TREE ISLAND WIRE INCOME FUND

Annual Report 2010

Report to Unitholders
for the year ended
December 31, 2010

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, stainless steel wire and galvanized 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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TREE ISLAND WIRE INCOME FUND

TO OUR UNITHOLDERS

In 2010, the ongoing weakness in our major markets in the United States continued to put negative pressure on our results. Our sales into the U.S. made up 55.2 percent of our total revenues in 2010. The key U.S. Census Bureau Western Region housing starts for 2010 shows starts that were at the second lowest annual level since 1959 and remains weak. This low level of housing starts and the general economic uncertainty in the U.S., together with high levels of underutilized capacity continues to create competitive pricing pressures. Despite market conditions, we remained focused on profitability with our back to basics strategy, cost control, and managing working capital which resulted in improved financial results year-over-year.

For the year ended December 31, 2010, the Fund reported revenue of $132.4 million, compared to $165.6 million during the same period in 2009 and sales volumes of 99,376 tons, compared to 136,198 tons in 2009. In 2010, we focused on higher margin product lines rather than high volume product lines and this focus on margin positively impacted gross profit. Gross profit improved from a loss of $25.0 million to positive $6.4 million and gross profit per ton also increased from a loss of $184 per ton, to a profit of $65 per ton. The improvement in gross profit, together with the ongoing focus on cost management, resulted in an improvement in EBITDA for FY2010 of $38.8 million to an EBITDA of negative $0.1 million versus an EBITDA loss of $38.9 million during the same period last year.

More recently, the Fund's fourth quarter 2010 results showed an improvement on a year-over-year basis. While revenues increased by $1.0 million to $27.7 million, the Fund reported a $3.9 million improvement in gross profit amounting to $0.5 million versus a gross loss of $3.4 million in the fourth quarter of 2009. EBITDA also improved to a modest loss of $0.2 million versus an EBITDA loss of $5.5 million in the fourth quarter of 2009.

The Fund's financial and operating results are indicative of the successes we had in addressing some serious issues that faced the Fund in 2010. However, the external economic forces in the North American economy especially in the U.S. will continue to negatively impact our business until we see some meaningful recovery in our major end-use markets. Until then we will continue to focus on tight control of our costs, managing working capital and profitability.

Consistent with our message to you during the course of 2009 and 2010, 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.

In closing, I would like to thank our employees for continuing to build Tree Island's reputation for product quality and service leadership in the midst of trying times. To our customers, suppliers and investors, I extend my sincere thanks for working with us through these challenging times and retaining your faith in our future. I believe we are moving forward on a more stable footing and with better prospects of success.

Theodore (Ted) Leja

President and Chief Executive Officer
Tree Island Industries Ltd.

Trustee, Tree Island Wire Income Fund

TREE ISLAND WIRE INCOME FUND

MANAGEMENT'S DISCUSSION AND ANALYSIS

March 15, 2011

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"). This discussion is current to March 15, 2011 and should be read in conjunction with the audited consolidated financial statements for the twelve month period ended December 31, 2010. The Fund's consolidated financial statements are prepared in accordance with Canadian generally accepted accounting principles ("GAAP") and reported in Canadian dollars. Additional information relating to the Fund, including the audited consolidated financial statements and Annual Information Form ("AIF") for the year ended December 31, 2010, 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 includes forward-looking information with respect to the Fund and Tree Island Industries Limited ("Tree Island" or the "Company"), 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, 2010.

Forward-looking statements, by their nature, necessarily involve risks and uncertainties that could cause actual results to differ materially from those contemplated by

the statements. Such risks and uncertainties include, but are not limited to: general economic conditions and markets and, in particular, the potential impact of the current economic downturn, risks associated with operations such as competition, dependence on the construction industry, market conditions for our products, supplies of and costs for our raw materials, dependence on key personnel, labour relations, regulatory matters, environmental risks, the successful execution of acquisition and integration strategies and other strategic initiatives, foreign exchange fluctuations, the effect of leverage and restrictive covenants in financing arrangements, the cost and availability of capital, the possibility of deterioration in our working capital position, the impact on liquidity if we were to go offside of covenants in our debt facilities, the impact that changes in supplier payment terms or slow payment of accounts receivable could have on our liquidity, product liability, the ability to obtain insurance, energy cost increases, changes in tax legislation, other legislation and governmental regulation, changes in accounting policies and practices, operations in a foreign country, and other risks and uncertainties set forth in our publicly filed materials.

This management's discussion and analysis has been reviewed by the Fund's board of trustees, and its Audit Committee, and contains information that is current as of the date of this management's discussion and analysis, 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-GAAP MEASURES

References in this MD&A to "EBITDA" are to operating profit plus depreciation. EBITDA is a measure used by many investors to compare issuers on the basis of ability to generate cash flows from operations. EBITDA is not an earnings measure recognized by GAAP and does not have a standardized meaning prescribed by GAAP. We believe that EBITDA is an important supplemental measure in evaluating the Fund's performance. You are cautioned that EBITDA should not be construed as an alternative to net income or loss, determined in accordance with GAAP, 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 may differ from methods used by other issuers and, accordingly, our EBITDA 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 GAAP and do not have standardized meanings prescribed by GAAP. 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, plus for the year ended December 31, 2006, pre-tax proceeds on the sale of a property option, plus for the 2009 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). 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. HISTORY OF THE FUND

3.1 About the Fund

The Fund was launched on November 12, 2002 with the completion of an initial public offering. There were 22,861,661 Units of the Fund outstanding as of December 31, 2010 and 22,869,602 as of March 15, 2011. There were 110,138 Phantom Units issued under the Fund's long-term incentive plan as at March 15, 2011. Each Phantom Unit is convertible, subject to vesting conditions, into one Unit. The Fund holds a 100% ownership interest in the Company and is set-up as a trust on corporation structure.

On November 26, 2009 the Fund issued convertible debentures ("Debentures") by way of a private placement which was followed by a public offering of Debentures under 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. At December 31, 2010, the total amount of Debentures remaining after conversions amounted to 193,846.

On November 26, 2009 the Fund as part of the same private placement transaction, issued 4,875,000 warrants (the "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. See Section 4 – *Financing and Recapitalization*.

3.2 About Tree Island

Markets and Products

Tree Island supplies a diverse range of steel wire and fabricated steel wire products to customers in five key markets: residential construction, commercial construction, agricultural, industrial, original equipment manufacturers ("OEM") and specialty applications.

Our product lines include bright and galvanized carbon wire; stainless steel wire; packaged, collated and bulk nails; stucco products, including woven mesh and expanded metal lath; fencing and other fabricated wire products; engineered structural mesh; and a diverse array of complementary products. We market these products to customers in Canada, the United States and Asia.

The following summarizes our key product groups and the end-use markets we serve with each:

MARKETS	PRODUCTS	SPECIFIC END USES
Residential Construction	Collated, bulk and packaged nails, stucco reinforcing mesh	Construction and renovation for new and existing homes
Commercial Construction	Welded wire reinforcement mesh, concrete reinforcing products, and stucco reinforcing mesh	Commercial construction, mining, infrastructure projects
Industrial/OEM	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
Agricultural	Hi-tensile game fence, farm fence, vineyard wire, barbed wire, bailing wire, vinyl coated wire	Agriculture, farming
Specialty	Spring wire, cold heading wire, shaped wire, stainless specialty alloy bar, rod and wire	Consumer products, industrial applications, telecommunications, aerospace, automotive, oil industry

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.

Product Strategy

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 solution to the precise needs of our customers. We achieve this by manufacturing most of our products at our own manufacturing facilities, while outsourcing others from qualified manufacturers.

Our traditional market emphasis has been western North America where the Tree Island, Halsteel, K-Lath, TI Wire, Tough Strand and Industrial Alloys brands have an excellent reputation.

Premium Brands

We manufacture our premium, branded products internally in our manufacturing facilities, targeting them to customers that seek value and reliable high performance. Our Premium brands are designed to create a high level of customer satisfaction and offer:

- Consistent, highest quality standards that meet customers' needs, ASTM standards and applicable codes
- Broad range of products
- Short lead times
- Exceptional service and support

PREMIUM BRANDS	PRODUCTS
Tree Island	Bright and galvanized wire, nails, welded wire mesh
Halsteel	Collated nails produced in the United States
K-Lath	Wide range of stucco reinforcing products
TI Wire	Bright wire and welded wire mesh
Industrial Alloys	Stainless steel wire and wire products
Tough Strand	Agricultural fence products including Hi-tensile game fence, farm fence, vineyard wire, barbed wire, vinyl coated wire

Select Brand

In 2009 Tree Island launched its Select brand of products. Products within this group are made to general industry specifications (ASTM Standards), but are not customized to individual customer requirements. Most of our Select brand products are externally manufactured, and are limited to high-volume commodity items. Select brand products 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.

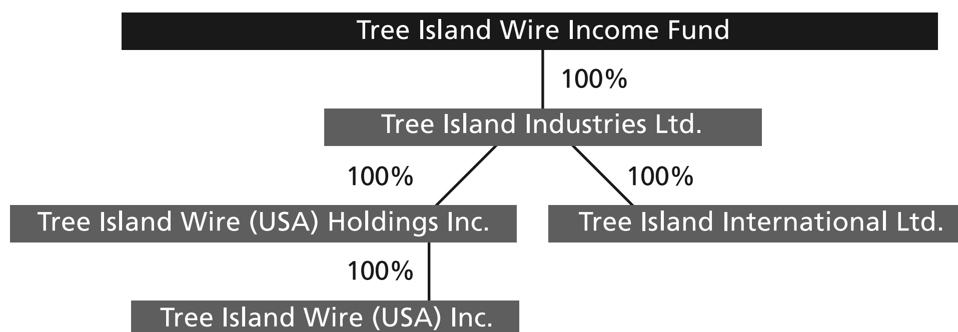
Sourcing Strategy

Tree Island has a three-tier sourcing strategy, giving us the ability to supply value to our customers through the most appropriate quality, service and price point level for their applications.

1. *Internally Manufactured Products* – Products manufactured at our facilities are of the highest quality, meeting the specific needs of our customers. For the most part, all of the products we manufacture fall into our Premium Brand strategy and are stocked or made to order. They are part of our long-term product strategy.
2. *Externally sourced* – Products that are sourced from outside manufacturers are made to industry standards and remain a part of our long-term strategy. These products are stocked items and form a large part of our Select Brand.
3. *Direct Ship Products Sourced Externally* – As a service to our customer, we use our network of suppliers world-wide to source commodity products, not manufactured by Tree Island, for our customers. These products may not fall within our long-term product strategy, but are required by our customer.

Corporate Structure

Our corporate structure has three primary entities: Tree Island Industries Ltd. which includes our Canadian operation as well as is the parent company to our operations in the USA, Tree Island Wire (USA) Inc., and our Asian operations, Tree Island International Ltd ("TI International"), structured as follows:



4. 2010 & SUBSEQUENT DEVELOPMENTS

Amendment of Forbearance Agreements – March 2011

The Fund, through its operating subsidiaries, entered into forbearance and payment agreements dated November 25, 2009 (the "Forbearance Agreements") with its significant trade creditors, and their insurers, pursuant to which the Fund restructured approximately $40.4 million owing under certain purchase contracts through deferred payment arrangements extending to December 31, 2013, referred to in the Financing and Recapitalization section below. In the first quarter of 2011, these Forbearance Agreements were amended whereby the payments due in 2011 were reduced to the same amount as that paid in 2010 and the term of the Forbearance Agreements extended for one year with reductions in certain of the monthly payments during the period. The principal payments in terms of the original and amended Forbearance Agreements are as follows:

Annual Payments of Principal in Terms of Forbearance Agreements

Year	Amended Agreement March 10, 2011 $000's	Original Agreement November 25, 2009 $000's
2011	2,387	4,774
2012	4,774	15,494
2013	13,099	15,522
2014	15,530	–
	35,790	35,790

Wire Rod Prices

The price of wire rod began to increase in December 2009 and continued to increase through the first half of 2010 with North American steel suppliers announcing increases of up to 30%. The increase was driven by increased demand for raw materials, which drove up raw material costs, and by managed steel supply. Through the rest of 2010 the price of wire rod continued to fluctuate as a result of weak demand and lower raw material costs for North American steel suppliers. However driven by increased raw material costs and constrained supply, steel costs have increased sharply into 2011.

Remediation on surplus lands sold in 2009

During the second quarter the Fund began remediation of the surplus lands sold on July 2, 2009. The terms of sale required remediation to be completed within one year of the sale date. Funds amounting to $1.5 million were held back from the proceeds of the sale to cover the remediation costs and obtain a Certificate of Compliance. If remediation was not complete by the end of the one year period the purchaser could use any remaining funds to obtain the Certificate of Compliance. To date the purchaser has not exercised this option. Costs incurred up to December 31, 2010 amounted to approximately $0.6 million. The Fund expects to complete the remediation and obtain a Certificate of Compliance during 2011 and that the $1.5 million holdback will be sufficient to cover the costs of the remediation.

Cost Management

We continued to tightly monitor and control our manufacturing costs and continued to strictly enforce a number of cost savings measures in 2010 in response to ongoing weak economic conditions and tight credit markets. These measures include the decision not to pay bonuses under our variable compensation plan for management and staff, restrictions on staff salaries and the ongoing evaluation of operating costs in order to eliminate unnecessary expenditures.

New Senior Secured Lender

On March 25, 2010 we entered into a three year, $35 million senior secured revolving credit facility, ("Senior Credit Facility") led by Wells Fargo Capital Finance Corporation Canada (formerly Wachovia Capital Finance Corporation (Canada)). This Senior Credit Facility replaces our previous credit facilities with GE. Under the terms of the Senior Credit Facility, up to $35 million may be

borrowed for our 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 amount advanced under the Senior Credit Facility at any time is limited to a defined percentage of inventories and accounts receivable, less certain reserves. The Senior Credit Facility is secured by a first charge over the Fund's assets supported by the appropriate guarantees, pledges and assignments. It also requires that certain covenants be met by the Fund for which, as at December 31, 2010, the Fund was in compliance. The Senior Credit Facility matures on March 25, 2013. See 8.4 – *Cash Flow and Credit Facilities*.

Financing and Recapitalization

In the second half of 2009, we began a recapitalization of our business that involved the issuance of Debentures through a private placement and rights offering (the "Offering") and entering into the Forbearance Agreements, amendment and waiver agreements with our senior secured lenders at the time (the "Recapitalization Transaction").

