
Add income taxes received	59	5,977
Less income taxes paid	-	(344)
Net cash provided by (used in) operating activities	(7,141)	1,604
Cash flows from investing activities		
Proceeds on sale of property, plant and equipment	49	80
Purchase of property, plant and equipment	(471)	(79)
Net cash provided by (used in) investing activities	(422)	1
Cash flows from financing activities		
Issuance of Convertible Debentures, net of transaction costs	-	9,519
Repayment of long-term debt	(2,892)	(2,996)
Interest paid	(2,524)	(2,016)
Financing transaction costs incurred	-	(961)
Normal course issuer bid (Note 14)	(26)	-
Advance on (repayment of) revolving credit	11,247	(3,637)
Net cash provided by (used in) financing activities	5,805	(91)
Net foreign exchange difference on cash	(25)	(33)
Increase (decrease) in cash	(1,782)	1,481
Cash, beginning of period	5,634	4,153
Cash, end of period	$ 3,852	$ 5,634

See accompanying Notes to the Consolidated Financial Statements

1. NATURE OF BUSINESS

These consolidated financial statements of the Fund for the year ended December 31, 2011 were authorized for issue in accordance with a resolution of the Trustees on March 29, 2012.

The Fund is an unincorporated, open-ended, limited purpose trust established under the laws of the Province of British Columbia pursuant to a Declaration of Trust dated September 30, 2002 and headquartered at 3933 Boundary Road, Richmond, British Columbia, Canada. Each unitholder participates pro rata in distributions of net earnings and, in the event of termination of the Fund, participates pro rata in the net assets remaining after satisfaction of all liabilities. The Fund's Units are publicly traded on the Toronto Stock Exchange ("TSX").

The Fund owns 100% of the common shares of Tree Island Industries Ltd. ("TII" or "Tree Island"). Tree Island 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

Basis of presentation

The Canadian Accounting Standards Board ("AcSB") required all public companies to adopt International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"), replacing Canadian generally accepted accounting principles ("GAAP"), for financial statements relating to fiscal years beginning on or after January 1, 2011. As a result, the Fund adopted IFRS on January 1, 2011 and the consolidated financial statements as at and for the year ended December 31, 2011 have been prepared in accordance with IFRS as issued by the IASB. The impact of the transition from Canadian GAAP to IFRS is explained in Note 24. IFRS 1 First-Time Adoption of IFRS has been applied.

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

Basis of consolidation

The consolidated financial statements include the accounts of the Fund and TII, and TII's wholly-owned subsidiaries, Tree Island Wire Holdings (USA) Inc. ("TIWH") and Tree Island Wire (USA) Inc. ("TIW"), Tree Island International Ltd. ("TI International") and its subsidiaries General Industries & Products International Trade (Tianjin) Co. Ltd. ("GIP") and Tianjin S G United Wire Co Ltd. ("Shoutung"). Intercompany accounts and transactions have been eliminated on consolidation.

Functional currency

The functional and presentation currency of the Fund and its subsidiary Tree Island is the Canadian Dollar. The functional currencies of Tree Island's subsidiaries are: TIW and TIWH is the US dollar; TI International is the US dollar and GIP and Shoutung is the Chinese Renminbi ("RMB").

3. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies set out below have been applied consistently by the Fund and its subsidiaries to all periods presented including the opening balance sheet at January 1, 2010 (Note 24) for purposes of transition to IFRS.

a) Revenue recognition

The Fund recognizes revenue on the sale of goods when the significant risks and rewards of ownership pass to the buyer which is considered to be when legal title passes to customers, the revenue can be reliably measured and collectability is reasonably assured. Revenue related to contract manufacturing is recognized at the point at which the items are ready to ship to the customer, the revenue can be reliably measured and collectability is reasonably assured. For both the sale of goods and contract manufacturing, revenue is stated net of early payment discounts, rebates granted and costs to ship product to customer locations if incurred by the Fund.

b) Cash

Cash is comprised of cash balances, net of outstanding items in deposit and disbursement accounts, cash balances in excess of revolving credit outstanding on the Senior Credit Facility and cash on hand.

c) Inventories

Finished, semi-finished products, raw materials, and consumable supplies and spare parts inventories are stated at the lower of weighted average cost and net realizable value. Cost for finished and semi-finished products includes direct costs incurred in production including direct labour, materials, freight, depreciation and directly attributable overhead costs based on normal operating capacity. Net realizable value is the estimated selling price in the ordinary course of business less estimated costs to sell. Consumable supplies and spare parts are inventories that are expected to be consumed in operations.

d) Property, plant and equipment and depreciation

As part of the transition to IFRS, the Fund has elected under IFRS 1 to value machinery and equipment on transition at fair value, which then becomes the deemed cost on which to amortize/depreciate in future period; this is further described in Note 24 IFRS 1 First-Time Adoption of IFRS. Land, building and improvements continue to be valued at cost less accumulated depreciation and/or impairment losses recognized. Assets acquired or constructed after the transition date are recorded at historic cost, including borrowing costs for long-term construction projects if the recognition criteria are met.

No depreciation is charged on capital projects during the period of construction. Regular repair and maintenance costs are recognized in the income statement as incurred.

Depreciation is determined using the straight-line method over the estimated useful lives of the depreciable assets. When parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items of property, plant and equipment. Depreciation methods, asset residual values and useful lives are reviewed annually and adjusted prospectively as required.

During the first quarter of 2011, the Fund conducted a comprehensive review of its property, plant and equipment remaining useful lives. As a result of this review, for certain equipment and property, the estimated useful lives were extended ranging between 3 and 17 years. This change in estimate has been accounted for prospectively from January 1, 2011 and reduced depreciation by approximately $2.4 million in the year.

Depreciation is calculated over the following rates:

Land and improvements	not depreciated
Buildings and improvements	19 to 30 years
Machinery and equipment	3 to 17 years

An item of property, plant and equipment and any significant part initially recognized is derecognized upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the statement of operations when the asset is derecognized.

e) Impairment of non-financial assets

Impairment Charges

The Fund performs annual impairment tests on long-lived assets when events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment-loss, if any, is determined as the excess of the carrying value of the asset over its recoverable amount, and is charged to income.

The Fund assesses at each reporting date whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Fund estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating unit's ("CGU") fair value less costs to sell and its value in use

and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. Where the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

In determining fair value less costs to sell, fair value is based on quoted market prices, prices for similar assets or other valuation techniques.

The impairment analysis contains estimates due to the inherently speculative nature of forecasting long-term estimated cash flows and determining the ultimate useful lives of assets. If any of these estimates change, future net cash flows from the assets could be lower, which would result in additional impairment. As well, as much as practicable third-party valuators are used to provide fair values which also contain assumptions concerning current market information for similar or same assets and if applicable functional and economic obsolescence.

Impairment losses of continuing operations, including impairment on inventories, are recognized in the statement of operations in those expense categories consistent with the function of the impaired asset.

Reversal of Previous Impairments

An assessment is made at each reporting date as to whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased. If such indication exists, the Fund estimates the asset's or CGU's recoverable amount. A previously recognized impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's or CGU's recoverable amount since the last impairment loss was recognized. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognized for the asset in prior years. Such reversal is recognized in the statement of operations.

f) Financial instruments and risks

Financial Assets

The Fund classifies, at recognition, its financial assets in the following category: loans and receivables. The financial assets are classified depending on the purpose for which the financial assets were acquired. The Fund currently has the following types of financial assets:

(i) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are classified as current assets or non-current assets based on their maturity date. Loans and receivables are carried at amortized cost less any impairment. Loans and receivables are comprised of trade and other receivables.

The Fund assesses at each reporting date whether there is objective evidence that financial assets under loans and receivables are impaired. Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in payments, the probability that they will enter bankruptcy or other financial reorganization. Impaired loans and receivables are charged to the statement of operations as bad debts and allowance for doubtful accounts is recognized.

Financial Liabilities

The Company classifies its financial liabilities in the following categories: borrowings and other financial liabilities and financial liabilities at fair value through profit and loss.

(i) Borrowings and other financial liabilities

Borrowings and other financial liabilities are classified as current or non-current based on their maturity date and recognized initially at fair value, net of transaction costs incurred and are subsequently stated at amortized cost. Any difference between the amounts originally received, net of transaction costs, and the redemption value is recognized in the statement of operations over the period to maturity using the effective interest method.

Financial liabilities include revolving credit, accounts payable and accrued liabilities, convertible debentures, and long-term debt.

A financial liability is derecognized when the obligation under the liability is discharged or cancelled or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognized in the statement of operations as a gain or loss on renegotiated debt.

(ii) Financial liabilities at fair value through profit and loss

Financial liabilities at fair value through profit and loss are initially recognized at their fair value on the date the contract or transaction is entered into and are subsequently re-measured at their fair value at each reporting period with changes in the fair value recognized through the statement of operations. Financial liabilities at fair value through profit and loss include the change in control premium, conversion feature and warrants associated with the convertible debentures.

g) Convertible debentures

The convertible debentures are hybrid instruments and the proceeds received are bifurcated to record the fair value of the associated elements, which include the embedded financial derivative for the change of control premium, the conversion feature and warrants issued, with the residual being allocated to the convertible debentures. Transaction costs are allocated pro rata between the elements of the convertible debentures.

The fair value of the change of control premium is determined using a probability weighted future cash flow stream and is recorded as a financial liability. The probability of change of control is based on management's best estimate of the likelihood of a change of control event occurring during the term of the convertible debentures. The change of control premium is revalued at each reporting date, with changes in the fair value recorded as charges or credits to financing expense.

The fair value of the conversion feature and warrants is determined using an option pricing model that takes into account assumptions on volatility of the Fund's units and risk-free interest rates of return. The conversion feature and warrants are classified as financial liabilities and the related transaction costs have been expensed when incurred.

The residual amount recorded for the convertible debentures is at a discount from the face amount and this discount, together with the stated interest on the convertible debentures and associated transaction costs, are amortized as a charge to financing expense over the life of the instrument using the effective interest method.

Upon exercise of the conversion feature or warrants, the related portions of the financial liabilities for all the elements are derecognized, the units are recorded in capital at the exercise price and any difference is recorded as a gain or loss in the statement of operations.