As part of the Recapitalization Transaction, The Futura Corporation ("Futura"), Marret Asset Management Inc. ("Marret") on behalf of certain investment funds managed by Marret, Arbutus Distributors Ltd. ("Arbutus" and, collectively with Futura and Marret, the "Investors") and the Fund entered into an investment agreement whereby the Investors agreed to purchase a minimum of $1,787,389 and a maximum of $3,250,000 aggregate principal amount of Debentures under the Offering.

As well, under the first phase of the Recapitalization Transaction, the Fund issued, and the Investors separately purchased on a private placement basis Debentures of the Fund (the "Private Placement Debentures") in the aggregate principal amount of $9,750,000 and warrants ("Warrants") to purchase an aggregate of 4,875,000 Units. More particularly, Futura and Marret each purchased $3,750,000 aggregate principal amount of Private Placement Debentures and Warrants to purchase 1,875,000 Units and Arbutus purchased $2,250,000 aggregate principal amount of Private Placement Debentures and Warrants to purchase 1,125,000 Units. The Private Placement closed on November 26, 2009.

Under the terms of the Offering, unitholders of record on December 30, 2009 were entitled to receive one right ("Right") for each unit held. For every 221.12489 Rights held, a holder thereof was entitled to subscribe for $100 principal amount of Debentures. Unitholders who fully exercised their Rights were entitled to subscribe pro rata for additional Debentures, if available, that were not otherwise subscribed for on or before the expiry of the Rights Offering, which occurred on January 27, 2010.

The Rights Offering, which was oversubscribed, raised $10 million of gross proceeds and was completed on January 29, 2010. The conversion price of the Debentures is $0.50 per unit of the Fund, subject to adjustment in certain events. The Debentures issued under both the private placement and Rights Offering have the same rights and terms and are governed by the same trust indenture.

The Offering was completed on January 27, 2010 and

(i) Futura purchased $1,250,000 aggregate principal amount of Debentures;
(ii) Marret purchased $526,100 aggregate principal amount of Debentures; and
(iii) Arbutus purchased $1,298,400 aggregate principal amount of Debentures.

Following completion of the Offering, Futura, Marret and Arbutus owned (after giving effect to the dilutive impact of conversion of all of the Debentures and the Private Placement Debentures and exercise of all of the Warrants) 16,239,400, 11,590,500 and 8,246,800 units of the Fund ("Units") respectively, which represented approximately 24.4%, 17.4% and 12.4%, respectively, of the outstanding Units on a fully-diluted basis and created a position that materially impact control of the Fund.

The Fund used the entirety of the net proceeds of the Offering for working capital purposes, including the reduction of the amount of indebtedness under the Fund's revolving credit facilities.

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, 2010, 50,000 Phantom units were granted to employees under the plan and 18,372 Phantom Units were converted into Units of the Fund. The maximum number of Units reserved for issuance pursuant to awards of Phantom Units is 500,000.

Conversion of Debentures

Under the terms of the Debentures, where holders can elect, under certain conditions described in the trust indenture, to convert their Debentures into Fund units at a conversion price of $0.50 which is equivalent to a ratio of 200 units for every $100 debenture. During the year ended December 31, 2010, 3,654 Debentures were converted to 730,800 Units.

5. 2010 OVERVIEW AND 2011 OUTLOOK

The ongoing weakness in our major markets in the US continued to negatively impact our results. Our sales into the US made up 55.2% of our total revenues in 2010. The key US Census Bureau Western Region housing starts for 2010, shows starts that were at the second lowest annual level since 1959 and continues to demonstrate signs of weakness. This low level of housing starts and the general economic uncertainty in the US, together with high levels of underutilized capacity continues to create competitive pricing pressures, which negatively impacts demand from our major end markets. Despite these poor market conditions, we maintained our focus on profitability, managing working capital and control on overall costs which has led to improved results on a year-over-year basis.

For the year ended December 31, 2010, the Fund reported revenue of $132.4 million, compared to $165.6 million during the same period in 2009 and sales volumes of 99,376 tons, compared to 136,198 tons in 2009. Gross profit however improved from a loss of $25.0 million to positive $6.4 million, while gross profit per ton also increased from a loss of $184 per ton, to a profit of $65 per ton. The improvement in gross profit, together with the ongoing focus on cost management, resulted in EBITDA for fiscal 2010 to improve by $38.8 million to an EBITDA of negative $0.1 million versus an EBITDA loss of $38.9 million during the same period last year.

Going forward, certain of the Fund's key end markets continue to be stalled with little or negligible signs of recovery. However, when compared to 2009, the Fund's financial condition is improved. Raw material costs have increased since December 2010 driven by increased input costs for North American steel suppliers and constrained supply. In response Tree Island and its competitors have announced price increases in 2011. In the current market there can be no certainty that the increases will be fully recovered. While we cannot control the external forces that impact our business, we will continue to respond to the difficult market conditions and focus on working capital, cost control, margins and market share.

6. RESULTS FROM OPERATIONS

($000's except for tonnage and per unit amounts)

	Year Ended December 31		
	2010	2009	2008
Income			
Sales Volumes – Tons [3]	*99,376*	*136,198*	*237,190*
Revenue	132,411	165,581	322,743
Cost of Goods Sold	(120,409)	(183,445)	(304,152)
Depreciation	(5,577)	(7,135)	(10,456)
Gross (Loss) Profit	6,425	(24,999)	8,135
Gross (Loss) Profit per Ton	*65*	*(184)*	*34*
Selling, General and Administrative Expenses	(12,143)	(21,057)	(23,851)
Operating Loss	(5,718)	(46,056)	(15,716)
Foreign Exchange Gain	124	2,441	6,645
Financing Expenses	(10,958)	(7,660)	(5,896)
Gain (Loss) on Sale of Property, Plant & Equipment	66	5,448	(24)
Fair Value Changes on Derivatives	–	243	(243)
Amortization of Deferred Gain	477	529	495
Amortization of Intangible Assets	–	(660)	(1,120)
Goodwill Impairment	–	–	(52,128)
Impairment of Intangible Assets	–	(5,362)	–
Impairment of Property, Plant and Equipment	(105)	(346)	(1,720)
Gain on renegotiated debt	–	17,835	–
Income Tax Recovery	1,334	6,712	4,719
Net Loss	(14,780)	(26,876)	(64,988)
EBITDA			
Operating Loss	(5,718)	(46,056)	(15,716)
Add back Depreciation	5,577	7,135	10,456
EBITDA [1]	(141)	(38,921)	(5,260)
Foreign Exchange (Loss) Gain	124	2,441	6,645
EBITDA Adjusted for Foreign Exchange	(17)	(36,480)	1,385
Distributable Cash			
Standardized Distributable Cash per Unit [1]			
Basic	(0.0169)	2.0117	(0.0539)
Fully Diluted	(0.0169)	2.0117	(0.0539)
Adjusted Distributable Cash per Unit [1]			
Basic	(0.1768)	(1.2032)	(0.1440)
Fully Diluted	(0.1768)	(1.2032)	(0.1440)
Distributable Cash Paid or Payable per Unit [1]	–	–	–
Standardized Distribution Payout % [2]	0%	0%	0%
Adjusted Distribution Payout % [2]	0%	0%	0%
Balance Sheet			
Total Assets	86,822	99,693	203,286
Net Cash/(Revolving Credit (Net of Cash))	5,623	1,307	(64,008)
Long-term Debt and Debentures	(37,923)	(28,779)	–

(1) See definition of EBITDA, Standardized Distributable Cash and Adjusted Distributable Cash in the Non-GAAP Measures section.

(2) Distribution Payout % is calculated as distributions paid or payable per unit divided by distributable cash generated per unit.

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

7. COMPARISON OF RESULTS FOR YEARS ENDED DECEMBER 31, 2010 AND 2009

Revenue

For the 12 months ended December 31, 2010, we generated revenue of $132.4 million, a decrease of $33.2 million, or 20.0%, from the same period in 2009. The decline in revenue primarily reflects lower sales volumes, lower tolling sales and the negative impact of a stronger Canadian dollar on our US denominated revenues. The average exchange rate for the Canadian dollar in 2010 was 9.8% stronger than in 2009. The decline in volumes, tolling and the impact of the exchange rate together with competitive pricing pressures was partially offset by higher selling prices which factored in higher raw material input costs and the positive impact on our selling prices of our decision to focus on higher margin product lines rather than higher volume product lines.

Full-year 2010 sales volumes decreased by 27.0% to 99,376 tons, from 136,198 tons in 2009. This decrease reflects weak economic conditions in the US and reduced demand in our major end markets. It also reflects our decision to focus working capital on higher-margin product lines, rather than higher-volume product lines. In addition our customers remained focused on maintaining low levels of inventory and taking advantage of over capacity amongst manufacturers and suppliers by ordering on a just in time basis. The residential construction, commercial construction, industrial/OEM and international trading markets experienced the most significant decline in demand and sales volumes. Our sales to the residential construction market declined by 23.5% while the year-over-year housing starts in the Western US region increased by 3.1% (per the US Census Bureau). Despite the small increase, year-over-year housing starts remained at extremely low levels with 2010 being the second lowest level of annual starts in 50 years. The decline in our sales volumes to this market relative to the small increase in housing starts reflects the extremely competitive nature of the market and our strategy of focusing on profitable sales rather than volume. Sales volumes to the commercial construction market were negatively affected by the slow down in US commercial construction activity, which reduced demand for construction fabric and concrete reinforcing products. In the industrial/OEM market our focus on profitable sales resulted in a reduction in high carbon bright wire and low carbon galvanized wire volumes. Our sales to the agricultural market declined mainly as a result of poor weather conditions on the Canadian prairies which reduced demand for agricultural products. Our sales of specialty products increased by 19% as the demand for stainless steel products in the US increased. Our sales of tolled baling wire in 2010 decreased by 19.4% to 9,113 tons from 11,315 tons in 2009.

Sales volumes by market were as follows:

	Year Ended December 31, 2010		Year Ended December 31, 2009	
Market	Tons (000's) (2)	% of Sales Volumes	Tons (000's) (2)	% of Sales Volumes
Residential Construction	30.3	30.5%	39.6	29.1%
Commercial Construction	17.0	17.1%	20.7	15.2%
Industrial/OEM	38.5	38.7%	51.1	37.5%
Agricultural	7.2	7.2%	7.9	5.8%
Specialty	2.5	2.5%	2.1	1.5%
International Trading (1)	3.9	4.0%	14.8	10.9%
Total	99.4	100.0%	136.2	100.0%

(1) International trading includes international trading company 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.

International trading sales decreased by 73.6% to 3,931 tons in 2010 reflecting the discontinuation of two tolling projects and reduced trading volumes in China.

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:

	Year Ended December 31, 2010		Year Ended December 31, 2009	
Market	Tons (000's)	% of Sales Volumes	Tons (000's)	% of Sales Volumes
North American Manufactured	86.6	87.1%	108.6	79.7%
Imported & Trading	12.8	12.9%	27.6	20.3%
Total	99.4	100.0%	136.2	100.0%

Combined import and trading sales declined to 12,829 tons in 2010 from 27,569 tons in 2009 and represented a smaller percentage of the total sales at 12.9% in 2010 than 2009 at 20.3%. This decline was a result of the decrease in international trading sales and our increased focus on our core competency of manufacturing which resulted in proportionately fewer sales of outsourced products relative to manufactured products.

Cost of Goods Sold

Cost of goods for 2010 decreased by approximately $63.0 million from the same period in 2009. This reduction in cost of goods sold reflects the positive impact of a stronger Canadian dollar on US denominated costs, nominal inventory write downs of $0.6 million (2009 $4.4 million), lower carbon rod costs, inventories that were more closely aligned to market values, a reduction in costs as a result of a one time reversal of an accrual of $1.6 million, a reduction in restructuring costs, and a reduction in manufacturing overhead costs as a result of cost cutting measures and reduced volumes partially offset by the negative impact of the lower volumes on our costs as a result of low capacity utilization. Although the market price for carbon rod in the first half of 2010 increased significantly, our cost of carbon rod (representing 45.2% of total cost of goods sold) decreased by 18.4% compared to 2009. This reflects our consumption of higher-cost carbon rod inventories during the first half of 2009, which had been purchased in 2008. In contrast, stainless steel costs (representing 6.4% of total cost of goods sold) increased by 3.6% on a per-ton basis in 2010 and the cost of zinc (representing 3.1% of total cost of goods sold) increased by 11.5% on a per-pound basis, compared to 2009.

Gross Profit

For the 12 months ended December 31, 2010, gross profit improved by $31.4 million, to a profit of $6.4 million, and gross profit per ton of $65 in 2010, increased by $249 compared to 2009. The increase in gross profit and gross profit per ton primarily reflects the positive impact of our decision to focus on higher margin product lines rather than higher volume product lines, lower carbon rod costs, inventories that were more closely aligned to market values, the net benefit of a stronger Canadian dollar on our costs, cost reductions and a reduction in costs as a result of a one time reversal of an accrual of $1.6 million. These increases were partially offset by reduced volumes and the negative impact of the lower volumes on our costs as a result of low capacity utilization.

Expenses

Selling, general and administrative ("SG&A") expenses decreased to $12.1 million in 2010, an $8.9 million, or 42.3%, reduction compared to 2009. The reduction in SG&A expense reflects cost savings measures implemented during 2009 and 2010, the positive impact of the stronger Canadian dollar on expenses at our US operations and minimal severance costs compared to $3.6 million of severance in 2009. Excluding the one-time impact of severance from the 2009 expenses, we decreased our SG&A expense by $ 5.3 million, or 30.4%, in 2010.

Interest

For the year ended December 31, 2010, financing expenses increased by $3.3 million to $11.0 million. This primarily reflects an increase in interest and accretion of debt discount related to our long term debt and Debentures, partially offset by lower interest on our Senior Credit Facility, lower other interest charges and a reduction in the amortization of deferred financing charges. The reduction of interest on the Senior Credit Facility was mainly a result of a lower outstanding loan balance during the period. Financing expenses included interest of $0.5 million on the revolving credit facilities (2009 - $2.5 million), other interest expense of $0.3 million (2009 - $2.6 million), interest on long term debt of $6.0 million (2009 - $0.5), interest on debentures of $2.8 million (2009 - $0.1) and the amortization of deferred financing costs of $1.4 million (2009 - $2.0 million).