Upon maturity of the convertible debentures, to the extent that they are not exercised, any financial liabilities remaining on the change in control premium, conversion feature and warrants will be recorded as a gain in the statement of operations.

h) Leases

The determination of whether an arrangement is, or contains, a lease is based on the substance of the arrangement at inception date and are classified as either finance or operating. Leases that transfer substantially all the benefits and risks of ownership of the leased item to the Fund are accounted for as finance leases. Assets under finance lease would be accounted for as assets and amortized over the lesser of the estimated useful life or the lease term. A finance lease obligation would be recognized to

reflect the present value of future lease payments and the finance element of the lease payments would be charged to income over the term of the lease. Currently, the Fund does not have any leases that would be considered a finance lease.

Operating lease payments are recognized as an operating expense in the statement of operations on a straight-line basis over the term of the lease.

i) Provisions

General

Provisions are recognized when the Fund has an obligation (legal or constructive) as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made on the amount of the obligation. Where the Fund expects some or all of a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognized as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in the statement of operations, net of any reimbursement.

Asset decommissioning and retirement obligations

The Fund recognizes obligations associated with the retirement of property, plant and equipment that result from the acquisition, construction, development or normal operations of the assets. These obligations, if material, are recorded at fair value and capitalized and depreciated as part of the cost of the related asset. Management has determined that the Fund does not have any material asset decommissioning or retirement obligations.

Restructuring provisions

Restructuring provisions are recognized when the plan is approved and notification has been made to those affected. The provision could include costs for severance and other restructuring costs. If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects, when appropriate, the risks specific to the liability. When discounting is used, the increase in the provision due to the passage of time is recognized as a finance cost.

Onerous contracts

An onerous contract is one whereby the unavoidable costs of meeting the obligation exceed the expected economic benefits. Costs associated with non-cancellable lease obligations relating to the exiting of an activity or location that do not qualify for treatment as discontinued operations, net of any sub-lease receipts, are accrued as a provision for an onerous contract. If the effect of the time value of money is material, the provision is discounted using a current pre-tax rate that reflects, when appropriate, the risks specific to the liability. When discounting is used, the increase in the provision due to the passage of time is recognized as a finance cost.

j) Post-retirement benefits

The Fund has three defined contribution pension plans. The cost of defined contribution pensions is expensed as earned by employees.

k) Taxes

Current income tax

Current income tax assets and liabilities for the current period are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted, at the reporting date in the countries where the Fund operates and generates taxable income.

Management periodically evaluates positions taken in the tax returns with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions where appropriate.

Deferred tax

Deferred tax is provided using the liability method on temporary differences between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes at the reporting date.

Deferred tax assets and liabilities are recognized for all taxable temporary differences, except iIn respect of taxable temporary differences associated with investments in subsidiaries when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognized for all deductible temporary difference to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry-forward of unused tax losses can be utilized, except in respect of deductible temporary differences associated with investments in subsidiaries, deferred tax assets are recognized only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilized.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilized. Unrecognized deferred tax assets are reassessed at each reporting date and are recognized to the extent that it has become probable that future taxable profits will allow the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date.

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current income tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

Sales tax

Revenues, expenses and assets are recognized net of the amount of sales tax, except when the sales tax incurred on a purchase of assets or services is not recoverable from the taxation authority, in which case, the sales tax is recognized as part of the cost of acquisition of the asset or as part of the expense item, as applicable.

Receivables and payables are stated with the amount of sales tax included.

The net amount of sales tax recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the statement of financial position.

l) Phantom units

The Fund maintains a Long-Term Incentive Plan that grants Phantom Units that appreciate or depreciate with increases or decreases in the market price of the Fund's units. Phantom Units granted are considered to be in respect of future services. Vested Phantom Units may be converted to regular units of the Fund at any time after vesting. Upon conversion, Phantom Units are exchanged for Units issued from treasury for no further consideration.

The Phantom Units are considered to be financial liabilities and are accounted for under IFRS 2 as cash-settled awards whereby the outstanding Phantom Units are accounted for at fair value at each reporting period and changes in fair value are recognized in compensation expense. As there is no exercise price, the fair value of the Phantom Units is considered to be the market price for the Fund units. The changes in fair value for unvested awards are recognized over the vesting period and the changes in fair value of vested awards are recognized in full each period until converted to units or forfeited.

Phantom Units that expire or are forfeited before vesting are derecognized as a financial liability and the balance is recorded as a reduction of employee benefits expense in the period.

m) Net loss per unit

Basic net loss per unit is calculated by dividing net loss by the weighted-average number of units outstanding during the period. Diluted net loss per unit is calculated by factoring in the impact of dilutive instruments, including Phantom Units, the conversion

of debentures to units using the "if-converted" method, and warrants using the treasury stock method, which assumes that the proceeds from in-the-money warrants are used to repurchase units at the average market price during the period.

n) Foreign exchange

Transactions in currencies other than the functional currency are recorded at the rate of exchange prevailing on the date of the transaction. Monetary assets and liabilities that are denominated in foreign currencies are translated at the rate prevailing at each reporting date. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at the exchange rate at the date the fair value was determined. Non-monetary items that are measured at historical cost in a foreign currency are translated at the exchange rate on the date of the transaction.

On consolidation the assets and liabilities of foreign operations are translated into Canadian dollars at the rate of exchange prevailing at the reporting date and their income statements are translated at exchange rates prevailing at the dates of the transactions. The exchange differences arising on translation for consolidation are recognised in other comprehensive income.

4. CRITICAL ACCOUNTING JUDGMENTS AND ESTIMATES

The preparation of financial statements in accordance with IFRS requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingencies at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Significant areas that involve estimates including the assessment are listed below:

Going concern

In the context of the current economic climate, especially in the United States, and the mixed economic conditions in our principal markets in both Canada and the United States management has assessed the entity's ability to continue as a going concern. Management has forecasted the Fund's financial results and cash flows for fiscal 2012. The forecasts are based on management's best estimates of operating conditions in the context of management's best estimates of the current economic climate. The judgments and assumptions that can most directly impact these forecasts are the expected sales volumes and prices realized, costs of raw materials and in particular carbon rod, costs of imported finished goods, foreign exchange fluctuations, and collectability rates on accounts receivables.

With a $35 million Senior Credit Facility, working capital of $24 million and forecasts projecting forward through 2012, the Fund believes there is sufficient capital to continue as a going concern. The assumptions and estimates used to make this conclusion are based on the available information and management's best estimates of future earnings, cash flows and working capital turnover.

Financial instruments valued at fair value through profit and loss

The Fund 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. Refer to note 10 for significant assumptions used in the valuation of these financial instruments and carrying amount as at December 31, 2011 and 2010.

Inventory valuation

Under IFRS, inventories must be recognized at the lower of cost or their Net Realizable Value ("NRV"), which is the estimated selling price in the ordinary course of business less the estimated costs of completion and estimated costs necessary to make the sale. IFRS requires that the estimated NRV be based on the most reliable evidence available at the time the estimates are made of the amounts that inventories are expected to realize.

The measurement of an inventory write-down to NRV is based on our best estimate of the NRV and of our expected future sale or consumption of our inventories. Due to continued uneven economic activity, continued volatility in certain product group sales prices and the commodity nature of our significant raw materials, there is uncertainty as to whether the NRV of the

inventories will remain consistent with those used in our assessment of NRV at period end. As a result there is the risk that a write-down of on-hand and unconsumed inventories could occur in future periods. Also, a certain portion of inventory may become damaged or obsolete. A slow moving reserve is recorded, as required, based on an analysis of the length of time product has been in inventory and historical rates of damage and obsolescence. Refer to note 7 for the inventory provision as at December 31, 2011 and 2010.

Allowance for doubtful accounts

It is possible that a certain portion of required customer payments will not be made, and as such an allowance for these doubtful accounts is maintained. The allowance is based on estimation of the potential of recovering the accounts receivable and incorporates current and expected collection trends. The estimates will change, as necessary, to reflect market or specific industry risks, as well as known or expected changes in the customers' financial position. Refer to note 6 for the carrying amount of allowance for doubtful accounts as at December 31, 2011 and 2010.

Property, plant and Equipment

Property, plant and equipment comprises a large component of the total assets of the Fund and as such the capitalization of costs, the determination of estimated recoverable amounts and the estimates of useful lives of these assets have a significant effect on the Fund's financial results.

Management uses the best available information to identify the point at which a development project is capitalized. Changing assumptions about future selling prices of products, exchange rates, and production costs may change the estimate of the useful life of these assets and as a result the amount of depreciation or amortization recognized.

The carrying value of long-lived assets is reviewed annually. The impairment analysis contains estimates that can change due to the inherently speculative nature of forecasting long-term estimated cash flows and determining the ultimate useful lives of assets. If any of these estimates change significantly, future net cash flows from the property, plant and equipment could be lower or higher, which would result in additional impairment or reversal of impairments recognized in prior periods. As well, as much as practicable, third-party valuators are used to provide fair values that also contain assumptions concerning current market information for similar or same assets and if applicable functional and economic obsolescence. Refer to note 8 for impairment provision as at December 31, 2011 and 2010.

Income taxes

At each balance sheet date, a deferred income tax asset would be recognized for all deductible temporary differences, unused tax losses and income tax reductions, but only to the extent that their realization is probable. The determination of this requires significant judgment. This evaluation includes review of: (1) the ability to carry back operating losses to offset taxes paid in prior years; (2) the carry-forward periods of the losses; (3) an assessment of the excess of fair value over the tax basis of the Fund's net assets, and, (4) appropriate and feasible corporate actions with respect to repatriation of foreign earnings. If based on this review, it is not probable such assets will be realized, then no deferred income tax asset is recognized. Refer to Note 17 for deferred income tax assets and liabilities as at December 31, 2011 and 2010.

5. FUTURE IFRS STANDARDS AND INTERPETATIONS ISSUED BUT NOT YET EFFECTIVE

Unless otherwise indicated below, the Fund is in the process of assessing whether there will be any significant changes to its consolidated financial statements upon adoption of these new standards, interpretations, or amendments. At this time, the Fund does not plan to early adopt any of these new standards, interpretations, or amendments.

IFRS 7 *Financial Instruments: Disclosures* – The IASB issued amendments to IFRS 7 as part of its comprehensive review of off-balance sheet activities. The amendments are intended to provide users of financial statements additional information regarding financial assets (for example, securitizations), including the possible effects of risks that remain with the entity that transferred the assets. The amendments also require additional disclosures if a disproportionate amount of transfer transactions are undertaken around the end of a reporting period. These amendments are required to be adopted for annual periods beginning on or after July 1, 2011.

IFRS 9 *Financial Instruments* – in November 2009, the IASB issued IFRS 9 as a first step in the process to replace IAS 39 *Financial Instruments: Recognition and Measurement*. IFRS 9 introduces new requirements for classifying and measuring financial assets, and could affect the Fund's accounting for its financial assets. The standard is required to be adopted for annual periods beginning on or after January 1, 2015.

IFRS 10 *Consolidated Financial Statements* – in May 2011, the IASB issued IFRS 10, which provides additional guidance to determine whether an investee should be consolidated. The guidance applies to all investees, including special purpose entities and is required to be adopted for annual periods beginning January 1, 2013.

IFRS 12 *Disclosure of Interests in Other Entities* – in May 2011, the IASB issued IFRS 12, which aggregates and amends disclosure requirements included within other standards. The new standard requires the Fund to provide disclosures about subsidiaries, joint arrangements, associates and unconsolidated structured entities. The Standard is required to be adopted for annual periods beginning on or after January 1, 2013.

IFRS 13 *Fair Value Measurement* – in May 2011, the IASB issued IFRS 13 to provide comprehensive guidance for instances where IFRS required fair value to be used. IFRS 13 does not change when an entity is required to use fair value, but rather, provides guidance on how to measure the fair value of financial and non-financial assets and liabilities when required or permitted by IFRS. The disclosure requirements are substantial. IFRS 13 is required to be adopted for annual periods beginning on or after January 1, 2013.

IAS 1 *Presentation of Items of other Comprehensive Income* – in June 2011, the IASB issued amendments to IAS 1 – presentation of financial statements to split items of other comprehensive income between those that are reclassified to income and those that are not. This new standard is required to be adopted for annual periods beginning on or after July 1, 2012.

6. ACCOUNTS RECEIVABLE

Below is the composition and aging of the Fund's accounts receivable at each period end:

	December 31 2011	December 31 2010	January 1 2010
Accounts Receivable			
Up to date	$ 10,508	$ 7,158	$ 6,906
Under 30 days past due	2,823	2,296	1,893
30-60 days past due	607	358	349
61-90 days past due	109	151	62
Over 91 days past due	89	709	1,160
	14,136	10,672	10,370
Allowance for doubtful accounts	(301)	(974)	(1,306)
Balance, end of period	$ 13,835	$ 9,698	$ 9,064

Accounts receivable are non-interest bearing and are generally due on 30-day to 90-day terms. These terms are consistent for related party receivables as disclosed in Note 15.

The maximum credit risk that the Fund is exposed to by way of its accounts receivable is equal to the carrying amount of $13,835 as at December 31, 2011.

At the end of each reporting period a review of the provision for bad and doubtful accounts is performed. It is an assessment of the potential amount of trade accounts receivable that will be paid by customers after the balance sheet 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 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.

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

	December 31 2011	December 31 2010
Opening Balance	$ 974	$ 1,306
Additions during the period	63	405
Reversals during the period	(70)	(568)
Write-offs during the period	(676)	(133)
Foreign exchange revaluation	10	(36)
Balance, end of period	$ 301	$ 974

See Note 18 on credit risk of trade receivables to understand how the Fund manages and measures credit quality of accounts receivable that are neither past due nor impaired.

7. INVENTORIES

The Fund had the following categories of inventory as at:

	December 31 2011	December 31 2010	January 1 2010
Raw materials	$ 8,598	$ 7,255	$ 6,686
Finished and semi finished products	19,889	16,004	19,128
Consumable supplies and spare parts	7,636	7,619	7,812
	$ 36,123	$ 30,878	$ 33,626

At each period end, the Fund reviews the ending inventories on hand to determine if a write down to net realizable value is required. The Fund has recognized a cumulative charge over the year ended December 31, 2011 of $347 (2010 - $568) in cost of sales to write down inventories to net realizable value. In the years ended December 31, 2011 and 2010, the Fund has recognized, in income, inventory costs for the following:

	Year Ended December 31	
	2011	2010
Opening inventory	$ 30,878	$ 33,626
Raw material purchases	99,860	73,991
Finished goods purchased for resale	5,984	9,958
Conversion costs	36,079	34,358
Write down	(347)	(568)
Inventories, closing	(36,123)	(30,878)
Cost of goods sold	$ 136,331	$ 120,487

8. PROPERTY, PLANT AND EQUIPMENT

	Land & Improvements	Building & Improvements	Machinery & Equipment	Construction in progress	Total
Cost					
As at January 1, 2010	$ 9,177	$ 38,959	$ 17,609	$ 195	$ 65,940
Additions	-	-	79	-	79
Disposals	-	-	(122)	-	(122)
Transfers	-	-	158	(158)	-
Foreign currency translation	(72)	(275)	(165)	-	(512)
As at December 31, 2010	$ 9,105	$ 38,684	$ 17,559	$ 37	$ 65,385
Additions	-	46	103	326	475
Disposals	-	-	(44)	-	(44)
Foreign currency translation	31	118	238	-	387
As at December 31, 2011	$ 9,136	$ 38,848	$ 17,856	$ 363	$ 66,203
Accumulated depreciation and impairment					
As at January 1, 2010	$ -	$ 20,993	$ 1,080	$ -	$ 22,073
Depreciation charge for the year	-	2,982	2,567	-	5,549
Impairment	-	-	116	-	116
Disposals	-	-	108	-	108
Foreign currency translation	-	(213)	-	-	(213)
As at December 31, 2010	$ -	$ 23,762	$ 3,871	$ -	$ 27,633
Depreciation charge for the year	-	1,407	1,828	-	3,235
Impairment	-	-	858	-	858
Disposals	-	-	6	-	6
Foreign currency translation	-	106	62	-	168
As at December 31, 2011	$ -	$ 25,275	$ 6,625	$ -	$ 31,900
Net book values as at:					
January 1, 2010	$ 9,177	$ 17,966	$ 16,529	$ 195	$ 43,867
December 31, 2010	$ 9,105	$ 14,922	$ 13,688	$ 37	$ 37,752
December 31, 2011	$ 9,136	$ 13,573	$ 11,231	$ 363	$ 34,303

The Fund reviews the carrying value of its long-lived assets annually. 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. The Fund has reviewed certain machinery and equipment and concluded that impairment was indicated and likely and as a result an impairment charge of $858 was recognized in 2011 (2010 - $116).

9. SENIOR CREDIT FACILITY

On March 25, 2010, the Fund entered into a three year, $35 million senior secured revolving credit facility, (“Senior Credit Facility”) with Wells Fargo Capital Finance Corporation. Under the terms of the Senior Credit Facility, up to $35 million may be borrowed for operating requirements in Canadian and US currency. Interest is charged at variable rates based on the Canadian and/or US prime rate and the Canadian Bankers Acceptance and/or Euro rate. The Senior Credit Facility matures on March 25, 2013.

The amount available under the Senior Credit Facility is limited to the amount of the calculated borrowing base less a minimum availability of $2,500. The borrowing base is calculated as 85% of eligible receivables, plus the lesser of (a) 85% of the net orderly liquidation value of inventory and (b) 65% of eligible inventory.

The Senior Credit Facility has financial tests and other covenants with which the Fund and its subsidiaries must comply. Quarterly, the Fund is required to meet a rolling 4 quarters defined fixed charge coverage ratio of 1:1 if the availability on the Senior Credit Facility falls below $7,500. As well, the Senior Credit Facility contains restrictive covenants that limit the discretion of the Fund's management with respect to certain business matters. These covenants place restrictions on, among other things, the ability of TII and TIW to incur additional indebtedness, to create liens or other encumbrances, to pay dividends or make certain other payments (Note 11), investments, loans and guarantees and to sell or otherwise dispose of assets and merge or consolidate with another entity.

As at December 31, 2011 the Fund was in compliance with all of its financial covenants on the Senior Credit Facility.

The Fund had the following amounts outstanding on its revolving lines of credit:

		December 31 2011		December 31 2010		January 1 2010
Senior Credit Facility (1)	$	11,247	$	-	$	3,730
Deferred financing costs (2)		(359)		(571)		(884)
	$	10,888	$	(571)	$	2,846

(1) The portion of the Senior Credit Facility denominated in US dollars is $2,256 (Dec 31, 2010 - $nil; Jan 1, 2010 - $2,314).

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

The Senior Credit Facility is collateralized by a first charge over the Fund's assets including, first charge on the real and personal property of TII, TIW and TI International as well as guarantees, pledges and assignments between the Fund's subsidiaries. All existing and after-acquired real and personal property of the Fund and its subsidiaries are pledged as collateral against the Senior Credit Facility.

10. CONVERTIBLE DEBENTURES

As part of the Recapitalization Transaction, on November 26, 2009, the Fund completed a private placement with certain investors to issue an aggregate of $9,750 principal amount of convertible debentures along with 4,875,000 warrants (see Note 14). In the first quarter of 2010, an additional $10,000 in convertible debentures were issued through a rights offering to unitholders. All convertible debentures have the same rights and terms governed by those described in the trust indenture regardless of when they were issued.

The convertible debentures mature on November 26, 2014 and are convertible into units at $0.50 each. The conversion price is subject to change based on certain events described in the trust indenture. The convertible debentures are subordinated debt until all outstanding commitments on the Senior Credit Facility have been fully settled. If a change of control event occurs, as defined in the trust indenture, the Fund is required to offer to purchase the outstanding convertible debentures for 110% of the principal owing. The Fund has the option to redeem the convertible debentures at par after November 26, 2012 and up to the day prior to maturity so long as the weighted average trading price per unit for the 30 consecutive days prior to redemption is not greater than 150% of the conversion price and no event of default has occurred.

The convertible debentures pay interest quarterly, 30 days in arrears, at a stated rate of 10%. Interest is payable in cash unless the Fund is restricted from doing so under certain circumstances (an "Interest Block Condition"). An Interest Block Condition can be triggered by certain events including the Fund being in default under its Senior Credit Facility or the aggregate borrowing availability under the Senior Credit Facility on the date interest is payable and for a period of 30 days prior is below $5,500. If the quarterly interest cannot be paid in cash then the interest payable, subject to regulatory approval, can be settled by issuing additional convertible debentures equal to the amount of the interest owing; or by deferring payment of interest. Deferred interest will accrue additional interest at 10% per annum until paid in full.