Gain on renegotiated debt

On November 26, 2009, we entered into the Forbearance Agreements. As part of these agreements, we restructured $40.4 million of trade balances relating to certain purchase contracts for raw materials inventories purchased in 2008 and early 2009. The restructuring was accounted for as an exchange of debt instruments with substantially different terms, resulting in the derecognition of the amounts owing of $40.4 million and the recognition of the new financial liabilities at their present value $25.1 million, as well as the reversal of previously accrued interest of $2.5 million. This resulted in a $17.8 million gain.

Using the effective interest rate method and credit adjusted discount rates, the gain, together with the stated interest and associated transaction costs, is amortized as accretion and charged to interest expense over the term of the forbearance agreements.

Impairment of Property, Plant and Equipment

During the fourth quarter of 2010, we recognized an impairment of $0.1 million in the value of certain surplus and obsolete equipment at our facilities in China (2009 $0.3 million on certain surplus and obsolete equipment at our facilities in China and the US). The assets were written down to fair value, which was determined with reference to similar assets in similar condition.

Intangible Asset Amortization and Impairment

During the second quarter of 2009, we reviewed for impairment the carrying value of intangible assets acquired in the BII/UM acquisition in 2007. As a result of projected weakness in demand and operating losses, the intangible assets which were being amortized, were considered to be fully impaired and an impairment charge of $5.4 million was recorded.

Gain on Sale of Surplus Land and Equipment

During the third quarter of 2009, we completed the sale of 12.5 acres of surplus lands at our Richmond, BC manufacturing facility for net proceeds of $8.7 million. We have recognized a gain of $5.2 million, inclusive of closing costs of $0.3 million and relocation costs of $0.4 million, over the third and fourth quarters. Other items of property, plant and equipment have been disposed of for a cumulative net gain of $0.1 in 2010 (2009 - $0.2 million).

Income Taxes

We recorded a 2010 income tax recovery of $1.3 million, compared to an income tax recovery of $6.7 million in 2009. The income tax recovery represents a future income tax recovery of $1.7 million (2009 - $0.4 million recovery) and a current income tax expense of $0.4 million (2009 - $6.3 million recovery). The income tax recovery was based on the statutory tax rate of 28.5% (2009 – 30%) applied to the income of subsidiaries before taxes, with adjustments for permanent differences between accounting and taxable income.

EBITDA

We reported a 2010 EBITDA loss of $0.1 million, compared to an EBITDA loss of $38.9 million in 2009. The $38.8 million improvement in EBITDA reflects the positive impact of our increased focus on profitability, higher selling prices, lower rod costs, inventory costs that are more closely aligned with market values, lower inventory write downs, a reduction in restructuring costs, a reduction in costs as a result of a one time reversal of an accrual of $1.6 million and lower SG&A costs partially offset by lower volumes.

EBITDA, adjusted for foreign exchange, was a negligible loss of seventeen thousand dollars, compared to a loss of $36.5 million in the equivalent period in 2009. The change reflects lower EBITDA and a reduced gain on foreign exchange during 2010.

Foreign Exchange

We reported a gain on foreign exchange of $0.1 million in 2010, compared to a gain of $2.4 million in 2009. Foreign exchange gains and losses are unpredictable in nature and therefore can be expected to vary significantly from period-to-period and over time.

Amortization of Deferred Gain

In 2006 we sold a purchase option on our leased Pomona, California manufacturing facility and recorded a deferred gain of $5.3 million. The gain is being amortized over the ten-year life of the new lease, with $0.5 million amortized in 2010 ($0.5 million in 2009).

Net Loss

We reported a net loss of $14.8 million in 2010 (net loss of $26.9 million in 2009), or a loss of $0.65 per unit basic and diluted (net loss of $1.22 per unit basic and diluted in 2009). The reduction in the net loss primarily reflects the positive impact of our increased focus on profitability, higher selling prices, lower rod costs, inventory costs that are more closely aligned with market values, a reduction in restructuring costs, a reduction in costs as a result of a one time reversal of an accrual of $1.6 million, lower inventory write downs, lower SG&A costs and no impairment of intangible assets. This was partially offset by lower volumes, higher financing costs, a smaller foreign exchange gain, a smaller gain on the sale of property plant and equipment and no gain on renegotiated debt.

8. DISTRIBUTABLE CASH, CASH FLOWS, DEBT AND WORKING CAPITAL

8.1 Standardized 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 the GAAP measure of 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.

Standardized Distributable Cash for the three months and year ended December 31, 2010 and 2009 was calculated as follows ($000's except for unit, per unit and % amounts):

	Three Months Ended December 31		Year Ended December 31	
	2010	2009	2010	2009
Net Cash Provided from (Used in) Operating Activities	$ 8,028	$ 2,392	$ (303)	$ 44,658
Capital Expenditures	–	(186)	(79)	(331)
Standardized Distributable Cash	*$ 8,028*	*$ 2,206*	*$ (382)*	*$ 44,327*
Distributions Paid or Payable	$ –	$ –	$ –	$ –
Weighted Average Units Issued and Outstanding				
Basic	22,861,661	22,112,489	22,641,642	22,035,040
Fully Diluted	22,861,661	29,831,543	22,641,642	22,035,040
Standardized Distributable Cash per Unit (1)				
Basic	0.3512	0.0998	(0.0169)	2.0117
Fully Diluted	0.3512	0.0739	(0.0169)	2.0117
Distributions Paid or Payable per Unit - Basic and Fully Diluted	$ –	$ –	$ –	$ –
Standardized Distribution Payout %	0%	0%	0%	0%

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

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

	Since Inception
Standardized Distributable Cash Generated Since Inception (1)	178,759
Distributions Paid or Payable Since Inception	158,997
Standardized Distribution Payout % Since Inception (1)	89%

(1) Pre tax proceeds from the sale of a property option in 2006 of $5,264 previously included in Standardized Distributable Cash generated Since Inception have been excluded from the calculation of Standardized Distributable Cash generated Since Inception and Standardized Distribution Payout % Since Inception .

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. Accordingly, a calculation and discussion of Adjusted Distributable Cash is provided in the following section.

8.2 Adjusted Distributable Cash and Distributions

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 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.

Adjusted Distributable Cash for the three and year ended December 31, 2010 and 2009 was calculated as follows ($000's except for unit, per unit and % amounts):

	Three Months Ended December 31		Year Ended December 31	
	2010	2009	2010	2009
Standardized Distributable Cash	$ 8,028	$ 2,206	$ (382)	$ 44,327
Change in Non-cash Operating Assets & Liabilities	(9,850)	(2,420)	(3,621)	(79,563)
Proceeds on Sale of Surplus Land	–	–	–	8,656
Non-maintenance Capital Expenditures	–	–	–	68
Adjusted Distributable Cash (1)	***$ (1,822)***	***$ (214)***	***$ (4,003)***	***$ (26,512)***
Distributions Paid or Payable	$ –	$ –	$ –	$ –
Weighted Average Units Issued and Outstanding				
Basic	22,861,661	22,112,489	22,641,642	22,035,040
Fully Diluted	22,861,661	29,831,543	22,641,642	22,035,040
Adjusted Distributable Cash per Unit				
Basic	(0.0797)	(0.0097)	(0.1768)	(1.2032)
Fully Diluted	(0.0797)	(0.0072)	(0.1768)	(1.2032)
Distributions Paid or Payable per Unit - Basic & Fully Diluted	$ –	$ –	$ –	$ –
Adjusted Distribution Payout %	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.

For the year ended December 31, 2010, we reported total negative Adjusted Distributable Cash of $4.0 million (2009 – negative $26.5 million), or ($0.1768) per unit (2009 – ($1.2032) per unit). Of this, cash used by operations amounted to $4.1 million or $0.1807 per unit (2009 - $37.6 million use of cash or ($1.7070) per unit), while gains from foreign exchange conversion amounted to an additional $0.1 million or $0.0039 per unit (2009 – gain of $2.4 million or $0.1108 per unit), proceeds on the sale of surplus land in 2009 amounted to $8.7 million or $0.3928 per unit. The contribution from foreign exchange to distributable cash is calculated by deducting an allowance for taxes (based on our average tax rate of 28.5%).There were no distributions declared in the year ended December 31, 2010.

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

	Since Inception
Adjusted Distributable Cash Generated Since Inception	134,235
Distributions Paid or Payable Since Inception	158,997
Adjusted Distribution Payout % Since Inception	118%

8.3 UTILIZATION OF DISTRIBUTABLE CASH

For the year ended December 31, 2010, no distributions were paid out of cash generated by the Fund.

8.4 Cash Flow and Credit Facilities

Following is a summary of our cash flow ($000's – bracketed figures indicate use of cash):

	Year Ended December 31	
	2010	2009
Net (loss)	$(14,780)	$(26,876)
Items not Involving Cash	10,856	(8,029)
Change in Non-cash Operating Assets & Liabilities	3,621	79,563
Exchange Rate Changes on Cash & Cash Equivalents	(135)	(63)
Financing Transaction Costs	(961)	(2,467)
Capital Expenditures	(79)	(331)
Distributions to Unitholders	–	–
Proceeds on Disposal of Long-lived Assets	80	9,083
Issuance of debentures	9,519	8,650
Repayment of Long-term Debt	(2,996)	(209)
Repayment of Revolving Credit Including Change in Cash	$5,125	$59,321

As of December 31, 2010, we were in a net in funds position of $2.3 million on our revolving credit (2009 - $2.8 million borrowed net of deferred financing of $0.9 million). Including cash balances in deposit accounts of $3.3million, we were in a net cash position of $5.6 million (2009 – net cash position of $1.3 million). In 2010 deferred financing of $0.6 million was included in Other Assets.

The net cash position at December 31, 2010 was $4.3 million higher than at December 31, 2009 and primarily reflects net proceeds from the issuance of Debentures of $9.5 million, a decrease in working capital, mainly related to reduced income and other tax receivables of $3.6 million, repayment of long term debt of $3.0 million less cash consumed by operating activities of $3.9 million.

Debentures Financing

As described in Section 4 2010 & Subsequent Developments, we raised a total of $19.75 million through the issuance of Debentures offered through a private

placement and rights offering. Net proceeds of $9.5 million from the rights offering were received in January 2010 and were applied to our credit facilities at the time.

Senior Credit Facility

On March 25, 2010, the Fund entered into new senior revolving credit facilities. The three-year, $35 million Senior Credit Facility replaces the Fund's existing credit facilities with GE. 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 amount available under the Senior Credit Facility is limited to the amount of the calculated borrowing base, less a minimum availability of $2.5 million. 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 defined fixed charge coverage ratio if the availability on the Senior Credit Facility falls below $7.5 million. The Senior Credit Facility also contains restrictive covenants that limit the discretion of our management with respect to certain business matters. These covenants place restrictions on, among other things, the ability of Tree Island and its subsidiaries to incur additional indebtedness, to create liens or other encumbrances, to pay dividends or make certain other payments, investments, loans and guarantees and to sell or otherwise dispose of assets and merge or consolidate with another entity. As at December 31, 2010 the Fund was in compliance with its financial covenants on the Senior Credit Facility.

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 the Company and its subsidiaries 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 credit facilities.

8.5 Working Capital

Our business requires an ongoing investment in working capital, comprised of accounts receivable, income taxes receivable, inventories and prepaid expenses, partially offset by credit in the form of accounts payable, interest payable, income taxes payable and accrued liabilities. 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. As a result of the current conditions prevailing in credit markets, and our past liquidity issues, access to new credit from key suppliers has been limited.

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 Canadian residential construction, commercial 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 changes in our non-cash working capital during the periods ended December 31, 2010 and 2009 is provided below ($000's):

(Increase)/Decrease in Non-cash Working Capital

	Year Ended December 31	
	2010	2009
Accounts Receivable	(817)	14,934
Inventories	2,753	72,937
Accounts Payable & Accrued Liabilities	(4,787)	(7,029)
Income and Other Taxes	5,957	(1,869)
Other	515	590
Total Change in Non-cash Working Capital	3,621	79,563

In 2010 we continued to tightly manage our inventories and during the year we reduced inventories by $2.8 million in part by purchasing wire rod were in smaller quantities than historic norms with more emphasis on North American suppliers. The smaller order sizes coming from these sources,

which are typically located closer to our manufacturing facilities, enables us to hold less inventory at a cost more closely related to the current market price.

Under the terms of the Forbearance Agreements, $40.4 million was reclassified from trade payables to long term debt. The Forbearance Agreements were amended in March 2011 to allow for an extended repayment period, as described in Section 4 - *2010 & Subsequent Developments*.

It is important to note that working capital is a key part of compliance with the terms of our Senior Credit Facility. As a result, we will continue to put considerable focus on managing inventory and working capital levels in 2011.

9. CAPITAL EXPENDITURES & CAPACITY

For the year ended December 31, 2010, we made capital expenditures of $0.1 million (2009 - $0.3 million), made up of Maintenance Capital in 2010 and of Non-maintenance Capital or profit improvement capital of $0.1 million and maintenance capital of $0.2 in 2009. We reduced our planned capital expenditures for the 2010 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.

10. CONTRACTUAL COMMITMENTS

In 2009 we signed a tolling agreement which was subsequently renewed. The tolling agreement calls for our customer to retain ownership of the raw materials and finished goods – we charge the customer a tolling fee for processing the raw material into finished goods, thereby reducing our working capital requirements.

In addition, as of December 31, 2010, we were committed to the contracts 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.