The convertible debentures are classified as a liability, less fair values allocated to the conversion feature, to the change of control premium and to the warrants issued. As a result, the recorded liability for the convertible debentures is lower than its face value, which is characterized as the debt discount. Using the effective interest rate method and the 21.9% rate implicit in

the calculation, the debt discount, together with the stated interest and associated transaction costs, are amortized as interest expense over the life of the convertible debentures.

The conversion feature, change of control option and warrants are classified as financial liabilities under IAS 32 and are accounted for at fair value. Changes in fair value are recognized in the statement of operations at each period end. Fair value is determined using an option pricing model with a volatility assumption of 18% (December 31, 2010 – 42%) and a risk free rate of 1.02% (December 31, 2010 – 3.02%). The expected volatility reflects the assumption that the historical volatility is indicative of future trends, which may not be the actual outcome.

The allocation of fair values of the convertible debentures at issuance is outlined in the table below:

	Rights Offering January 29, 2010	Private Placement November 26, 2009	Total
Face value of convertible debentures issued	$ 10,000	$ 9,750	$ 19,750
Less allocation of fair value to:			
Conversion feature [(1)]	(2,739)	(2,341)	(5,080)
Change of control premium [(2)]	(162)	(158)	(320)
Warrants [(3)]	-	(902)	(902)
Carrying value of convertible debentures on issue	7,099	6,349	13,448
Financing costs allocated to debt component	(767)	(750)	(1,517)
Net debt component of convertible debentures on issue	6,332	5,599	11,931

(1) The transaction costs associated with the conversion feature were $297 and charged to financing costs in 2010.
(2) Change of control premium has been recorded as a liability within other convertible instruments.
(3) No warrants were issued on the Rights Offering.

The carrying value of the convertible debentures at period end is:

	December 31 2011	December 31 2010	January 1 2010
Opening carrying value	$ 13,108	$ 5,716	$ -
Net debt component issued in the period	-	6,332	5,599
Accretion of debt discount for the period	3,128	2,769	117
Payment of interest in cash	(1,938)	(1,478)	-
Conversion of debentures to Fund units [(1)]	-	(231)	-
Carrying value at period end	$ 14,298	$ 13,108	$ 5,716

(1) During the year ended December 31, 2010, $365 principal value of Convertible Debentures were converted to 730,800 units resulting in an increase to Unitholder's Capital of $326 (net of the proprotion of issuance costs of $39) offset by charges of $231 from Convertible Debentures and $6 from Change of Control.

The fair values and change for the other elements are:

	Conversion Feature	Warrants	Change of Control Option	Total
January 1, 2010	$ 3,055	$ 991	$ 158	$ 4,204
Addition on Rights Offering	2,739	-	162	2,901
Change in fair value	(3,743)	(709)	-	(4,452)
December 31, 2010	$ 2,051	$ 282	$ 320	$ 2,653
Change in fair value	(2,049)	(282)	-	(2,331)
December 30, 2011	$ 2	$ -	$ 320	$ 322

11. LONG-TERM DEBT

	Year of Maturity (1)	December 31 2011	December 31 2010	January 1 2010
Forbearance Agreements, beginning of period	2014	$ 27,538	$ 25,324	$ 25,143
Renegotiation of debt		3,234	-	-
Payments		(2,375)	(2,483)	(209)
Foreign exchange revaluation		817	(1,300)	(82)
Accretion of debt discount		4,159	5,997	472
Forbearance Agreements, end of period		33,373	27,538	25,324
Other long-term debt	2011	-	535	1,141
		33,373	28,073	26,465
Less current portion (1)		(4,882)	(5,271)	(3,030)
		$ 28,491	$ 22,802	$ 23,435

(1) The Forbearance Agreements were amended on January 31, 2011 to extend the repayment term by one year so that they now mature in 2014. The current portion as at December 31, 2010 is based on the previous terms of the agreements.

In 2009 as part of the Recapitalization Transaction, the Fund, through two of its subsidiaries, entered into five forbearance and payment agreements ("Forbearance Agreements") with two significant trade creditors pursuant to which the Fund has restructured $40,435 of trade payables through deferred payment arrangements extending to December 31, 2014. Subsequently, on January 31, 2011, the Fund and the holders of the Forbearance Agreements agreed to amend the agreements by extending the schedule of repayment of principal by an additional year so that the term of the agreements now ends on December 31, 2014. The other terms and conditions within the original Forbearance Agreements remain in place. The comparison of the amended schedule of principal repayments to the original principal payment schedule is as follows:

	Amended	Original
2011	$ 2,375	$ 4,774
2012	4,882	15,494
2013	13,392	15,522
2014	15,141	-
	$ 35,790	$ 35,790

For accounting purposes, it was determined that the January 31, 2011 amendment resulted in an exchange of debt instruments with substantially different terms. As a result, in the period ended March 31, 2011, the Forbearance Agreements were accounted for as an extinguishment of the original financial liabilities and the recognition of new financial liabilities at their present value resulting in a loss on renegotiation of debt of $3,234. Present value was determined using discounted cash flows and a credit adjusted discount rate of 13%. The discount rate, together with the stated interest, comprises the debt discount. Using the effective interest rate method, the debt discount is amortized as accretion and charged to interest expense over the term of the Forbearance Agreements.

Interest accrues at a rate of 7% per annum compounded annually beginning November 2010 and is payable at maturity. On event of default and acceleration of payment under the convertible debentures, the holders of the Forbearance Agreements are entitled to $3 million of any net proceeds that are received by the Trustee of the convertible debentures.

Approximately $31.5 million of the principal under the Forbearance Agreements is denominated in US dollars.

The Forbearance Agreements include a provision for early payment of a portion of the principal outstanding if certain conditions are met. As at December 31, 2011 these conditions were not met and therefore no provision has been accrued or factored into the present value calculations. At this point, management cannot reasonably estimate the probability of the provisions for early payment occurring past 2012 and as a result it has not been factored in to the present value calculations.

12. FINANCING EXPENSES

	Year Ended December 31	
	2011	**2010**
Non-cash accretion of debt discount and interest on long-term debt and Convertible Debentures	$ 5,349	$ 7,288
Cash interest on debentures	1,938	1,478
Interest on revolving credit	586	538
Other interest and financing costs	347	363
Amortization and write-off of deferred financing costs	280	1,598
	$ 8,500	$ 11,265

13. PHANTOM UNITS

The Fund has a long-term incentive plan that grants Phantom Units to certain executives and management personnel. The Phantom Units are accounted for at fair value and are measured at each reporting date using an option pricing model taking into account the terms and conditions that the Phantom Units were granted. The Phantom Units have no expiry and are generally only forfeited upon termination of employment (where the options are unvested).

As at December 31, 2011, the liability for the Phantom Units was $52 (2010 - $33) and the change in fair value related to Phantom Units for year was $33 (2010 - $7). The liability is included in other current liabilities and the expense is included in selling, general and administrative expense. A summary of the Fund’s Phantom Units changes during the periods ended is as follows:

	2011		2010	
	Vested	**Unvested**	**Vested**	**Unvested**
Balance, beginning of period	63,999	54,081	42,787	45,832
Granted [1]	200,000	-	-	50,000
Vested	20,748	(20,748)	39,584	(39,584)
Forfeited	-	(33,333)	-	(2,167)
Converted	(39,243)	-	(18,372)	-
Balance, end of period	245,504	-	63,999	54,081

[1] On September 7, 2011 the Fund granted 200,000 Phantom Units with a fair value of $60. These Phantom Units vested immediately.

14. UNITHOLDER'S CAPITAL

Fund units

An unlimited number of Fund units may be issued by the Fund pursuant to the Fund's Declaration of Trust. Each unit is transferable and represents an equal, undivided beneficial interest in any distributions from the Fund and in the net assets of the Fund. All units are of the same class with equal rights and privileges and are not subject to future calls or assessments. Each unit entitles the holder to one vote at all meetings of unitholders. Fund units are redeemable at any time at the option of the holder at a price based on market value as defined in the trust agreement, subject to a maximum of $50,000 in cash redemption by the Fund in any one month. The limitations may be waived at the discretion of the Trustees of the Fund. Redemption in excess of these amounts, assuming no waiver of the limitation, shall be paid by way of pro-rata distribution of TII securities held by the Fund. Based on IAS 32, the units meet the conditions set out in paragraphs 16A and 16B for equity classification. However, other instruments that are convertible into Fund units do not qualify for this exemption and are discussed in Note 10 and Note 13.

During the period, the Fund had the following Unit transactions:

	Units		Gross		Issuance Costs		Net
Unitholders' capital - December 31, 2010	22,861,661	$	222,860	$	11,400	$	211,460
Conversion of Phantom Units	39,243		16		-		16
Normal course issuer bid	(110,500)		(26)		-		(26)
Unitholders' capital - December 31, 2011	22,790,404	$	222,850	$	11,400	$	211,450

	Units		Gross		Issuance Costs		Net
Unitholders' capital - January 1, 2010	22,112,489	$	222,525	$	11,400	$	211,125
Conversion of Convertible Debentures	730,800	$	326	$	-		326
Conversion of Phantom Units	18,372		9		-		9
Unitholders' capital - December 31, 2010	22,861,661	$	222,860	$	11,400	$	211,460

Normal Course Issuer Bid

On September 2, 2011, the Fund announced that it had received approval from the Toronto Stock Exchange to commence a normal course issuer bid (the "Bid"). The Fund commenced the Bid on September 7, 2011 and, subject to renewal, will terminate the Bid on the earlier of September 6, 2012 and the date on which the fund has acquired the maximum number of units permitted under the Bid. The Fund may acquire up to 1,825,000 units under the Bid, such number representing approximately 10% of the public float of the Fund's issued and outstanding units at the date hereof. The Fund has no obligation to purchase any units under the Bid. Subject to certain exemptions for block purchases, the maximum number of units that the Fund may purchase on any one trading day is 3,305 units up to and including September 6, 2012, representing 25% of the average daily trading volume for the previous six months. During the year ended December 31, 2011 the Fund purchased 110,500 units at an average market price of $0.23 per unit, net of commission. These units were cancelled upon being purchased by the Fund.

Warrants

As part of the Recapitalization Transaction, the Fund issued 4,875,000 warrants to certain investors. The warrants have an exercise price of $0.57 and expire November 26, 2014. No warrants have been exercised since issuance. As discussed in Note 10, the warrants are measured at fair value at each period end.

15. RELATED PARTY TRANSACTIONS

Transactions with associated companies

One of the investors in the Recapitalization Transaction, The Futura Corporation ("Futura"), is considered to be a related party to the Fund because of its ownership interest and holding two positions on the Board of Trustees. Futura has purchased $5,000 of convertible debentures and was issued 1,875,000 warrants as part of the Recapitalization Transaction. During the year ended December 31, 2011, Futura received interest settled in cash of $500 (2010 - $392) on the convertible debentures at the stated rate of interest.

As well, the Fund sells products to subsidiaries of a company controlled by Futura, CanWel Building Materials Group Ltd. ("CanWel"), which amounted to, net of rebates, $4,507 (2010 - $4,878) during the year and trade accounts receivable owing from CanWel is $140 (2010 - $4). Outstanding trade accounts receivable from CanWel at period end are unsecured, interest free and settlement occurs in cash.

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 the Fund and officers of Tree Island. Short-term employee benefits for key management personnel was $2,147 (2010 - $1,868) which includes wages, salaries, unit-based compensation and social security contributions, paid annual and sick leave, vehicle costs and bonuses. It also includes Trustees fees for members of the Board.

16. POST RETIREMENT BENEFITS

The Fund has three defined contribution pension plans for the benefit of all eligible personnel employed by the Fund's subsidiaries. Contributions made by the Fund's subsidiaries amounted to $1,111 (2010 - $1,126). Funding obligations are satisfied upon making contributions.

17. INCOME TAXES

For the years ended December 31, 2011 and 2010, income tax obligations relating to distributions from the Fund are the obligations of the unitholders and, accordingly, no provision for current income taxes on the income of the Fund has been made. A provision for income taxes is recognized for TII and its wholly owned subsidiaries, as TII and its wholly owned subsidiaries are subject to tax.

Income tax recovery

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

	For the Year Ended December 31	
	2011	**2010**
Recorded in the income statement		
Current tax recovery (expense)	$ 51	$ (119)
Deferred tax recovery	13	1,312
	$ 64	$ 1,193

The expense or recovery of income taxes varies from the amount that would be expected if computed by applying the Canadian federal and provincial and US federal and state statutory income tax rates to the income before income taxes as shown in the following table:

	For the Year Ended December 31	
	2011	**2010**
Loss before provision for income taxes	$ (12,925)	$ (12,403)
Loss of the Fund subject to tax in the hands of the recipient	(872)	(2,725)
Loss of wholly-owned subsidiary companies before income taxes	(13,797)	(15,128)
Tax Rate	26.5%	28.5%
Expected recovery of income taxes	$ 3,656	$ 4,311
Increased (reduced) by:		
Revisions of prior period estimates	(120)	(380)
Items not taxable	(32)	(30)
Non-taxable foreign exchange gain (loss) included in other comprehensive loss	(352)	614
Differential tax rates on U.S. and Chinese subsidiaries	972	642
Increase in statutory future income tax rate	(8)	-
Deferred tax benefits not recognized	(4,045)	(3,993)
Other	(7)	29
Income tax recovery	$ 64	$ 1,193

Deferred income tax assets and liabilities

The components of deferred income tax assets and liabilities as at December 31 are as follows:

	December 31 2011	December 31 2010	January 1 2010
Deferred tax assets (liabilities)			
Non-capital tax loss carry-forwards	$ 6,439	$ 9,630	$ 9,581
Deferred gain and financing costs	506	698	388
Unrealized foreign exchange losses	-	-	1,758
Reserves and other liabilities	395	1,303	2,052
Property, plant and equipment	(5,787)	(7,096)	(8,154)
Convertible Debentures	(1,883)	(2,824)	(3,518)
Forbearance	(249)	(2,234)	(3,884)
Other	(187)	(256)	(314)
Deferred tax liability, net	$ (766)	$ (779)	$ (2,091)

	2011	2010
Opening balance as of January 1	$ (779)	$ (2,091)
Deferred tax recovery during the period	13	1,312
Closing balance as at December 31	$ (766)	$ (779)

The Fund offsets tax assets and liabilities if and only if it has a legally enforceable right to offset current tax assets and current tax liabilities and the deferred tax assets and deferred tax liabilities relate to income taxes levied by the same tax authority.

No deferred tax assets have been recognized on the consolidated balance sheets where the Fund has concluded that it is not probable that the benefits of recognized deferred income tax assets will be realized prior to their expiry. As such, the Fund has not recognized a deferred tax asset on the following items:

	December 31 2011	December 31 2010	January 1 2010
Deferred tax assets, beginning of period			
Non-capital tax loss carry-forwards	$ 10,389	$ 5,591	$ 4,640
Goodwill and intangibles	3,497	4,005	4,829
Deferred gain and financing costs	144	296	136
Unrealized foreign exchange losses	1,811	1,892	-
Reserves and other liabilities	1,674	2,406	2,130
Other	4,324	2,549	1,334
Defered tax asset, end of period	$ 21,839	$ 16,739	$ 13,069

Income tax loss carry-forwards

As at December 31, 2011, the Fund had income tax loss carry forwards of $93,302 available to offset future taxable income with expiries as shown in the table below:

Year of Expiry	Canada	US - Federal	US - State	China
2014	$ -	$ -	$ -	$ 231
2015	-	-	-	319
2016	-	-	-	289
2021	-	-	3,941	-
2028	9,619	7,690	-	-
2029	13,818	3,953	-	-
2030	-	4,050	-	-
2031	-	5,144	44,131	-
	$ 23,437	$ 20,837	$ 48,072	$ 839

Taxation of the trust

In 2009, rules were enacted to facilitate the conversion of trusts, such as the Fund, into corporations without undue income tax consequences (generally effective for conversions that occur after July 13, 2008 and before January 1, 2013). The Fund is evaluating the merits and costs of conversion into a corporation to take advantage of the transitional rules. In the event that the Fund does not convert to a corporation prior to January 1, 2013, the Fund will be subject to tax at corporate rates on the taxable portion of their distributions and unitholders will be taxed as if they have received a dividend equal to the taxable portion of their distributions.

18. FINANCIAL INSTRUMENTS

Fair value of financial instruments

The Fund 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.

Below is a comparison by class of the carrying amounts and fair value of the Fund’s financial instruments that are carried in the financial statements.

	December 31, 2011		December 31, 2010		January 1, 2010	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial assets						
Cash	$ 3,852	$ 3,852	$ 5,634	$ 5,634	$ 4,153	$ 4,153
Accounts receivable	13,835	13,835	9,698	9,698	9,064	9,064
Total financial assets	$ 17,687	$ 17,687	$ 15,332	$ 15,332	$ 13,217	$ 13,217
Financial liabilities						
Senior Credit Facility	$ 11,247	$ 11,247	$ -	$ -	$ 3,730	$ 3,730
Accounts payable and accrued liabilities	13,745	13,745	13,329	13,329	18,521	18,521
Long-term debt	33,373	32,329	28,073	30,360	26,465	26,465
Convertible debentures	14,298	14,410	13,108	18,415	5,716	5,716
Change of control premium	320	320	320	320	158	158
Conversion feature	2	2	2,051	2,051	3,055	3,055
Warrants	-	-	282	282	991	991
Total financial liabilities	$ 72,985	$ 72,053	$ 57,163	$ 64,757	$ 58,636	$ 58,636

The fair values of the financial assets and financial liabilities is 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, senior credit facility, and accounts payable and accrued liabilities approximate their carrying amounts largely due to the short-term nature of these instruments.
- Fair value on the Company's long-term debt is based on estimated market interest rate on similar borrowings. A 1% change in the market interest rate could change the fair value by $658.
- Convertible debentures began trading on the TSX in the first quarter of 2010 and the fair value disclosed is based on the closing price at period end less the fair values of the conversion feature, warrants and change of control premium.
- Fair value of change in control premium, conversion feature, and warrants is estimated using the Black-Scholes Option Pricing Model.

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 Fund's market assumptions).

The three levels of fair value estimation are:

Level 1 – quoted prices in active markets for identical instruments.

Level 2 – quoted prices for similar instruments in active markets; quoted prices for identical or similar instruments in markets that are not active; and model-derived valuations in which all significant inputs and significant value drivers are observable in active markets.

Level 3 – valuations derived from valuation techniques in which one or more significant inputs or significant value drivers are unobservable.

The following tables summarize the bases used to measure certain financial liabilities at fair value through profit and loss. The Fund does not have any financial assets valued at fair value through profit and loss. Financial liabilities carried at fair value have

been classified into three levels based upon a fair value hierarchy that reflects the significance of the inputs used in making the measurements.

	Classification [1]	December 31 2011	Level 1	Level 2	Level 3
Change of control premium	HFT	$ 320	$ -	$ -	$ 320
Conversion feature	HFT	2	-	-	2
Warrants	HFT	-	-	-	-
		$ 322	$ -	$ -	$ 322

	Classification [1]	December 31 2010	Level 1	Level 2	Level 3
Change of control premium	HFT	$ 320	$ -	$ -	$ 320
Conversion feature	HFT	$ 2,051	-	-	2,051
Warrants	HFT	$ 282	-	-	282
		$ 2,653	$ -	$ -	$ 2,653

	Classification [1]	January 1 2010	Level 1	Level 2	Level 3
Change of control premium	HFT	$ 158	$ -	$ -	$ 158
Conversion feature	HFT	$ 3,055	-	-	3,055
Warrants	HFT	$ 991	-	-	991
		$ 4,204	$ -	$ -	$ 4,204

(1) Held for Trading ("HFT")

Refer to Note 10 for a reconciliation of the opening and closing balances of the Level 3 financial instruments.

Risk exposure and management

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

Credit risk

The Fund is exposed to credit losses in the event of non-payment of accounts receivable of its subsidiaries' 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. The Fund establishes guidelines for customer credit limits and should thresholds in these areas be reached, appropriate precautions are taken to improve collectability. The Fund maintains provisions for potential credit losses (allowance for doubtful accounts) and any such losses to date have been within management's expectations.

Liquidity risk

Liquidity arises from the Fund's financial obligations and in the management of its assets, liabilities and capital structure. The Fund regularly manages this risk by evaluating its 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.