Contractual Commitments

	2011	2012	2013	2014	2015	Thereafiter
Wire Rod Purchases	$17,284	$ –	$ –	$ –	$ –	$ –
Finished Goods	1,070	–	–	–	–	–
Zinc Purchases	–	–	–	–	–	–
Natural Gas Purchases	–	–	–	–	–	–
Operating Lease Agreements	2,613	1,562	830	757	768	690
Total	$20,967	$1,562	$830	$757	$768	$690

Repayment of Long-Term Liabilities

	2011	2012	2013	2014	Total
Long Term Debt	$2,884	$4,774	$13,099	$24,526	$45,283
Convertible Debentures	1,932	1,932	1,932	21,132	26,928
Total	$4,816	$6,706	$15,031	$45,658	$72,211

11. SUMMARY OF QUARTERLY FINANCIAL INFORMATION

The table below provides selected quarterly financial information for the eight most recent fiscal quarters to December 31, 2010. 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)	Dec 31 2010 (3)	Sep 30 2010	June 30 2010 (4)	Mar 31 2010	Dec 31 2009	Sep 30 2009	Jun 30 2009	Mar 31 2009
Sales Volumes – Tons (2)	*20,565*	*23,192*	*27,732*	*27,886*	*21,171*	*31,565*	*41,092*	*42,369*
Revenue	27,746	31,391	38,742	34,532	26,740	38,456	47,430	52,955
EBITDA per Ton	*(9)*	*(98)*	*78*	*6*	*(260)*	*(168)*	*(329)*	*(345)*
EBITDA	(181)	(2,281)	2,163	158	(5,514)	(5,303)	(13,501)	(14,603)
Foreign Exchange Gain (Loss)	725	696	(702)	(596)	150	1,162	2,115	(986)
EBITDA plus Foreign Exchange Gain	544	(1,586)	1,461	(438)	(5,364)	(4,141)	(11,386)	(15,589)
Net Income (Loss)	(3,524)	(4,879)	(2,299)	(4,079)	13,294	(1,625)	(20,923)	(17,622)
Net Income (Loss) per Unit – Basic	(0.15)	(0.21)	(0.10)	(0.19)	0.60	(0.07)	(0.95)	(0.80)
Standardized Distributable Cash	8,028	2,672	(1,699)	(9,383)	2,206	5,254	15,513	21,085
Adjusted Distributable Cash	(1,822)	(2,875)	1,252	(558)	(214)	3,394	(12,928)	(16,763)
Distributions Paid or Payable	–	–	–	–	–	–	–	–
Standardized Distributable Cash per Unit – Basic	0.3512	0.1169	(0.0756)	(0.4257)	0.0998	0.2505	0.7053	0.9594
Adjusted Distributable Cash per Unit – Basic	(0.0797)	(0.1258)	0.0557	(0.0253)	(0.0097)	0.1539	(0.5877)	(0.7628)
Distributions Paid or Payable per Unit – Basic	–	–	–	–	–	–	–	–
Standardized Distribution Payout % (1)	0%	0%	0%	0%	0%	0%	0%	0%
Adjusted Distribution Payout % (1)	0%	0%	0%	0%	0%	0%	0%	0%

(1) Standardized Distribution payout % is calculated as distributions paid or payable, divided by standardized distributable cash and adjusted distribution payout % is calculated as distributions paid or payable divided by adjusted distributable cash.

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

(3) EBITDA, EBITDA plus foreign exchange, Net Income and Distributable Cash include a one time reversal of an accrual of $1.6 million.

(4) In the second quarter of 2010 the Fund recorded a foreign exchange gain of $279. The loss on the revaluation of US denominated long term liabilities amounting to $981 was incorrectly recorded in other comprehensive income. The tax impact of this correction is a decrease of tax expense of $304. The result of these corrections would be to increase the net loss by $677 in the second quarter or $0.03 per unit (basic and diluted) as described in the table continued page 20.

Summary of Quarterly Financial Information – *footnote 4 continued from page 19*

Interim Consolidated Statements of Earnings

($000's except per unit amounts)	Three Months Ended June 30, 2010	
	As filed	Amended
Foreign Exchange gain (loss)	$ 279	$ (702)
Income tax (expense) recovery	(388)	(84)
Net loss for the period	1,622)	(2,299)
Net loss per unit basic and diluted	(0.07)	(0.10)

Interim Consolidated Balance Sheets

($000's)	As at June 30, 2010	
	As filed	Amended
Future income taxes	$ 2,343	$ 2,166
Unitholders Equity	36,554	36,731

Distributable Cash

($000's except per unit amounts)	Three Months Ended June 30, 2010	
	As filed	Amended
Standardized Distributable Cash	$ (1,637)	$ (1,699)
Standardized Distributable Cash per unit	(0.0728)	(0.0756)
Adjusted Distributable Cash	2,336	1,252
Adjusted Distributable Cash per unit	0.1039	0.0557

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. Significant items that impacted net earnings during the last eight quarters are as follows:

- Q1 2009: The decline in steel values, together with weaker market demand and pricing resulting from the global recession, necessitated a decrease in cash distributions effective in November 2008, followed by a suspension of cash distributions beginning in January 2009.
- Q1 2009: Cost of sales increased by $13.6 million as a result of inventory overvaluations. Continued erosion in the price of steel led to a further reduction in the value of our raw material and finished goods inventories. Based on raw material prices at that time, the negative impact to future earnings was estimated to be in the range of $7 to $8 million. In accordance with GAAP, we wrote down $2.6 million of this overvaluation at the end of the first quarter of 2009 in order to adjust inventory values to net realizable value.
- Q2 2009: Cost of sales increased by $5.2 million as a result of inventory overvaluations. Continued deterioration in the price of steel led to a further reduction in the value of our raw material and finished goods inventories. In accordance with GAAP, we recorded a write down of $0.9 million of this overvaluation at the end of the second quarter of 2009 in order to adjust inventory values to net realizable value.
- Q3 2009: Declines in the price of steel led to a further reduction in the value of certain of our finished goods inventories. In accordance with GAAP, we recorded a write down of $0.5 million inventory values to net realizable value.

- Q3 2009: We completed the sale of 12.5 acres of surplus lands at our Richmond, BC manufacturing facility for net proceeds of $8.7 million and a gain of $5.4 million. The available proceeds of $8.7 million from the sale were used to reduce debt under the revolving credit facility.
- Q4 2009: We raised $9.75 million, less associated transaction costs, from the private placement portion of the Recapitalization Transaction, signed forbearance agreements with our significant trade creditors resulting in a gain of $17.8 million, and entered into limited waiver and amendment agreements with our senior lenders whereby all previously known and reported defaults were cured.
- 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 was $2.2 million despite reduced volumes.
- Q3 2010: Our Q3 sales were impacted by our decision to focus working capital on higher-margin product lines rather than higher volume product lines, by weak economic conditions in the US and by customers in certain markets that took action to reduce inventories in line with low demand.

12. FOURTH QUARTER 2010 RESULTS

Revenue

For the three months ended December 31, 2010, we generated revenue of $27.7 million, an increase of $1.0 million, or 3.8%, from the fourth quarter of 2009. The increase in revenue primarily reflects increased selling prices which factored in higher rod costs offset by lower sales volumes, competitive pricing pressures and the negative foreign exchange impact of a stronger Canadian dollar on revenue. During the three months ended December 31, 2010, the average exchange rate for the Canadian dollar was 4.2% stronger than during the same period in 2009.

Fourth quarter sales volumes decreased 2.9% to 20,565 tons, from 21,171 tons last year. This decrease reflects our focus on higher margin product lines rather than higher volume product lines and a drop in volumes in international trading, partially offset by our decision to focus on maintaining market share in strategic product groups despite low margins. The residential construction market experienced a decline of 6.7% while the year-over-year fourth quarter housing starts in the Western US region increased by 1.3% (per the US Census Bureau). The decline in sales volumes to the residential construction market reflects our focus on higher margin product lines rather than higher volume product lines. The 10.8% increase in commercial construction sales volumes reflects increased sales of mine mesh and concrete reinforcing wire.

The 15.6% increase in industrial/OEM sales volumes reflects increased sales of both high carbon and low carbon galvanized wire as a result of our decision to focus on maintaining market share in strategic product groups despite low margins. Agricultural sales were impacted by poor weather conditions on the Canadian prairies. Sales to the specialty market increased as a result of increased demand for stainless steel products. In Q4 2010 we processed 3,117 tons of our customers' inventory under tolling arrangements (2009 – 3,121 tons).

Sales volumes to our key markets were as follows:

	Three Months Ended December 31, 2010		Three Months Ended December 31, 2009	
Market	Tons (000's) (2)	% of Sales Volumes	Tons (000's) (2)	% of Sales Volumes
Residential Construction	5.6	27.2%	6.0	28.3%
Commercial Construction	4.1	19.9%	3.7	17.4%
Industrial/OEM	8.9	43.2%	7.7	36.3%
Agricultural	0.7	3.4%	1.2	5.7%
Specialty	0.6	2.9%	0.4	1.9%
International Trading (1)	0.7	3.4%	2.2	10.4%
Total	20.6	100.0%	21.2	100.0%

(1) International trading includes international trading company 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.

International trading sales decreased by 68.2% from 2,169 tons in 2009 to 698 tons in 2010 reflecting reduced trading volumes in China. 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:

	Three Months Ended December 31, 2010		Three Months Ended December 31, 2009	
Market	Tons (000's)	% of Sales Volumes	Tons (000's)	% of Sales Volumes
North American Manufactured	18.7	90.8%	16.4	77.4%
Imported and Trading	1.9	9.2%	4.8	22.6%
Total	20.6	100.0%	21.2	100.0%

Combined import and trading sales declined to 1,901 tons in 2010 from 4,821 tons in 2009 and represented a smaller percentage of the total sales at 9.2% in 2010 than in 2009 at 22.6%. This decline was a result of the decrease in international trading sales. In addition we increased our focus on our core competency of manufacturing which resulted in proportionately fewer sales of imported products relative to manufactured products.

Cost of Goods Sold

Our fourth quarter cost of sales decreased $2.8 million from the same period in 2009. Raw material prices which had been volatile in the third quarter of 2010 began to rise in the fourth quarter and were higher on a year-over-year basis. A reduction in costs as a result of a one time reversal of an accrual of $1.6 million, minimal restructuring costs and the strengthening of the Canadian dollar had a positive impact on cost of sales when compared to the fourth quarter 2009. Cost of sales were also favourably impacted as a result of better capacity utilization in Q4 2010 than had been achieved in Q4 2009 and because of reductions to the fixed-cost element of our manufacturing costs.

Overall our cost of carbon rod (representing 40.7% of total cost of goods sold) increased by 6.5% on a per-ton basis compared to a year ago. Similarly, stainless steel costs (representing 7.4% of total cost of goods sold) increased by 23.1% on a per-ton basis and the cost of zinc (representing 2.9% of total cost of goods sold) increased by 64.5% on a per-pound basis.

Gross Profit

For the three months ended December 31, 2010, gross profit improved by $3.9 million, to a profit of $0.5 million while gross profit per ton improved to $25, an improvement of $185 per ton year over year. The increase in gross profit and gross profit per ton primarily reflects our focus on higher margin product lines, a reduction in costs as a result of a one time reversal of an accrual of $1.6 million, minimal restructuring charges, the favourable impact of better capacity utilization in Q4 2010 than had been achieved in Q4 2009 and reductions to the fixed-cost element of our manufacturing costs partially offset by reduced volumes and higher rod costs.

Expenses

SG&A expenses declined to $2.0 million in the fourth quarter of 2010, from $3.6 million during the same period in 2009. The $1.6 million decrease reflects various cost saving measures, and the positive impact of the stronger Canadian dollar, compared to Q4 2009, on expenses at our US operations.

Interest

Fourth quarter financing expenses of $2.6 million were $0.3 million higher than 2009 as a result of interest on Debentures and long term debt partially offset by lower interest on our Senior Credit Facility and no amortization of deferred financing costs. Financing expenses included interest of $0.1 million on the Senior Credit Facility (2009 - $0.3 million), other interest expense of $0.2 million (2009 - $0.6 million) interest on long term debt of $1.5 million (2009 - $0.5 million), interest on debentures of $0.8 million (2009 - $0.1 million) and no amortization of deferred financing costs (2009 - $0.7 million).

Unrealized gain/loss on derivatives

In 2009 we had certain natural gas forward contracts that are purchased for future use, but that did not meet the expected purchase, sale or usage requirements exception as defined under GAAP. As a result, we recorded these natural gas forward contracts on the balance sheet at their mark-to-market value. Currently we have no natural gas forward contracts.

Impairment of Property, Plant and Equipment

During the fourth quarter of 2010, we recognized an impairment of $0.1 million in the carrying value of certain surplus and obsolete equipment at our facilities in China (2009 - $0.3 million on certain surplus and obsolete equipment at our facilities in China and the US). The assets were written down to fair value, which was determined with reference to similar assets in similar condition.

Gain on renegotiated debt

On November 26, 2009, we entered into the Forbearance Agreements, which resulted in a $17.8 million gain as discussed previously in this MD&A. This gain, along with the transaction costs and stated interest rate on the agreements, is being amortized to income over the term of the Forbearance Agreements.

Income Taxes

We recorded a fourth quarter income tax expense of $0.1 million, compared to a $4.8 million income tax recovery during the same period in 2009. The Q4 2010 income tax recovery represents a future income tax recovery of $ 0.4 million (2009 - $1.3 million expense) and a current income tax expense of $0.5 million (2009 - $6.1 million recovery). The income tax expense was based on the statutory tax rate of 28.5% (2009 – 30%) applied to the income of subsidiaries before taxes, with adjustments for permanent differences between accounting and taxable income.

EBITDA

We reported an EBITDA loss of $0.2 million in the fourth quarter of 2010, an improvement of $5.3 million from 2009 which is the result our focus on higher margin product lines, a reduction in costs as a result of a one time reversal of an accrual of $1.6 million, and lower expenses offset by lower volumes.

Fourth quarter EBITDA, adjusted for foreign exchange, was a gain of $0.5 million, compared to a loss of $5.4 million in Q4 2009. The change reflects the improved EBITDA, and an increase in the gain on foreign exchange compared to last year.

Foreign Exchange

We recorded a gain on foreign exchange conversions of $0.7 million in the fourth quarter of 2010, compared to a gain of $0.1 million in 2009. Foreign exchange gains and losses are unpredictable in nature and therefore can be expected to vary significantly period-to-period and over time.

Amortization of Deferred Gain

In 2006 we sold a purchase option on our leased Pomona, California manufacturing facility and recorded a deferred gain of $5.3 million. The gain is being amortized over the 10 year life of the new lease, with $0.1 million amortized in the fourth quarter of 2010 ($0.1 million in 2009).

Net Income (Loss)

We incurred a fourth quarter 2010 net loss of $3.5 million (net gain of $13.3 million in 2009), or net loss of $0.15 cents per unit on a basic and fully diluted basis (net gain of $0.60 per unit on a basic basis and $0.45 cents per unit on a fully diluted basis in 2009). The reduction in net income resulting in a net loss primarily reflects the absence of the gain on renegotiated debt and lower sales volumes partially offset by our focus on higher margin product lines, a reduction in costs as a result of a one time reversal of an accrual of $1.6 million, lower expenses and increased gains from foreign exchange.

13. ACCOUNTING POLICIES AND ESTIMATES

The Fund's significant accounting policies are contained in Note 2 of the Consolidated Financial Statements for the year ended December 31, 2010. Certain of these policies involve critical accounting estimate because 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. Below is a summary of those areas that we consider to be critical accounting estimates.

13.1 Critical Accounting Estimates

Going Concern

The Canadian Institute of Chartered Accountants ("CICA") Handbook Section 1400 requires management to assess and disclose an entity's ability to continue as a going concern. Management has forecast the Fund's financial results and cash flows for fiscal 2011. The forecasts are based on management's best estimates of operating conditions in the context of the current economic climate especially in the United States, today's capital market conditions and the depressed state of the residential and commercial construction markets in both Canada and the United States. 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 collectibility rates on accounts receivables.

With the new credit facilities of $35 million described above, working capital of $32.1 million and forecasts projecting forward through 2011, 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.

The consolidated financial statements have been prepared assuming the Fund will be able to maintain sufficient capital or obtain new sources of capital to continue as a going concern which contemplates the realization of assets and the satisfaction of liabilities in the normal course of business. The consolidated financial statements do not include any adjustments relating to the amounts and classifications of recorded asset and liabilities that might be necessary should the Fund be unable to continue as a going concern.

Valuation of Financial Instruments

The Fund records 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, using, to the extent possible, observable market-based inputs.

With the adoption of amended Handbook Section 3862 Financial Instruments – Disclosure, there is enhanced disclosure on the fair value of certain financial instruments within the notes to the financial statements. This includes additional disclosure on the relative reliability of the inputs used in those measurements, and about the liquidity of financial instruments. Our 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 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.

Certain financial instruments are not categorized on this hierarchy because their carrying amount is a reasonable approximation of fair value due to their short-term nature. Certain of our financial instruments involve more complex and subjective estimates and assumptions. These would include:

- *Debentures:* compound instruments where the proceeds received are 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 Debentures.
- *Change of control premium:* fair value 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 Debentures.
- *Conversion feature on Debentures and warrants:* fair value 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.
- *Forbearance Agreements:* Judgment was involved in first making the determination that the restructuring of these trade payables resulted in an exchange of debt instruments with substantially different terms. Management estimated the fair value of the forbearance agreement using discounted cash flows and credit adjusted discount rates ranging between 22.4% and 23.1%. The discount rates used were based on the assumptions derived from the implied fair value rates on the liability element of the Debentures.

Property, Plant and Equipment

Property, plant and equipment comprises a large component of our assets and as such the capitalization of costs, the determination of estimated recoverable amounts and the depreciation and amortization of these assets have a significant effect on our financial results.

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

We review the carrying value of our long-lived assets on a regular basis as events or changes in circumstances may warrant. Where the carrying value of the assets is not expected to be recoverable from future cash flows, they are written down to fair value. Our 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 property, plant and equipment could be lower which would result in additional impairment. As well, as much as practicable we use third party valuators 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 of Intangibles

An impairment loss is recognized when the estimate of undiscounted future cash flows generated by such assets is less than the carrying amount. Measurement of the impairment loss is based on the present value of the expected future cash flows similar to those cash flow estimates derived to assess other asset impairments with similar risks inherent in forecasting future cash flows.

Inventory valuation

Under Canadian GAAP, 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. Canadian GAAP requires that the estimated NRV should 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 the current economic conditions, 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 year-end. As a result there is the risk that a further write-down of on-hand and unconsumed inventories could occur in future periods.

Also, we anticipate that a certain portion of our inventory may become damaged or obsolete. We record a slow moving reserve based on an analysis of the length of time product has been in inventory and historical rates of damage and obsolescence.

Allowance for doubtful accounts

We anticipate that a certain portion of required customer payments will not be made, and we maintain an allowance for these doubtful accounts. The allowance is based on our estimation of the potential of recovering our accounts receivable and incorporates current and expected collection trends. Our estimates will change, as necessary, to reflect market or specific industry risks as well as known or expected changes in the customers financial position.

Income taxes

We follow the liability method of accounting for income taxes. Under this method, current income taxes are recognized for the estimated income taxes payable in the current year. Future income tax assets or liabilities are calculated using substantively enacted tax rates in effect in the periods that the temporary differences are expected to reverse. The effect of the change in income tax rates on future income tax assets and liabilities is recognized in income in the period the change occurs.

Under Canadian GAAP, at each balance sheet date, we should recognize a future income tax asset for all deductible temporary differences, unused tax losses and income tax reductions, but only to the extent that it is more likely than not to be realized. The determination of this requires significant judgment. We review all available positive and negative evidence to evaluate the recoverability of the benefits associated with future income tax assets. This 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 our net assets, and (4) prudent and feasible corporate actions with respect to repatriation of foreign earnings. We record a valuation allowance against future income tax assets when we believe that it is not "more likely than not" that such assets will be realized. The valuation of future tax assets and any associated valuation allowance can be affected by many factors, including: current and future economic conditions, net realizable sale prices, production rates and production costs, and can either be increased or decreased when, in our view, such change is warranted.

13.2 Adoption of New Accounting Policies, Recent Accounting Pronouncements and IFRS

Adoption of New Accounting Policies

During 2010 no new accounting policies were adopted by the Fund.

International Financial Reporting Standards ("IFRS")

The Canadian Accounting Standards Board (AcSB) requires all public companies to adopt IFRS, replacing Canadian GAAP, for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011. We are required to prepare comparative financial information using IFRS for the year ended December 31, 2010. The transition to IFRS will impact financial reporting, business processes and information systems. The Fund is continuing to assess the impact of adopting IFRS on the financial statements; however, it should be noted that the current financial statement may be significantly and materially different when presented in accordance with IFRS.

A high-level diagnostic was completed assessing the areas likely to have an impact of IFRS on the financial statements. We are making progress in evaluating the transitional impacts of conversion. The most significant areas of work are:

Accounting Policy Review

We are in the final stages of evaluating, line by line, the financial statements to determine whether there is a need to make changes to our accounting policies because of differences between Canadian GAAP and IFRS.

Property, Plant and Equipment ("PPE")

(i) IFRS 1 Election on fair value as deemed cost ("FVDC election")

We will be electing to value machinery and equipment on transition at fair value which then becomes the deemed cost on which to amortize/depreciate in future periods. Land, building and improvements will continue to be valued at cost less accumulated amortization determined under Canadian GAAP as permitted under IFRS net of any adjustments required at transition to comply with IFRS.

(ii) Componentization

Under IAS 16, elements of PPE with different useful lives are treated as separate components and amortized over the component's useful life. We are in the final stages of reviewing the detailed equipment ledgers to determine if there are assets that will require componentization on transition to IFRS. Machinery and equipment are the asset classes that are impacted by componentization and the requirement to componentise has been factored into the determination of fair value for the FVDC election. Land, buildings and improvements, in the detailed ledgers, are already componentized.

(iii) Decommissioning and/or remediation costs

IFRIC 1 allows first time adopters to estimate a decommissioning liability, and resultant increase to the carrying value of the related asset, at the transition date and discounting it at our best estimate of the historical risk-adjusted discount rate that would have applied. We are reviewing the impact of this exemption.

(iv) System changes

As part of the transition, management has evaluated the prior systems used to record and monitor PPE and is transitioning to a new system which will have better reporting and internal controls with regards to PPE.

Provisions

(i) IAS 37 expands what would be considered a liability to include constructive obligations which can be inferred from past practice or published policy resulting in a valid expectation that it will be discharged by the company. We are reviewing the impact of this for the transition to IFRS.

(ii) IAS 37 also includes the concept of onerous contracts which are not discussed in Canadian GAAP but under IFRS would require recognition of a provision. An onerous contract is one whereby the unavoidable costs of meeting the obligation exceed the expected economic benefits. We are focusing our review on certain contracts, particularly property leases, to determine whether they meet the criteria of an onerous contract and as a result we would record additional provisions.

(iii) Finally, IAS 37 restricts the types of costs that can be recognized as restructuring and specifically does not allow future operating losses to be included unless those costs relate to an onerous contract. Under Canadian GAAP, we have recognized, as restructuring, the costs to exit and future lease payments of the Corona facility as part of the restructuring activities undertaken in 2009. This will be reviewed to determine if it meets the criteria of being an onerous contract and whether there is a change in the measurement of the provision due to differences between Canadian GAAP and IAS 37.

Elections under IFRS 1

We are still evaluating the various elections provided under IFRS 1 and at this point we are expecting that we:

(i) Will elect to deem unrealized losses on translation of self-sustaining foreign operations to be zero and reclassify the previous balance to opening retained earnings

(ii) Will not elect to apply IFRS 3 to past business combinations.

(iii) Will elect to restate certain items of PPE to fair value as deemed costs if merited (see above).

(iv) Will elect to apply IAS 23 prospectively for qualifying capital asset additions from July 1, 2009.

Financial Statement Disclosures

The disclosure requirements in the first year of adoption of IFRS are extensive and ongoing disclosure requirements will result in a significant increase the extent of disclosure in the Fund's 2011 consolidated financial statements.

System changes, disclosure controls ("DC&P") and internal controls over financial reporting ("ICFR").

As we review the areas of financial reporting being impacted by the transition to IFRS, we are also identifying any required changes to information systems, internal controls and disclosure controls. This includes:

- Additional training and skills for individuals involved in key internal controls and disclosure controls impacted by changes under IFRS.
- Project plans for systems changes, which to date the only one identified is the change of system for PPE as mentioned above.

- Involving specialists, as required, to provide expertise in areas requiring independent and/or specialized skills for example in the assessment of fair value of items of PPE for the FVDC.

Any new controls considered key for certifications of DC&P and ICFR will become a part of the ongoing evaluation procedures maintained by the certifying officers.

Business Impacts

With the transition to IFRS, we are also reviewing any potential impact to debt covenants, contractual obligations and the like.

14. RELATED PARTIES

One of the investors in the Recapitalization Transaction, Futura, is considered to be a related party to the Fund because of its ownership interest and the fact that two positions on the Board of Trustees are held by executives of Futura. Futura has purchased $5 million of Debentures and was issued 1,875,000 warrants as part of the Recapitalization Transaction. The Debentures issued to Futura have been bifurcated and accounted for at fair value (see Note 6 of the 2010 consolidated financial statements). During the period ended December 31, 2010, Futura received interest of $0.4 million on the 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, $4.9 million and trade accounts receivable owing from Canwel is $4 thousand. These costs are in the normal course and are recorded at the exchange amount.

15. 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 2010 Annual Information Form under the heading “Risk Factors” which can be found at www.sedar.com.

Recapitalization Transaction May Not Improve the Fund's Financial Condition

The Recapitalization Transaction may not improve the Fund's liquidity and operating flexibility or allow it to continue operating its business in the normal course for the 2011 fiscal year. Further deterioration in the Fund's consolidated revenues and/or relationships with suppliers, or the inability to manage costs and inventory would materially adversely affect the Fund's financial condition, liquidity and results of operations and the Fund may not be able to pay its debts as they become due.

Similarly, the inability of the Fund, through its affiliates, to meet its payment and other obligations under the Forbearance Agreements and subsequent amendment to the Forbearance Agreements would have a materially adverse effect on the Fund's financial condition, liquidity and results of operations. As well, the inability to meet interest payments on the Debentures could also adversely affect the Fund’s financial condition and liquidity.

There are no assurances that the Fund, through its subsidiaries will continue to be in compliance with the terms, conditions and covenants of its Senior Credit Facility. A future breach of the terms, conditions and covenants of the Senior Credit Facility could materially adversely affect the Fund's financial condition, liquidity and results of operations.

The occurrence of any of the events described above may affect the Fund’s ability to operate as a going concern.

Leverage, Restrictive Covenants and Liquidity

The Fund has third-party debt service obligations under its Senior Credit Facility, Debentures, and Long Term debt (Forbearance Agreements). The degree to which the Fund is leveraged could have important consequences to the holders of the Units, including: (i) the Fund’s ability to obtain additional financing for working capital; (ii) a portion of the Fund’s cash flow from operations will be dedicated to the payment of the principal of and interest on its indebtedness, thereby reducing funds available for distribution to the Fund; (iii) a substantial decrease in net operating cash flows or increase in expenses could make it more difficult to meet debt service requirements; (iv) the Fund's leveraged capital structure could place it at a competitive disadvantage by hindering its ability to adjust rapidly to changing market conditions or by making it vulnerable to a downturn in its business or the economy in general; and (v) the Senior Credit Facility, being at variable rates of interest, exposes the Fund to the risk of increased interest rates.

The Fund's ability to make scheduled payments of the principal of or interest on, or to refinance, its indebtedness, including the Debentures, Long Term debt and subordinated Notes held by the Fund as well as its ability to finance working capital requirements, will depend on its future cash flow, which is subject to the operations of the Fund's business, prevailing economic conditions, prevailing interest rate levels, and financial, competitive, business and other factors, many of which are beyond its control.

There are no assurances that the Fund will be able to generate sufficient cash flow from the operations to obtain sufficient borrowings under our Senior Credit Facility at reasonable terms or at all, to finance our liquidity needs.

The Fund's Senior Credit Facility, Long Term debt and Debentures and associated agreements contain 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 the Fund to incur additional indebtedness, to create liens or other encumbrances, to pay interest on the Debentures, distributions, dividends or make certain other payments, investments, loans and guarantees and to sell or otherwise dispose of assets and merge or consolidate with another entity.

In addition, the Fund's Senior Credit Facility contains financial covenants that require the Fund to meet certain financial ratios and financial condition tests. A failure to comply with the obligations in the Senior Credit Facility could result in an event of default which, if not cured or waived, could permit acceleration of the relevant indebtedness and acceleration. If the indebtedness under the Fund's Senior Credit Facility were to be accelerated, there can be no assurance that the Fund's assets would be sufficient to repay in full that indebtedness. An event of default under the Fund's Senior Credit Facility if not remedied would give rise to events of default in terms of the Long Term debt, Debentures and associated agreements.