The table below summarizes the future undiscounted contractual cash flow requirements for financial liabilities (including scheduled interest payments on interest bearing liabilities) at December 31, 2011 and 2010:

December 31, 2011		Carrying Amount		Contractual Cash Flow		Less than 1 Year		1 - 2 Years		3 Years
Senior Credit Facilities (Note 9)	$	11,247	$	11,247	$	11,247	$	-	$	-
Accounts payable and accrued liabilities		13,745		13,745		13,745		-		-
Long-term debt (Note 11)		33,373		43,587		4,882		38,705		-
Convertible debentures (Note 10)		14,298		25,008		1,938		23,070		-
	$	72,663	$	93,587	$	31,812	$	61,775	$	-

December 31, 2010		Carrying Amount		Contractual Cash Flow		Less than 1 Year		1 - 2 Years		3 Years
Accounts payable and accrued liabilities	$	13,329	$	13,329	$	13,329	$	-	$	-
Long-term debt (Note 11)		28,073		45,283		2,884		17,873		24,526
Convertible debentures (Note 10)		13,108		26,928		1,932		3,864		21,132
	$	54,510	$	85,540	$	18,145	$	21,737	$	45,658

The Fund's 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. The Fund monitors and manages its liquidity risk by preparing annual budgets, monthly projections to the end of the fiscal year and regular monitoring of its financial liabilities against the constraints of its available revolving credit facilities.

Market risk

Foreign currency risk

The significant market risk exposures affecting the financial instruments held by the Fund are those related to foreign currency exchange rates and interest rates which are explained as follows:

	December 31 2011
Increase (decrease) to net comprehensive loss of a $0.01 increase in Cdn$ to US$ exchange rate	290
Increase (decrease) to net comprehensive loss of a $0.01 increase in Cdn$ to RMB exchange rate	89

The Fund's US dollar-denominated cash, accounts receivable, accounts payable and accrued liabilities, revolving credit facility and long-term debt are exposed to foreign currency exchange rate risk because the value of these financial instruments will fluctuate with changes in the US/Canadian dollar exchange rate. The Fund's RMB denominated cash, accounts receivable, accounts payable and accrued liabilities are exposed to foreign currency exchange rate risk because the value of these financial instruments will fluctuate with changes in the RMB/Canadian dollar exchange rate.

Interest rate risk

The Fund is exposed to interest rate risk on its Senior Credit Facility, which is further discussed in Note 9. A 1% increase in the interest rates charged on the Senior Credit Facility would increase financing expenses by $112. The Fund does not use derivative instruments to manage the interest rate risk.

Price risk on convertible instruments

The Fund's results of operations are exposed to changes in its own unit price because the conversion feature and warrants are valued at fair value, which will vary with changes in the Fund's unit price and changes in the risk free rate. A $0.01 increase in the Fund's unit price or a 1% increase in the risk free rate would have an insignificant impact on the value of the convertible instruments.

19. MANAGEMENT OF CAPITAL

The Fund's objectives when managing its capital are:

(i) 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;

(ii) To manage capital in a manner that will comply with its external financial covenants on its Senior Credit Facility, convertible debentures and Forbearance Agreements as described further in Notes 9, 10, and 11.

The Fund manages its capital structure in accordance with these objectives, as well as considerations given to changes in economic conditions and the risk characteristics of the underlying assets, in particular by close monitoring of cash flows, compliance with external debt covenants and successfully completing the Recapitalization Transaction. The Fund is subject to Canadian corporate income taxes in 2011. This may result in future changes to the capital structure of the Fund or the nature of the Fund itself.

The capital structure of the Fund is as follows:

	December 31 2011	December 31 2010	January 1 2010
Total unitholders' equity	$ 14,639	$ 26,855	$ 38,049
Senior Credit Facilty (Note 9)	11,247	-	3,730
Convertible debentures (Note 10)	14,298	13,108	5,716
Long-term debt (Note 11)	28,491	22,802	23,435
Total capital	$ 68,675	$ 62,765	$ 70,930

20. WEIGHTED AVERAGE UNITS OUTSTANDING

Basic loss per unit amounts are calculated by dividing net loss for the year by the weighted average number of units outstanding during the year. Diluted loss per unit amounts are calculated by dividing the net loss for the year (after adjusting for interest on the convertible debentures and gain (loss) on the phantom units and warrants) by the weighted average number of units outstanding during the year plus the weighted average number of units that would be issued on conversion of all the dilutive potential units into units.

The following reflects the unit data used in the basic and diluted loss per unit computations:

	For the Year Ended December 31 2011	2010
Weighted average number of units outstanding during the period - basic	22,856,544	22,641,642
Dilutive effect of		
Convertible Debentures [1]	-	-
Phantom units [1]	-	-
Warrants [1]	-	-
Weighted average number of units outstanding during the period - diluted	22,856,544	22,641,642

(1) As there was a loss for the years ended December 31, 2011 and 2010, the Fund has excluded all convertible debentures, phantom units, and warrants from the calculation of diluted loss per share because they would be anti-dilutive.

There have been no other transactions involving units or potential units between the reporting date and the date of completion of these consolidated financial statements.

21. PROVISIONS AND COMMITMENTS

Litigation and claims

The Fund is party to certain legal actions and claims, none of which individually, or in the aggregate, is expected to have a material adverse effect on the Fund's financial position, statement of operations or cash flows.

Environmental remediation on sale of surplus land

On July 2, 2009 the Fund completed the sale of 12.5 acres of surplus lands at its Richmond, BC manufacturing facility for gross proceeds of $10,500. The agreement contains a condition whereby $1,500 will be held in trust and will be released upon providing to the purchaser a Certificate of Compliance for the environmental remediation. The Fund has the option of requesting to draw down the holdback as approved by the purchaser, prior to the issuance of the Certificate of Compliance, to a maximum of $500. The environmental remediation was required to be completed within one year from the closing of the sale. If the Fund did not deliver the Certificate of Compliance within one year from the closing of the sale, the purchaser could use the holdback to obtain a Certificate of Compliance. As of the date of these financial statements, the purchaser has not elected to complete the remediation.

The Fund has completed the remediation work based on the planned requirements and has submitted the results for approval and issuance of Certificate of Completion. The Fund has incurred $1,056 up to December 31, 2011 and as agreed with the purchaser of the property, the Fund has been able to draw down and receive the full amount incurred to date from the funds held in trust. The costs incurred are deferred and included in prepaid expenses.

The Ministry of Environment determined that because the total property sold was assembled from four separate parcels, four separate Certificates of Compliance were required. Upon receipt of the final Certificate of Compliance the accounting for the disposal will be finalized and a gain or loss will be recognized as the difference between the $1,500 holdback and the total costs incurred for the environmental remediation and the Fund will have no further requirements or obligations under the purchase and sale agreement.

Subsequent to year end, the Fund has received approval on all four certificates of compliance.

Restructuring

Between January 2009 and throughout 2010 the Fund implemented a restructuring plan including restrictions on salaries across the company, lay-offs of salaried and hourly staff and the closure of certain US manufacturing facilities. The costs and expenditures for the restructuring activities are summarized below.

	December 31 2011	December 31 2010	January 1 2010
Restructuring provision, opening balance	$ 53	$ 1,658	$ -
Expenses			
Employee termination benefits [(1)]	-	115	1,658
Foreign exchange effect	-	(13)	-
Paid	(53)	(1,707)	-
Restructuring provision, ending balance	$ -	$ 53	$ 1,658

(1) charged to selling, general and administration costs.

Closure of facilities

As part of prior restructuring activities, the Fund has closed two of its operating facilities, Corona and Ontario's warehouse facility, both in California, USA and relocated the operations to other existing plants in the vicinity. Both facilities were closed prior to the expiry of their non-cancellable leases. The Fund continues to have an unavoidable legal obligation to pay the lease payments until the end of the term. The Fund has offset the costs of these leases with sub-lease contracts where possible; however, the sub-lease revenue is not sufficient to offset the contractual lease obligations.

The full amount of the costs associated with these non-cancellable lease obligations are accrued as a provision for onerous contracts and a charge has been recorded to cost of goods sold in the period the facility was vacated. Because the remaining term exceeded one year, the liabilities have been recorded at the discounted future cash flows using a discount rate of 13% and are being amortized with a charge to financing expense over the remaining term using the effective interest method.

Below is a table summarizing the provisions:

	Corona	Ontario Warehousing Facility	Total
Balance at January 1, 2010	$ 1,154	$ 32	$ 1,186
Provisions made during the period	258	174	432
Provisions used during the period	(238)	(28)	(266)
Foreign exchange effect	(57)	(7)	(64)
Balance at December 31, 2010	$ 1,117	$ 171	$ 1,288
Provisions made during the period	145	22	167
Provisions used during the period	(240)	(172)	(412)
Foreign exchange effect	73	(1)	72
Balance at December 31, 2011	$ 1,095	$ 20	$ 1,115

Purchase commitments

The Fund's wholly owned subsidiaries have committed to rod purchases totaling $27,725 (US$27,261) at December 31, 2011 and imported finished goods purchases of $385 (US$379).

Operating lease commitments

The Fund and its subsidiaries have various operating lease agreements with remaining terms of up to five years with varying renewal options. Annual lease rental payments due under non-cancelable operating leases, including payments for US facilities which have been accrued as discussed above, are as follows:

Less than 1 year	$ 2,035
1 to 5 years	3,418
More than 5 years	-
	$ 5,453

During the year ended December 31, 2011, the Fund recognized $2,626 (2010 - $2,867) in operating lease payments, net of sub-lease receipts, in cost of sales.

22. SEGMENTED INFORMATION

General information

The Fund operates primarily within one industry, the steel wire and fabricated wire products industry, with no separately reportable operating segments. The Fund groups its products into the following: industrial / Original Equipment Manufacturer ("OEM"), residential construction, commercial construction, agricultural, and specialty. Revenues for each group for the year ended December 31, 2011 and 2010 were as follows:

	Year Ended December 31	
	2011	2010
Industrial / OEM [1]	$ 53,715	$ 46,768
Residential construction	45,047	43,653
Commercial construction	25,728	19,573
Agricultural	10,421	10,135
Specialty	15,119	12,282
	$ 150,030	$ 132,411

[1] Includes revenues from tolling arrangements

No one customer is more than 10% of total revenue earned by the Fund. The products are sold primarily to customers in the United States, Canada and China.

Geographic information

	Year Ended December 31	
	2011	2010
SALES [1]		
Canada	$ 59,640	$ 52,181
United States	84,780	73,221
China	1,260	2,249
Other	4,350	4,760
	$ 150,030	$ 132,411

[1] Sales are attributed to geographic areas based on the location of customers.