Currently the Fund does not anticipate being in default of the requirements of the Senior Credit Facility, Long Term debt, Debentures and associated agreements. However, due to the difficulty in predicting the continued severity and duration of the current economic conditions as well as other risk factors noted above, there is uncertainty whether it will remain in compliance with these requirements during 2011. Further declines in steel rod prices, continued weakening in the markets served by the Fund, an inability to source raw materials, finished or semi-finished goods, and/or significant customer or credit losses could cause it to violate the covenants in 2011. This, in turn, could cause the indebtedness to become immediately due and payable, and the Fund might not be able to access funds under its Senior Credit Facility. In the event of such a circumstance, the Fund anticipates that it would need to raise additional capital in the form of equity or debt to supplement or replace the existing Senior Credit Facility in order to have sufficient liquidity to meet obligations in 2011.

Current Economic Conditions

Weak economic conditions and the uncertainty of future developments in the domestic and global economies have significantly reduced demand for our products and have negatively impact our results. We cannot estimate the level of growth or contraction for the economy as a whole, or for the economy of any particular region or market that we serve.

Adverse changes in our financial condition and results of operations may continue to occur as a result of negative economic conditions, unemployment, declines in stock markets, contraction of credit availability or other factors affecting economic conditions generally.

Supply of Raw Materials, Imported Finished and Semi-finished Products

The Company relies on key suppliers for its wire rod, imported finished and semi finished products. If these suppliers determine that they are not prepared to supply these materials and services to the Company because of credit risk or other matter determined by the supplier, the Company would have to find other sources. This would consume internal resources and could result in higher costs or more significantly the Company may be unable to secure alternative sources of raw materials.

As a non-integrated producer of steel wire and fabricated wire products, the Company must purchase its carbon wire rod supply. Since carbon wire rod cost is a significant portion of cost of sales (45.2% in 2010), shortages or interruptions in supply of carbon wire rod and/or rapid carbon wire rod price increases or decreases can affect results on a short-term basis.

The Company relies on key suppliers for its stainless steel, zinc and other materials and services. If these suppliers determine that they are not prepared to supply these materials and services to the Company because of credit risk

or other matter determined by the supplier, the Company would have to find other sources which would consume internal resources and result in higher costs. More significantly, the Company may be unable to secure alternative sources of raw materials.

Stainless steel wire rod which accounted for 6.4% of cost of sales in 2010 is purchased from domestic and international suppliers. The cost of stainless steel wire rod is significantly impacted by the cost of the alloys used in the steel to provide its anti-corrosive properties. Nickel, chrome and molybdenum are three of the primary alloys used, with nickel being the most significant of the three. The cost of these alloys fluctuates significantly with market conditions. In 2010 the alloy components increased by as much as 38%, causing stainless steel wire rod costs to rise 33% by the end of the year. The current industry projections indicate that stainless steel costs will continue to increase in the first quarter of 2011.

Used in the manufacture of galvanized nails, galvanized fencing and galvanized wire, zinc is the third largest raw materials cost for the Company and accounted for approximately 3.1% of the cost of sales in 2010. The Company's requirements are sourced from major domestic suppliers. Zinc supply is expected to remain at high levels as overcapacity remains and demand continues to be suppressed. Future ability to purchase zinc in support of galvanizing demand is not expected to be constrained by supply – however available credit and terms of payment may constrain the amount and timing of supply. Zinc inventories will continue to be managed tightly with a target of no more than one month of supply

The Company and its competitors attempt to pass along increases in raw material costs to customers through increased prices for finished products. However, there can be no assurance that such costs can be passed along, in whole or in part, in the future, with the effect that the Company's margins could be adversely affected by raw material cost increases.

Dependence on Construction Industry

Approximately 30.5% of our sales in 2010 were directly related to the level of home construction activity. In addition, 17.1% of sales were related to the commercial and infrastructure markets, resulting in construction accounting for 47.6% of our sales in 2010. Volume and price are affected by numerous factors beyond our control or that of our customers, including the level of construction activity, which is linked to the general health of the economy. Based on data provided by the US Census Bureau, Western US housing starts in 2010 were 3.1% above those in 2009 but still 38.6% below 2008 levels. This reduction in housing starts continues to put pressure on demand and pricing for our products.

Significant Exposure to the Western United States Due to Lack of Geographic Diversity

Our business has been historically over-reliant on customers located in the Western United States. In 2010, 47.6% of our sales were in the Western United States. California was the single largest market representing 29.6% of sales. While we are continuing to pursue strategic repositioning to increase geographic diversification, there can be no assurances that continued concentration in markets in the Western United States will not have a negative impact on our results or that our diversification strategies will be successful.

Foreign Exchange Fluctuations

We are sensitive to foreign exchange exposures when commitments are made to purchase raw materials or finished and semi-finished goods quoted in a currency other than the Canadian dollar. The risk primarily relates to purchases of carbon and stainless steel wire rod, zinc, imported finished or semi-finished goods and natural gas. In the first twelve months of 2010, approximately $29.3 million of sales from our Canadian operations were earned in US dollars ($33.5 million in 2009) and approximately $50.2 million of our costs were incurred in US dollars ($62.3 million in 2009). While this provides a partial hedge against currency fluctuations, changes in the value of the Canadian dollar affect our profitability. In addition, we generate a portion of our profits from our operations in the United States and changes in the value of the Canadian dollar relative to the US dollar have an impact on the conversion of these profits into Canadian dollars, which is our reporting currency.

The Company has foreign currency exposure to the US portion of Long Term debt amounting to $35 million. We also have a foreign currency exposure to RMB and HK dollars as a result of the operations related to Tree island International.

Fluctuations in the Canadian dollar exchange rate against the US dollar, RMB or HK dollar can have a material effect on our business, results of operations and financial performance.

Reliance on Key Customers

The Company has many customers but some are more significant in terms of total revenues and profitability although none comprise more than 10% of total revenues. A loss or failure of one or more key customers could have an adverse effect on the Corporation's business, results of operations and financial performance.

Operating Risk

Interruptions in the Company's production capabilities will increase its production costs and reduce its profitability. The Company may experience material shutdowns or periods of reduced production because of equipment failures and this risk may be increased by the age of certain of the Corporation's facilities. In addition to equipment failures, the Company's facilities are also subject to the risk of loss due to unanticipated events such as major information system failures, fires, explosions, earthquakes, adverse weather conditions or other catastrophic events. Material shutdowns or reductions in operations could have a material adverse effect on the Company's business, results of operations and financial performance. Remediation of an interruption in production capability or failure of information systems could require the Company to make large capital expenditures. Further, longer-term business disruptions could result in a loss of customers. All of these factors could have a material adverse effect on the Company's business, results of operations and financial performance.

16. 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, 2010. 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 Canadian generally accepted accounting principles ("Canadian GAAP").

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, 2010 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 GAAP.

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, 2010 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 2010 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 Canadian generally accepted accounting principles and, where appropriate, reflect mangement's best estimates and judgements. 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 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.

Theodore (Ted) Leja

President and Chief Executive Officer
Tree Island Industries Ltd.

AUDITOR'S REPORT

To the Unitholders of
Tree Island Wire Income Fund

We have audited the accompanying consolidated financial statements of Tree Island Wire Income Fund, which comprise the consolidated balance sheets as at December 31, 2010 and 2009, and the consolidated statements of operations, comprehensive loss, unitholders' equity and cash flows for the years then ended, 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 Canadian generally accepted accounting principles, 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 consolidated 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' judgement, 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 audit 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, 2010 and 2009 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Ernst & Young LLP

Chartered Accountants

Vancouver, Canada,
March 15, 2011

Tree Island Wire Income Fund

CONSOLIDATED BALANCE SHEETS

(in thousands of dollars)

As at December 31		2010		2009
Assets				
Current				
Cash	$	5,623	$	4,153
Accounts receivable (Notes 11 and 12)		9,695		9,064
Income and other taxes receivable		56		6,121
Inventories (Note 3)		30,873		33,626
Prepaid expenses		2,863		3,113
		49,110		56,077
Property, plant and equipment (Note 4)		37,141		43,047
Other non-current assets		571		569
	$	86,822	$	99,693
Liabilities				
Current				
Revolving credit (Note 5)	$	-	$	2,846
Accounts payable and accrued liabilities		13,243		18,351
Income taxes payable		808		748
Interest payable		68		41
Current portion of long-term debt (Note 7)		2,884		3,030
		17,003		25,016
Convertible Debentures (Note 6)		13,108		5,716
Long-term debt (Note 7)		24,815		23,063
Deferred gain on sale of option (Note 15)		2,710		3,337
Other non-current liabilities		667		361
Future income taxes		854		2,848
		59,157		60,341
Contingent liabilities and commitments (Note 17)				
Unitholders' Equity		27,665		39,352
	$	86,822	$	99,693

Approved on behalf of Tree Island Wire Income Fund

[Signed]
"Theodore (Ted) Leja"
Trustee

[Signed]
"Amar Doman"
Trustee

See accompanying Notes to the Consolidated Financial Statements

Tree Island Wire Income Fund

CONSOLIDATED STATEMENTS OF OPERATIONS

(in thousands of dollars, except units and per-unit amounts)

For the years ended December 31		2010		2009
Sales	$	132,411	$	165,581
Cost of goods sold (Note 3)		120,409		183,445
Depreciation		5,577		7,135
Gross profit (loss)		6,425		(24,999)
Selling, general and administrative expenses		12,143		21,057
Operating (loss)		(5,718)		(46,056)
Foreign exchange gain		124		2,441
Gain on sale of property, plant and equipment		66		5,448
Impairment and amortization of intangible assets		–		(6,022)
Property, plant and equipment impairment (Note 4)		(105)		(346)
Amortization of deferred gain (Note 15)		477		529
Fair value changes on derivatives		-		243
Gain on renegotiated debt (Note 7)		-		17,835
Financing expenses (Note 9)		(10,958)		(7,660)
Loss before income taxes		(16,114)		(33,588)
Income tax recovery (Note 13)		1,334		6,712
Net loss for the period	$	(14,780)	$	(26,876)
Net loss per unit				
Basic	$	(0.65)	$	(1.22)
Diluted	$	(0.65)	$	(1.22)
Weighted-average number of units (Note 16)				
Basic		22,641,642		22,035,040
Diluted		22,641,642		22,035,040

See accompanying Notes to the Consolidated Financial Statements

CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS

(in thousands of dollars)

For the years ended December 31	2010	2009
Net loss for the period	$ (14,780)	$ (26,876)
Other comprehensive loss		
Unrealized gain (loss) on translating financial statements of subsidiary operations	(34)	1,234
Tax effect	280	673
Other comprehensive income	246	1,907
Comprehensive loss for the period	$ (14,534)	$ (24,969)

See accompanying Notes to the Consolidated Financial Statements

CONSOLIDATED STATEMENTS OF UNITHOLDERS' EQUITY

(in thousands of dollars)

	Unitholders' Capital	Contributed Surplus	Accumulated Earnings (Deficit)	Distributions	Accumulated Other Comprehensive Loss	Total
Balance as at December 31, 2008	$210,174	$ 978	$ 29,069	$(159,236)	$ (19,967)	$ 61,018
Non–cash distributions	–	12	–	(12)	–	–
Unit–based compensation (Note 10)	–	390	–	–	–	390
Conversion of phantom units (Note 10)	951	(951)	–	–	–	–
Warrants issuance (Note 6)	–	852	–	–	–	852
Conversion feature on debentures (Note 6)	–	2,061	–	–	–	2,061
Net Loss	–	–	(26,876)	–	–	(26,876)
Other comprehensive income	–	–	–	–	1,907	1,907
Balance as at December 31, 2009	$211,125	$ 3,342	$ 2,193	$(159,248)	$ (18,060)	$ 39,352
Unit–based compensation (Note 10)	–	104	–	–	–	104
Conversion of phantom units (Note 10)	113	(113)	–	–	–	–
Conversion feature on debentures (Note 6)	–	2,442	–	–	–	2,442
Conversion of debentures (Note 6)	326	(89)				237
Rights equity element	–	64	–	–	–	64
Net Loss	–	–	(14,780)	–	–	(14,780)
Other comprehensive income	–	–	–	–	246	246
Balance as at December 31, 2010	$211,564	$ 5,750	$ (12,587)	$(159,248)	$ (17,814)	$ 27,665

See accompanying Notes to the Consolidated Financial Statements

Tree Island Wire Income Fund

CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands of dollars)

For the years ended December 31		2010		2009
Cash flows from operating activities				
Net loss for the period	$	(14,780)	$	(26,876)
Items not involving cash				
Depreciation		5,577		7,135
Fair value changes on derivatives		–		(243)
Gain on disposal of property, plant and equipment		(66)		(5,448)
Amortization and write-off of deferred financing		1,302		1,969
Property, plant and equipment impairment		105		346
Impairment and amortization of intangibles		-		6,022
Amortization of deferred gain		(477)		(529)
Gain on renegotiated debt		–		(17,835)
Non cash accretion of debt discount		7,288		589
Future income tax (recoveries)		(1,714)		(425)
Unit-based compensation		104		390
Exchange revaluation on foreign denominated debt		(1,263)		–
		(3,924)		(34,905)
Change in non-cash operating assets and liabilities (Note 20)		3,621		79,563
Net cash (used in) provided by operating activities		(303)		44,658
Cash flows from investing activities				
Proceeds on disposal of long-lived assets		80		9,083
Purchase of property, plant and equipment		(79)		(331)
Net cash provided by investing activities		1		8,752
Cash flows from financing activities				
Issuance of Convertible Debentures, net of transaction costs		9,519		8,650
Repayment of long-term debt		(2,996)		(209)
Financing transaction costs incurred		(961)		(2,467)
Repayment of revolving credit		(3,655)		(56,369)
Net cash provided by (used in) financing activities		1,907		(50,395)
Effect of exchange rate changes on cash		(135)		(63)
Increase in cash		1,470		2,952
Cash, beginning of period		4,153		1,201
Cash, end of period	$	5,623	$	4,153
Supplemental cash flow information:				
Interest paid	$	2,367	$	3,056
Income taxes (received)	$	(5,633)	$	(4,201)

See accompanying Notes to the Consolidated Financial Statements

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the years ended December 31, 2010 and 2009
(in thousands of dollars, except per unit amounts)

1. NATURE OF BUSINESS

Nature of Business

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. 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 owns 100% of the common shares of Tree Island Industries Ltd. (“TII”).

Recapitalization

Through the later half of 2009 and the first quarter of 2010, the Fund completed a recapitalization of the business (the “Recapitalization Transaction”). This included issuing 10% second lien convertible debentures (“Convertible Debentures”) on November 26, 2009 by means of a private placement with three investors for $9,750 (“Private Placement”) followed subsequently, in January 2010, with a successful public rights offering for an additional $10,000 (Note 6). The Fund, through its operating subsidiaries, also entered into forbearance and payment agreements (“Forbearance Agreements”) with the Fund's significant trade creditors pursuant to which the Fund has restructured $40,435 of trade payables through deferred payment arrangements extending to December 31, 2014 (Note 7). The Fund has also entered into new senior credit facilities for a maximum facility of $35 million with a new lender (“Senior Credit Facility”) which are further described in Note 5.

Subsequent to year-end, the Fund has also amended the principal repayment schedule under the Forbearance Agreements. The new payment terms are further described in Note 21.

With the Senior Credit Facility of $35 million, working capital of $32.1 million, amended Forbearance Agreements and cash flow forecasts projected through 2011, the Fund believes there is sufficient capital to continue as a going concern. The accompanying consolidated financial statements have been prepared assuming the Fund will be able to maintain sufficient capital or obtain new sources of capital to continue as a going concern which contemplates the realization of assets and the satisfaction of liabilities in the normal course of business. These consolidated financial statements do not include any adjustments relating to the amounts and classifications of recorded asset and liabilities that might be necessary should the Fund be unable to continue as a going concern.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

These consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles (“GAAP”) and reflect the following policies:

Basis of Presentation

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 subsidiaries. Intercompany accounts and transactions have been eliminated on consolidation.

International Financial Reporting Standards (“IFRS”)

The Canadian Accounting Standards Board (AcSB) requires all public companies to adopt IFRS, replacing Canadian GAAP, for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011. As a result, the Fund will adopt IFRS on January 1, 2011 and prepare comparative financial information for the year ended December 31, 2010 under IFRS.

The Fund is continuing to assess the impact of adopting IFRS on the financial statements but based on the analysis performed to date, the Fund has identified the following areas as potentially having significant accounting policy changes and/or impact on the Fund’s consolidated financial statements once IFRS is adopted:

Elections under IFRS 1

The Fund is still evaluating the various elections provided under IFRS 1; however, the expectation is that the Fund:

(i) Will elect to deem unrealized losses on translation of self-sustaining foreign operations to be zero and reclassify the previous balance to opening retained earnings.

(ii) Will not elect to apply IFRS 3 to past business combinations.

(iii) Will elect to restate certain items of PPE to fair value as deemed cost (see below).

(iv) Will elect to apply IAS 23 prospectively for capital asset additions from July 1, 2009.

Property, Plant and Equipment ("PPE")

IFRS 1 Election on fair value as deemed cost ("FVDC election")

The Fund is planning to elect to value machinery and equipment on transition at fair value which then becomes the deemed cost on which to amortize/depreciate in future periods. Land, buildings and improvements will continue to be valued at historic cost less accumulated amortization.

Decommissioning and/or remediation costs

IFRIC 1 allows first time adopters to estimate a decommissioning liability, and resultant increase to the carrying value of the related asset, at the transition date and discounting it at our best estimate of the historical risk-adjusted discount rate that would have applied. The Fund is reviewing the impact of this exemption.

Provisions

IAS 37 expands what would be considered a liability to include constructive obligations which can be inferred from past practice or published policy resulting in a valid expectation that it will be discharged by the company. The Fund is reviewing the impact of this for the transition to IFRS.

IAS 37 also includes the concept of onerous contracts which are not discussed in Canadian GAAP but under IFRS would require recognition of a provision. An onerous contract is one whereby the unavoidable costs of meeting the obligation exceed the expected economic benefits. The Fund is reviewing the impact of this for the transition to IFRS and in particular certain contracts, particularly property leases, to determine whether they meet the criteria of an onerous contract and as a result would record additional provisions.

Finally, IAS 37 restricts the types of costs that can be recognized as restructuring and specifically does not allow future operating losses to be included unless those costs relate to an onerous contract. Under Canadian GAAP, the Fund has recognized, as restructuring, the costs to exit and future lease payments of leased facilities as part of the restructuring activities undertaken in 2009 and 2010. This will be reviewed to determine if it meets the criteria of being an onerous contract and whether there is a change in the measurement of the provision due to differences between Canadian GAAP and IAS 37.

Income taxes:

Future income taxes at January 1, 2010 are under review as a result of the items noted above as well as any other transition adjustments affecting income tax accounting under IFRS.

SIGNIFICANT ACCOUNTING POLICIES

Translation of foreign currencies

Transactions and Accounts Denominated in Foreign Currencies

Transactions undertaken in foreign currencies are initially recorded by the Fund's subsidiaries at their respective functional currency exchange rates prevailing at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated at the exchange rates in effect at the balance sheet date with any resulting gain or loss being recognized in the consolidated statement of operations except for gain or loss on exchange of intercompany loans with self-sustaining subsidiaries that are long-term in nature which are recognized in comprehensive income. The effects of fluctuations in exchange rates between the dates of transactions and of settlements are reflected in the consolidated statement of operations.

Translation of Self-sustaining Subsidiaries

The consolidated financial statements of the Fund's self sustaining subsidiary, TIWH, are translated into Canadian dollars as follows:

- assets and liabilities using the exchange rates in effect at the balance sheet date;
- revenue and expense items at approximate exchange rates prevailing at the time the transactions occurred; and,
- unrealized translation gains and losses are deferred and included in Accumulated Other Comprehensive Loss as a component of unitholders' equity.

Translation of Integrated Subsidiaries

The consolidated financial statements of the Fund's integrated foreign subsidiary, TI International, are translated into Canadian dollars as follows:

- monetary items using the exchange rates in effect at the balance sheet date;
- non monetary items using historical exchange rates;
- revenue and expense items at approximate exchange rates prevailing at the time the transactions occurred; and,
- depreciation and amortization of assets which are translated at historical exchange rates using the same exchange rate as the assets to which they relate.

Exchange gains or losses arising on translation are included in net income for the period.

Revenue recognition

The Fund recognizes revenue when legal title passes to customers, price is fixed or determinable, persuasive evidence of an arrangement exists and collectibility is reasonably assured. Revenue related to contract manufacturing is recognized at the point at which the items are ready to ship to the customer. Revenue is stated net of early payment discounts, rebates granted and costs to ship product to customer locations if incurred by the Fund.

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.

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 amortization and directly attributable overhead costs. 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.

Property, plant and equipment and depreciation

Property, plant and equipment are recorded at cost net of accumulated depreciation and/or impairment losses recognized. 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 as follows:

Buildings and improvements	19 to 30 years
Machinery and equipment	3 to 15 years

The Fund performs impairment tests, using undiscounted cash flows, 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 fair value, and is charged to income. Fair value is based on quoted market prices, prices for similar assets or other valuation techniques.

Financial instruments and risks

All financial instruments are classified into one of five categories: held-for-trading, held-to-maturity investments, loans and receivables, available-for-sale financial assets or other financial liabilities.

Held-for-trading financial instruments are initially accounted for at their fair value and changes to fair value are recorded in income. Held-to-maturity financial assets are accounted for at their amortized cost using the effective interest method. Loans and receivables are accounted for at their amortized cost using the effective interest method. The available for sale classification includes non-derivative financial assets that are designated as available for sale or are not included in the other three classifications. Available for sale instruments are initially accounted for at their fair value and changes to fair value are recorded through other comprehensive income. Income earned from these investments is included in income. Other financial liabilities not classified as held for trading are accounted for at their amortized cost, using the effective interest method. Derivatives, other than those that meet the expected purchase, sale or usage requirements exception, are classified as held-for-trading.

Fair value is based on quoted market prices for those financial instruments traded in active markets or valuation techniques for those without active markets. Valuation techniques include the use of current fair values for similar financial instruments, discounted cash flow analysis or other valuation methods.

Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of the financial instruments. These costs are included in the carrying value of financial instruments and are amortized using the effective interest method except for those related to financial instruments classified as held-for-trading where the transaction costs are recognized in net income when incurred.

Convertible Debentures

The Convertible Debentures are compound 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 any warrants issued with the residual being allocated to the debt portion of 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 are 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 recorded in unitholders' equity net of allocated transaction costs.

The residual amount recorded for the debt portion 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 conversion to units, the pro rata portion of the conversion feature recorded in unitholders' equity is reclassified to capital along with the carrying value converted.

Leases

Leases are classified as either capital or operating. Leases that transfer substantially all the benefits and risks of ownership of property to the Fund are accounted for as capital leases. Assets under capital lease would be accounted for as assets and amortized over the lesser of the estimated useful life or the lease term. A capital 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 capital lease.

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

Asset Retirement Obligations

The Fund recognizes legal 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 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 costs associated with exiting an activity or location that does not qualify for treatment as discontinued operations. Exit costs include accruals of non-cancellable lease obligations. If the effect of the time value of money is significant, the provisions are discounted using a rate that reflects, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognized as a finance cost.

Post-retirement benefits

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

Taxes

The Fund follows the liability method of accounting for income taxes. Under this method, current income taxes are recognized for the estimated income taxes payable in the current year. Future income tax assets or liabilities are calculated using substantively enacted tax rates in effect in the periods that the temporary differences are expected to reverse. The effect of the change in income tax rates on future income tax assets and liabilities is recognized in income in the period the change occurs.

At each reporting date, the Fund reviews all available positive and negative evidence to evaluate whether the recoverability of the benefits associated with future income tax assets is considered more likely than not. 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) prudent and feasible corporate actions with respect to repatriation of foreign earnings.

Revenues, expenses and assets are recognized net of the amount of refundable sales tax, except for transactions incurred by the Fund itself for which the sales tax is not refundable.

Phantom Units

The Fund maintains a Long-Term Incentive Plan which grants Phantom Units that appreciate or depreciate with increases or decrease in the market price of the Fund's units. Phantom Units granted are considered to be in respect of future services. Upon conversion, Phantom Units are exchanged for Units issued from treasury for no further consideration. Compensation cost is measured based on the market price of the Fund's units on the date of the grant of the Phantom Units and is recognized in the income statement straight-line over the vesting period. Vested Phantom Units may be converted to regular units of the Fund at any time after vesting.

Net income (loss) per unit

Basic net income (loss) per unit is calculated by dividing net income (loss) by the weighted-average number of units outstanding during the period. Diluted net income (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.

Use of estimates and assumptions

The preparation of financial statements in accordance with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingencies at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Significant areas that involve estimates include the assessment of going concern, provisions for obsolete inventory, net realizable value of inventories on hand, provisions for uncollectible accounts receivable, valuation and estimated useful life of property, plant and equipment, provisions for current and future income taxes, fair value of financial instruments, provisions for sales returns and allowances. Actual results could differ from those estimates.

3. INVENTORIES

The Fund had the following categories of inventory as at:

	2010	2009
Raw materials	$ 7,458	$ 6,686
Finished and semi finished products	15,758	19,128
Consumable supplies and spare parts	7,657	7,812
	$ 30,873	$ 33,626

At each period end, the Fund reviews the ending inventories on hand to determine if a writedown to net realizable value is required. The Fund has recognized a cumulative charge over the period of $568 (2009 - $4,396) in cost of goods sold to writedown inventories to net realizable value. The writedown is reflective of declines in value of realizable market prices for certain finished and semi-finished goods.

In the periods ending December 31, 2010 and 2009, the Fund has recognized, in income, inventory costs for the following:

	2010	2009
Opening inventory	$ 33,626	$ 106,563
Raw material purchases	74,445	59,683
Finished goods purchased for resale	9,110	13,767
Conversion costs	34,669	41,454
Writedown	(568)	(4,396)
Inventories, closing	(30,873)	(33,626)
Cost of goods sold	$ 120,409	$ 183,445

4. PROPERTY PLANT AND EQUIPMENT

December 31, 2010	Cost	Accumulated Depreciation	Net Book Value
Land and improvements	$ 9,105	$ –	$ 9,105
Building and improvements	33,115	18,259	14,856
Machinery and equipment	101,009	87,922	13,087
Construction in progress	93	–	93
	$ 143,322	$ 106,181	$ 37,141

December 31, 2009	Cost	Accumulated Depreciation	Net Book Value
Land and improvements	$ 9,177	$ –	$ 9,177
Building and improvements	33,399	15,433	17,966
Machinery and equipment	103,303	87,594	15,709
Construction in progress	195	–	195
	$ 146,074	$ 103,027	$ 43,047

The Fund reviews the carrying value of its long-lived assets on a regular basis as events or changes in circumstances may warrant. Where the carrying value of the assets is not expected to be recoverable from future cash flows, they are written down to fair value. The Fund has reviewed certain idled machinery and equipment at its operations in China and concluded that impairment was indicated and likely. As a result, the Fund has recognized an impairment charge to income in 2010 of $105 (2009 - $346).

5. REVOLVING CREDIT

On March 25, 2010, the Fund entered into new senior revolving credit facilities. The three year, $35 million senior secured revolving credit facility, ("Senior Credit Facility"), led by Wells Fargo Capital Finance Corporation, replaces the Fund's previous senior credit facilities. 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 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 6), investments, loans and guarantees and to sell or otherwise dispose of assets and merge or consolidate with another entity.

As at December 31, 2010 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:

	2010	2009
Senior Credit Facility (1)	–	3,730
Deferred financing costs	–	(884)
	$ –	$ 2,846

(1) The portion of the Senior Credit Facility denominated in US dollars is $nill (2009 - $2,314)

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.

6. CONVERTIBLE DEBENTURES

As part of the Recapitalization Transaction, on November 26, 2009, the Fund entered into an Investment Agreement with certain investors to issue an aggregate of $9,750 principal amount of Convertible Debentures along with 4,875,000 warrants (see Note 8). 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. 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 owed; or, defer 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 (classified as a component of unitholders' equity), 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 allocation of fair values of the Convertible Debentures at issuance is outlined in the table below:

	2010	2009	Total
Face value of Convertible Debentures issued in the period	$ 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) Conversion feature of $2,739 (2009 - $2,341) less allocated transactions costs of $297 (2009 - $280) has been recorded in unitholders equity.

(2) Change of control premium has been recorded as a liability within other non-current liabilities.