	December 31 2011	December 31 2010	January 1 2010
Non-current assets			
Canada	$ 26,943	$ 28,948	$ 34,782
United States	7,654	9,214	10,223
China	65	161	315
	$ 34,662	$ 38,323	$ 45,320

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

23. WORKING CAPITAL ADJUSTMENTS

	Year Ended December 31	
	2011	2010
Accounts receivable (Note 6)	(4,029)	(809)
Inventories (Note 7)	(4,949)	2,748
Accounts payable and accrued liabilities	294	(4,988)
Income and other taxes	(49)	8
Other	397	245
	(8,336)	(2,796)

24. TRANSITION TO IFRS

The Fund's consolidated financial statements were previously prepared in accordance with Canadian GAAP. The adoption of IFRS has not changed the actual cash flows of the Fund and there have been no significant changes to the categories within the statement of cash flows. The Fund's consolidated financial statements for the year ending December 31, 2011 are the first annual financial statements prepared in accordance with IFRS were prepared as described in Note 2, including the application of IFRS 1. IFRS 1 requires that comparative financial information be provided. As a result, the first date at which the Fund has applied IFRS was January 1, 2010 (the "Transition Date"). IFRS 1 requires first-time adopters to retrospectively apply all effective IFRS standards as of the reporting date, which for the Fund is December 31, 2011. However, it also provides for certain optional exemptions and certain mandatory exceptions discussed below.

Initial elections upon adoption

IFRS 1 provides entities adopting IFRS for the first time a number of optional exemptions and mandatory exceptions to the general requirement for full retrospective application of IFRS. The Fund analyzed the various accounting policy options available and has implemented those it determined to be most appropriate for its specific circumstances. The IFRS 1 exemptions most relevant to the Fund are as follows:

BUSINESS COMBINATIONS: An optional exemption is available within IFRS 1 that allows carry-forward of the previous accounting for business combinations prior to the transition date or alternatively to retrospectively adjust a prior business combination to comply with IFRS. The Fund has elected not to retrospectively apply IFRS 3 to past business combinations.

FAIR VALUE OR REVALUATION AS DEEMED COST: This exemption allows an entity to revalue individual items of property, plant and equipment at fair value at the transition date and use this fair value as the deemed transition cost. The Fund elected to value a majority of items of machinery and equipment on transition at fair value, which then becomes the deemed cost on which to depreciate in future periods. The aggregate fair value of machinery and equipment revalued was $10,542. Land, building and improvements will continue to be valued at cost less accumulated amortization determined under prior Canadian GAAP as permitted under IFRS, net of any adjustments required at transition to comply with IFRS.

CUMULATIVE TRANSLATION DIFFERENCE: This exemption allows cumulative translation gains and losses to be deemed zero at transition. The Fund has applied this exemption.

BORROWING COSTS: This exemption allows an entity to adopt IAS 23 prospectively for property, plant and equipment construction projects for which the capitalization commencement date is after its transition date. The Fund has applied this exemption and has not restated any borrowing costs that were capitalized prior to January 1, 2010.

SHARE BASED PAYMENTS: The Fund has not applied IFRS 2 to Phantom Units that were converted prior to January 1, 2010 and which are accounted for as cash-settled share-based payment transactions under IFRS,

ESTIMATES: IFRS 1 stipulates a mandatory exemption from full retrospective application of IFRS as it relates to the use of estimates. It requires that estimates at the date of transition to IFRS must be consistent with estimates made for the same date in accordance with previous Canadian GAAP (after adjustments to reflect any difference in accounting policies), unless there is objective evidence that those estimates were in error. The Fund did not use hindsight in its estimates upon transition to IFRS, nor did it find any evidence that any of its previously made estimates were in error.

Reconciliations of Canadian GAAP to IFRS

While the adoption of IFRS has not changed the actual cash flows of the Fund, the adoption has resulted in significant changes to the reported financial position and statement of operations of the Fund. Presented below are reconciliations prepared to reconcile the financial position, unitholder's equity, statement of operations and comprehensive income for prior periods. Certain amounts have been reclassified in the Canadian GAAP balances to conform with current presentation.

I. Reconciliation of the consolidated statement of financial position as at January 1, 2010

As at January 1, 2010	Note	Canadian GAAP	Effect of transition to IFRS	IFRS
Assets				
Current				
Cash		$ 4,153	$ -	$ 4,153
Accounts receivable		9,064	-	9,064
Income and other taxes receivable		6,121	-	6,121
Inventories		33,626	-	33,626
Prepaid expenses		3,113	-	3,113
		$ 56,077	$ -	$ 56,077
Property, plant and equipment	(a)	43,047	820	43,867
Other non-current assets		1,453	-	1,453
		$ 100,577	$ 820	$ 101,397
Liabilities				
Current				
Senior Credit Facility		$ 3,730	$ -	$ 3,730
Accounts payable and accrued liabilities	(b)	18,351	170	18,521
Income taxes payable		2,342	-	2,342
Other current liabilities	(c)	41	35	76
Fair value of convertible instruments	(c)	158	4,046	4,204
Current portion of long-term debt		3,030	-	3,030
		$ 27,652	$ 4,251	$ 31,903
Convertible Debentures		5,716	-	5,716
Long-term debt	(d)	23,063	372	23,435
Deferred gain on sale of option	(e)	3,337	(3,337)	-
Other non-current liabilities		203	-	203
Deferred income taxes	(f)	1,254	837	2,091
		$ 61,225	$ 2,123	$ 63,348
Unitholders' Equity		39,352	(1,303)	38,049
		$ 100,577	$ 820	$ 101,397

II. Reconciliation of consolidated statement of financial position as at December 31, 2010

As at December 31, 2010	Note	Canadian GAAP	Effect of transition to IFRS	IFRS
Assets				
Current				
Cash	(h)	$ 5,623	$ 11	$ 5,634
Accounts receivable	(h)	9,695	3	9,698
Income and other taxes receivable		56	-	56
Inventories	(h)	30,873	5	30,878
Prepaid expenses	(h)	2,863	(2)	2,861
		$ 49,110	$ 17	$ 49,127
Property, plant and equipment	(a), (h)	37,141	611	37,752
Other non-current assets		571	-	571
		$ 86,822	$ 628	$ 87,450
Liabilities				
Current				
Senior Credit Facilty		$ -	$ -	$ -
Accounts payable and accrued liabilities	(b), (h)	13,243	86	13,329
Income taxes payable	(f)	1,662	479	2,141
Other current liabilities	(c)	68	33	101
Fair value of convertible instruments	(c)	-	2,653	2,653
Current portion of long-term debt	(g)	2,884	2,387	5,271
		$ 17,857	$ 5,638	$ 23,495
Convertible Debentures		13,108	-	13,108
Long-term debt	(d), (g)	24,815	(2,013)	22,802
Deferred gain on sale of option	(e)	2,710	(2,710)	-
Other non-current liabilities	(c)	667	(256)	411
Deferred income taxes	(f)	-	779	779
		$ 59,157	$ 1,438	$ 60,595
Unitholders' Equity		27,665	(810)	26,855
		$ 86,822	$ 628	$ 87,450

III. Reconciliation of consolidated statement of operations for the year ended December 31, 2010

Year ended December 31, 2010	Note	Canadian GAAP	Effect of transition to IFRS	IFRS
Sales		$ 132,411	$ -	$ 132,411
Cost of goods sold	(b)	120,409	78	120,487
Depreciation	(a)	5,577	80	5,657
Gross profit		$ 6,425	$ (158)	$ 6,267
Selling, general and administrative expenses	(c)	12,143	(269)	11,874
Operating loss		$ (5,718)	$ 111	$ (5,607)
Foreign exchange gain	(h)	124	33	157
Gain on sale of property, plant and equipment		66	-	66
Property, plant and equipment impairment	(h)	(105)	(11)	(116)
Amortization of deferred gain	(e)	477	(477)	-
Changes in fair value of convertible instruments	(c)	-	4,362	4,362
Financing expenses	(b), (c)	(10,958)	(307)	(11,265)
Loss before income taxes		$ (16,114)	$ 3,711	$ (12,403)
Income tax recovery	(f)	1,334	(141)	1,193
Net loss for the period		$ (14,780)	$ 3,570	$ (11,210)
Net loss per unit				
Basic		$ (0.65)	$ 0.15	$ (0.50)
Diluted		$ (0.65)	$ 0.15	$ (0.50)
Weighted-average number of units				
Basic		22,641,642	-	22,641,642
Diluted		22,641,642	-	22,641,642

IV. Reconciliation of consolidated comprehensive loss for the year ended December 31, 2010

Year ended December 31, 2010	**Note**	**Canadian GAAP**	**Effect of transition to IFRS**	**IFRS**
Net loss for the period		$ (14,780)	$ 3,570	$ (11,210)
Other comprehensive loss				
Unrealized loss on translating financial statements of subsidiary operations	(h)	(34)	(285)	(319)
Tax effect	(f)	280	(280)	-
Other comprehensive income		246	(565)	(319)
Comprehensive loss for the period		$ (14,534)	$ 3,005	$ (11,529)

V. Reconciliation of Unitholders' Equity as at January 1, 2010

	Notes	Unitholders' Capital	Contributed Surplus	Accumulated Earnings (Deficit)	Distributions	Accumulated Other Comprehensive Loss	Total
Balance as at Janaury 1, 2010 Canadian GAAP		**$ 211,125**	**$ 3,342**	**$ 2,193**	**$ (159,248)**	**$ (18,060)**	**$ 39,352**
IFRS adjustments							
Reverse phantom unit compensation	(c)	-	(429)	429	-	-	-
Reclass to liability conversion feature of debentures and warrants	(c)	-	(2,913)	-	-	-	(2,913)
Adjust financing cost on conversion feature and warrants	(c)	-	-	(330)	-	-	(330)
Adjust conversion feature and warrants to fair value	(c)	-	-	(803)	-	-	(803)
Adjust phantom units to fair value	(c)	-	-	(33)	-	-	(33)
Reclass of CTA into retained earnings	IFRS 1	-	-	(18,060)	-	18,060	-
Reverse balance of gain on sale leaseback	(e)	-	-	3,337	-	-	3,337
Adjustment due to revaluation of PPE to fair value	(a)	-	-	820	-	-	820
Adjustment to the Corona lease accrual	(b)	-	-	(170)	-	-	(170)
Expense financing cost on forbearance	(d)	-	-	(374)	-	-	(374)
Adjustment to deferred income taxes	(f)	-	-	(837)	-	-	(837)
Balance as at January 1, 2010 IFRS		**211,125**	**-**	**(13,828)**	**(159,248)**	**-**	**38,049**

VI. Reconciliation of Unitholders' Equity as at December 31, 2010

	Notes	Unitholders' Capital	Contributed Surplus	Accumulated Earnings (Deficit)	Distributions	Accumulated Other Comprehensive Loss	Total
Balance as at December 31, 2010 Canadian GAAP		**$ 211,564**	**$ 5,750**	**$ (12,587)**	**$ (159,248)**	**$ (17,814)**	**$ 27,665**
IFRS adjustments							
Reclass of CTA into retained earnings	IFRS 1	-	-	(18,060)	-	18,060	-
Reverse phantom unit compensation	(c)	-	(533)	526	-	-	(7)
Adjust conversion of phantom units to market value	(c)	(104)	113	-	-	-	9
Reclass to liability conversion feature on debentures	(c)	-	(5,355)	-	-	-	(5,355)
Expense cost of conversion of debentures	(c)	-	89	-	-	-	89
Reclass to liability rights equity element	(c)	-	(64)	-	-	-	(64)
Change in functional currency for TI International	(h)	-	-	(15)	-	-	(15)
Expense financing cost on conversion feature and warrants	(c)	-	-	(626)	-	-	(626)
Adjust for changes in fair value on conversion feature and warrants	(c)	-	-	4,362	-	-	4,362
Depreciation adjustment due to PPE revaluation	(a)	-	-	80	-	-	80
Reversal of amortization gain on sale leaseback	(e)	-	-	2,860	-	-	2,860
Adjustment to CTA	(h)	-	-	-	-	(565)	(565)
Adjustment to the Corona lease accrual	(b)	-	-	82	-	-	82
Expense financing cost on forbearance	(d)	-	-	(374)	-	-	(374)
Adjustment to current income taxes	(f)	-	-	(479)	-	-	(479)
Adjustment to deferred income taxes	(f)	-	-	(807)	-	-	(807)
Balance as at December 31, 2010 IFRS		**$ 211,460**	**$ -**	**$ (25,038)**	**$ (159,248)**	**$ (319)**	**$ 26,855**

Notes to the reconciliations

(a) Property, plant and equipment ("PPE")

As discussed above in the initial elections upon adoption of IFRS, the Fund elected to value machinery and equipment on transition at fair value, which then becomes the deemed cost on which to amortize/depreciate in future periods. This resulted in an increase to the carrying value of the PPE of $820 as at the transition date and the adjustment being charged to retained earnings. In addition, this resulted in an increase in depreciation of $80 for the year ended December 31, 2010.

(b) Accounts payable and accrued liabilities

In accordance with IAS 37, the provision for the Corona onerous contract was re-evaluated to reduce the future expected sub-lease rental income to the contractual sub-lease receipts. Therefore, the present value of the provision increased as at the transition date by $170. This difference increased the amount of accretion amortized using the effective interest method by $78 in the year ended December 31, 2010.

(c) Fund units and instruments convertible into Fund units

Under Canadian GAAP, the Fund's units were classified as equity. Upon transition to IFRS, the equity classification of the units was evaluated because the units can be redeemed at the option of the holder subject to certain terms and restrictions (see Note 14). Based on IAS 32, the units meet the conditions set out in paragraphs 16A and 16B for equity classification and therefore continue to be classified as equity under IFRS. However, other instruments that are convertible into Fund units do not qualify for this exemption and are discussed below.

Convertible debentures

The Fund has issued convertible debentures that are considered to be hybrid instruments and under Canadian GAAP the proceeds received were bifurcated to record the fair value of the associated elements, which included the embedded financial derivative for the change of control premium, the conversion feature and any warrants issued with the residual being allocated to the debt portion of the convertible debentures. Transaction costs were allocated pro rata between the elements of the convertible debentures. The convertible debentures and change of control option were classified as financial liabilities and the conversion feature and warrants were classified as equity.

Under IFRS, the convertible debentures continue to be considered hybrid instruments and the original determination of fair values at issuance are consistent between Canadian GAAP and IFRS. The accounting and classification of the convertible debentures and of the change of control premium have not changed on conversion to IFRS. However, the conversion feature and warrants under IFRS are classified as financial liabilities at fair value and are re-measured at each reporting period with changes in fair value being recorded in the statement of operations.

As well, under Canadian GAAP, the conversion feature and warrants were recorded in unitholders' equity net of allocated transaction costs. Under IFRS, as a result of being classified as financial liabilities, the associated transactions costs have been expensed when incurred. At the transition date, the transaction costs related to the conversion feature and warrants from the convertible debentures of $330 issued in 2009 have been adjusted to retained earnings and for the year ended December 31, 2010 the transaction costs of $229 relating to the conversion feature and warrants from the convertible debentures issued in January 2010 have been charged to financing expenses in the restated statement of operations.

Phantom units

In accordance with Canadian GAAP, the Phantom units were classified as equity and accounted for as stock based compensation with compensation cost being measured on the market price of the Fund's units on the date of the grant of the Phantom Units and recognized in the statement of operations straight-line over the vesting period with the offset being contributed surplus. When converted, the issued units would be recorded in Unitholders' Capital at the market price at the date of grant and the related contributed surplus would be removed.

Under IFRS, the Phantom Units do not qualify for the exemption under IAS 32 and are now included with other current liabilities. Also, the calculation of compensation expense has changed upon adoption of IFRS so that the Phantom Units are accounted for under IFRS 2 as cash-settled awards, whereby the outstanding Phantom Units are accounted for at fair value at each reporting period and changes in fair value are recognized in compensation expense. As there is no exercise price, the fair value of the

Phantom Units is considered to be the market price for the Fund units. The changes in fair value for unvested awards are recognized over the vesting period and the changes in fair value of vested awards are recognized in full each period until converted to units or forfeited. When a Phantom Unit is converted, the associated liability will be derecognized and recorded as unitholders' capital at the market price on the date of conversion.

(d) Long-term debt

Under Canadian GAAP, transaction costs related to the original extinguishment of the trade payable and recognition of the Forbearance Agreements in 2009 were netted against the present value upon initial recognition. Under IAS 39 Appendix AG62, if the debt is accounted for as an extinguishment, any costs or fees incurred are recognized as part of the gain or loss on extinguishment. As a result, the transaction costs of $374 on the initial renegotiation in 2009 were charged against retained earnings at the transition date.

(e) Deferred gain on sale of option

In 2006 the Fund sold a purchase option on its leased property in Pomona, California. The net pre-tax cash proceeds received on the sale was $5,264. The sale was treated as a sale and leaseback under Canadian GAAP and the gain was deferred and amortized over the ten-year life of the new lease. Under IAS 17, the Pomona option sale would have been accounted for as a gain at the time of the transaction. As such, retained earnings as at January 1, 2010 has been adjusted for the balance of the deferred gain of $3,337 under Canadian GAAP and for the year ended December 31, 2010, the amount of deferred gain recognized under Canadian GAAP in the statement of operations of $477 has been reversed.

(f) Deferred income taxes (previously referred to as future income taxes under Canadian GAAP) and current income taxes

The current and deferred income tax adjustments reflect changes in the accounting of tax on various items including creation of temporary differences resulting from the effect of the IFRS adjustments described above. In particular, a deferred tax liability was recorded as at the transition date of $837 and was charged to retained earnings. In addition, under IFRS, there is no longer income tax allocated to any exchange gains/losses relating to foreign denominated intercompany balances and as a result, comprehensive income was reduced by $280 for the year ended December 31, 2010.

(g) Current portion of long-term debt

The Fund had amended the term of the Forbearance Agreements in the first quarter of 2011 and Canadian GAAP allowed the reduced payment terms to be presented in the current portion of long-term debt as at December 31, 2010 because the agreement had been reached prior to the issuance of the financial statements. IFRS, under IAS 1 is strict in this regard and the change in presentation of current versus long-term portions of the long-term debt must be reflected in the period it occurred. As a result, the current portion of long-term debt for the December 31, 2010 has been increased by $2,387 and the long-term debt has been reduced by the equivalent amount.

(h) Foreign currency translation

Cumulative foreign currency translation balances

Under Canadian GAAP, the Fund recognized translation differences on foreign operations in a separate component of equity. Cumulative currency translation differences for all foreign operations are deemed to be zero as at January 1, 2010. The resulting adjustment of $18,060 was recognized against retained earnings.

Functional currency

Under prior Canadian GAAP, Tree Island International, the Hong Kong parent company to the Fund's Chinese subsidiaries, was considered to be an integrated subsidiary and its assets were translated into Canadian dollars using the temporal method. The concept of integrated subsidiaries does not exist under IFRS. It was determined that the functional currency of the Hong Kong company is the US dollar. The Chinese subsidiaries of Tree Island International continue to have a functional currency of RMB. The change in functional currency of the Hong Kong company resulted in various immaterial translation difference throughout the statement of financial position, including the change in cash balance of $11, PPE of $209 and accounts payable and accrued liabilities of $8 as at the December 31, 2010.

UNITHOLDER INFORMATION
TREE ISLAND WIRE INCOME FUND

Board of Trustees:

Tree Island

Wire Income Fund

Amar Doman

Dale R. MacLean

Harry Rosenfeld

Michael Fitch

Sam Fleiser

Theodore A. Leja

Officers:

Tree Island

Wire Income Fund

Amar Doman
Chair of the Board

Dale R. MacLean
President and Chief Executive Officer

Nancy Davies
Vice President, Finance and Chief Financial Officer

Kelly Stark-Anderson
Secretary

Units:

Market Information

Units Listed: Toronto Stock Exchange Trading Symbol: TIL.UN

Registrar and Transfer Agent
Computershare Investor Services Inc.

Convertible Debentures:

Market Information

Convertible Debentures Listed:
Toronto Stock Exchange
Trading Symbol: TIL.DB

Registrar and Transfer Agent

Valiant Trust Company

Leadership Team:

Dale R. MacLean
President and Chief Executive Officer

Nancy Davies
Vice President, Finance and Chief Financial Officer

Ken Stuttaford
Vice President, Sales and Marketing

Stephen Ogden
Vice President, Operations

Mark Stock
Vice President, Human Resources and Information Technology

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