(3) No warrants were issued on the Rights Offering. In 2009, warrants of $902, less allocated transaction costs of $50, were recorded in unitholders' equity.

The carrying value of the Convertible Debentures at period end is:

	2010	2009
Opening carrying value	$ 5,716	$ –
Net debt component of issues in the period	6,332	5,599
Accretion of debt discount for the period	2,769	117
Payment of interest in cash	(1,478)	–
Conversion of debentures to Fund units	(231)	–
Carrying value at period end	$ 13,108	$ 5,716

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 a proportionate share of issuance costs of $39) offset by charges of $231 to the Convertible Debentures, $6 to the Change of Control Premium, and $89 to Contributed Surplus.

7. LONG-TERM DEBT

	Year of Maturity [1]	2010	2009
Forbearance Agreements - beginning of period	2014	$ 24,952	$ 24,771
Payments		(2,483)	(209)
Foreign exchange revaluation		(1,302)	(82)
Accretion of debt discount		5,997	472
Forbearance Agreements - end of period		27,164	24,952
Other long-term debt	2011	535	1,141
		27,699	26,093
Less current portion [1]		(2,884)	(3,030)
		$ 24,815	$ 23,063

(1) Subsequent to year-end, the Forbearance Agreements have been amended to extend the repayment term by one year so that they now mature in 2014 (Note 21).

In connection with the Recapitalization Transaction, the Fund entered into five Forbearance Agreements dated November 25, 2009 with two significant trade creditors resulting in restructuring $40,435 owing to these trade creditors under certain purchase contracts for raw materials inventories purchased through 2008 and early 2009. Subsequent to year-end, the repayment terms on the Forbearance Agreements have been extended. See Note 21.

The Forbearance Agreements are payable over a term to the maturity at December 31, 2014 (See Subsequent Events Note 21). Interest accrues at a rate of 7% per annum calculated and 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 $35 million of the principal under the Forbearance Agreements is denominated in US dollars.

For accounting purposes, it was determined that the restructuring resulted in an exchange of debt instruments with substantially different terms. As a result, in 2009 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 gain on renegotiation of debt. Present value was determined using discounted cash flows and credit adjusted discount rates ranging between 22.4% and 23.1%. These discount rates together with the stated interest and associated transaction costs comprise 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.

The Forbearance Agreements include a provision for early payment of a portion of the principal outstanding if certain conditions are met. The provisions would not become effective until year-end 2011 and if the conditions are met, payable the following year. At this point, management cannot reasonably estimate the probability of the provisions for early payment occurring and as a result it has not been factored in to the present value calculations.

8. CAPITAL

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 and distribution requirements.

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 will become subject to Canadian corporate income taxes in 2011. This may result in 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 2010	December 31 2009
Total Unitholders' Equity	$ 27,665	$ 39,352
Senior Credit Facilty (Note 5)	–	2,846
Convertible Debentures (Note 6)	13,108	5,716
Long term debt (Note 7)	24,815	23,063
Total Capital	$ 65,588	$ 70,977

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.

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

	Units	Gross	Issuance Costs	Net
Unitholders' captial - December 31, 2008	21,960,447	$ 221,574	$ 11,400	$ 210,174
Conversion of Phantom Units	152,042	951	–	951
Unitholders' captial - December 31, 2009	22,112,489	$ 222,525	$ 11,400	$ 211,125
Conversion of Convertible Debentures	730,800	326	–	326
Conversion of Phantom Units	18,372	113	–	113
Unitholders' captial - December 31, 2010	22,861,661	$ 222,964	$ 11,400	$ 211,564

Warrants

As part of the Recapitalization Transaction, the Fund issued 4,875,000 warrants, with an expiry of November 26, 2014, to certain investors. The warrants have an exercise price of $0.57 and expire November 26, 2014. No warrants have been exercised since issuance.

The warrants have been recorded at a fair value of $902, less allocated transaction costs of $50, in contributed surplus of unitholder's equity. Fair value was determined using an option pricing model with a volatility assumption of 42% and a risk free rate of 3.23%.

9. FINANCING EXPENSES

	December 31 2010	December 31 2009
Non-cash accretion of debt discount and interest on long term debt and Convertible Debentures	$ 7,288	$ 588
Cash interest on debentures	1,478	–
Interest on revolving credit	538	2,485
Other interest and financing costs	352	2,618
Amortization and write-off of deferred financing costs	1,302	1,969
	$ 10,958	$ 7,660

10. LONG-TERM UNIT INCENTIVE PLAN

Compensation expense related to Phantom Units for year ended December 31, 2010 was $104 (2009 - $390). The expense is included in selling, general and administrative expense. Non-cash distributions related to Phantom Units for the year ended December 31, 2010 was $nil (2009 - $12). A summary of the Fund's Phantom Units changes during the periods ended is as follows:

	2010		2009	
	Vested	Unvested	Vested	Unvested
Balance, beginning of period (1)	42,787	45,832	103,194	182,084
Granted	–	50,000	–	–
Additional earned in respect of distributions	–	–	6,051	–
Vested (2)	39,584	(39,584)	85,584	(85,584)
Forfeited	–	(2,167)	–	(50,668)
Converted	(18,372)	–	(152,042)	–
Balance, end of period	63,999	54,081	42,787	45,832

(1) The beginning balance for 2009 has been adjusted to reallocate 12,500 units from unvested to vested units.

(2) 18,167 units have been reclassed from unvested to vested units for 2009.

11. RELATED PARTY TRANSACTIONS

One of the investors in the Recapitalization Transaction, The Futura Corporation ("Futura"), is considered to be a related party to the Fund because of their 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. The Convertible Debentures issued to Futura have been bifurcated and accounted for at fair value (see Note 6). During the period ended December 31, 2010, Futura received interest of $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, $4,878 and trade accounts receivable owing from Canwel is $4. These costs are in the normal course and are recorded at the exchange amount.

12. FINANCIAL INSTRUMENTS

Fair Value of Financial Instruments

The Fund records 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, using, to the extent possible, observable market-based inputs.

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 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 Fund has categorized its financial assets and financial liabilities as follows in the table below. Certain financial instruments have not been categorized on the hierarchy because their carrying amount is a reasonable approximation of fair value due to their short-term nature.

			2010		2009	
	Fair Value Category	Classification	Fair Value	Carrying Value	Fair Value	Carrying Value
Financial Assets:						
Cash [1]	–	Held For Trading	$ 5,623	$ 5,623	$ 4,153	$ 4,153
Accounts receivable [1]	–	Loans and Receivables	9,695	9,695	9,064	9,064
Total Financial Assets			$ 15,318	$ 15,318	$ 13,217	$ 13,217
Financial Liabilities:						
Senior Credit Facility [1, 2]	–	Other Financial Liabilities	$ –	$ –	$ 3,730	$ 2,846
Accounts payable and accrued liabilities [1]	–	Other Financial Liabilities	13,243	13,243	18,351	18,351
Interest payable [1]	–	Other Financial Liabilities	68	68	41	41
Change of control premium	Level 3	Held For Trading	315	315	158	158
Long-term debt [4]	Level 3	Other Financial Liabilities	29,486	27,699	26,093	26,093
Convertible debentures [3]	Level 1	Other Financial Liabilities	18,415	13,108	5,716	5,716
Total Financial Liabilities			$ 61,527	$ 54,433	$ 54,089	$ 53,205

(1) Carrying value approximates fair value due to the immediate or short-term maturity or nature of these financial instruments
(2) Fair value is the amount drawn on the facility and the carrying value is the amount drawn net of deferred financing costs
(3) 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.
(4) 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 $545

Non-Financial Derivatives

From time to time the Fund enters into non-financial contracts for forward purchases of zinc and certain of its natural gas contracts that meet the definition of a derivative but qualify for an expected usage exemption as they are settled through physical delivery for use in the normal course of business. These contracts are not recognized in the consolidated financial statements and as at December 31, 2010 the Fund did not have any outstanding forward zinc or natural gas contracts.

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 collectibility. The Fund maintains provisions for potential credit losses (allowance for doubtful accounts) and any such losses to date have been within management's expectations.

The trade accounts receivable are aged as follows:

	2010	2009
Up to date	$ 7,154	$ 6,906
Under 30 days past due	2,296	1,893
30-60 days past due	358	349
61-90 days past due	151	62
Over 91 days past due	709	1,160
	10,668	10,370
Allowance for doubtful accounts	(973)	(1,306)
Balance, end of period	$ 9,695	$ 9,064

The maximum credit risk that the Fund is exposed to by way of its accounts receivable is equal to the carrying amount of $9,695 as at December 31, 2010. The Fund has concentrations of credit risk relating to receivables derived from the Western United States. As at December 31, 2010, this exposure was $4.3 million in accounts receivables for which $0.7 million has been provided for in the allowance for doubtful accounts.

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 which 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 income statement. 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.

	2010	2009
Opening Balance	$ 1,306	$ 1,991
Additions during the period	405	346
Reversals during the period	(568)	(320)
Write-offs during the period	(133)	(508)
Foreign exchange revaluation	(37)	(203)
Balance, end of period	$ 973	$ 1,306

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, 2010:

	2011	2012	2013	2014	Total
Revolving credit facilities (Note 5)	$ –	$ –	$ –	$ –	$ –
Accounts payable	13,243	–	–	–	$ 13,243
Long-term debt (Notes 7 and 21) (1)	2,884	4,774	13,099	24,526	$ 45,283
Convertible Debentures (Note 6)	1,932	1,932	1,932	21,132	$ 26,928
	$ 18,059	$ 6,706	$ 15,031	$ 45,657	$ 85,454

(1) Subsequent to year-end, the Forbearance Agreements have been amended to extend the repayment term by one year so that they now mature in 2014. Consequently, principal payments for each year have been amended (Note 21).

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

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:

	2010
Increase (decrease) to net earnings of a $0.01 increase in CDN$ to US$ exchange rate	(260)
Increase (decrease) to net earnings of a $0.01 increase in CDN$ to RMB exchange rate	(80)
Decrease to net earnings on a 1% increase in interest rates	–

The Fund's US dollar-denominated accounts receivable, accounts payable and accrued liabilities 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 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.

The Fund is exposed to interest rate risk on its Canadian and US revolving loan facilities which are further discussed in Note 5. The Fund does not use derivative instruments to manage the interest rate risk.

13. INCOME TAXES

Income tax obligations relating to distributions from the Fund are the obligations of the unitholders and, accordingly, no provision for 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.

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

	2010	2009
Current tax (expense) recovery	$ (380)	$ 6,287
Future tax recovery	1,714	425
	$ 1,334	$ 6,712

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:

	2010	2009
Loss before provision for income taxes	$ (16,114)	$ (33,588)
Income of the Fund subject to tax in the hands of the recipient	1,438	95
Loss of wholly-owned subsidiary companies before income taxes	(14,676)	(33,493)
Tax Rate	28.5%	30.0%
Expected recovery of income taxes	$ 4,183	$ 10,048
Increased (Reduced) by:		
Revisions of prior period estimates	140	(5,281)
Items not taxable	(333)	759
Foreign withholding tax	–	–
Differential tax rates on U.S. and Chinese subsidiaries	947	3,171
Reduction (increase) in statutory future income tax rate	(219)	(1,051)
Future income tax valuation allowance	(3,470)	(549)
Other	86	(385)
Income tax recovery	$ 1,334	$6,712

Future Tax Assets and Liabilities

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

	2010	2009
Future income tax assets		
Non-capital tax loss carry-forwards	$ 15,221	$ 14,114
Goodwill and intangibles	4,005	4,829
Deferred gain and financing costs	2,078	1,917
Unrealized foreign exchange losses	1,892	1,703
Reserves and other liabilities	2,590	2,322
Other	2,549	982
Total future tax assets	$ 28,335	$ 25,867
Valuation allowance	(19,190)	(14,874)
Net future tax assets	$ 9,145	$ 10,993
Future income tax liabilities		
Property, plant and equipment	6,563	7,635
Forbearance agreements	2,327	3,977
Other	1,109	2,229
Total future tax liabilities	$ 9,999	$ 13,841
Net future income tax liability	$ 854	$ 2,848
Comprised of:		
Future income tax (assets)	–	–
Future income tax liabilities	854	2,848
Future income tax liability, net	$ 854	$ 2,848

The Fund has concluded that it is not more likely than not that the benefits of recognized future income tax assets will be realized prior to their expiry and therefore, no future tax assets have been recognized on the consolidated balance sheets.

Income Tax Loss Carry Forwards

As at December 31, 2010, the Fund had available to offset future income taxes loss carry forwards with expiries as shown in the table below:

Year of Expiry	Canada	US - Federal	US - State	China
2014	$ –	$ –	$ –	$ 215
2015	–	–	–	298
2021	–	–	3,854	–
2028	11,923	7,520	–	–
2029	13,818	3,866	–	–
2030	236	4,555	–	–
2031	–	–	38,880	–
	$ 25,977	$ 15,941	$ 42,734	$ 513

Taxation of the Trust

On October 31, 2006, the Canadian federal government announced proposed legislation to tax distributions made by income trusts. This legislation has now received royal assent and as a result income trusts 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. There will be a transitional period so that the Fund will not be subject to the tax until 2011. The legislation has had no material effect on the Fund's financial position, results of operations or cash flows.

14. POST-RETIREMENT BENEFITS

The Fund has three defined contribution pension plans. Contributions made by the Fund amounted to $1,126 for the year ended December 31, 2010 (2009 - $1,327). Funding obligations are satisfied upon making contributions.

15. DEFERRED GAIN ON SALE OF PURCHASE 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 lease back and the gain has been deferred and amortized over the ten year life of the new lease. During the year, $477 of the deferred gain was amortized and included in income (2009 - $529).

16. WEIGHTED AVERAGE UNITS OUTSTANDING

	2010	2009
Weighted average number of units outstanding during the period – basic	22,641,642	22,035,040
Dilutive effect of:		
Convertable Debentures (1)	–	–
Phantom units (1)	–	–
Warrants (1)	–	–
Weighted average number of units outstanding during the period - diluted	22,641,642	22,035,040

(1) *As there was a loss for the years ended December 31, 2010 and 2009, 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.*

17. CONTINGENT LIABILITIES 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, results 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 drawdown the holdback by environmental remediation incurred, 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.

During the second quarter of 2010, the Fund began the remediation work but was unable to complete it by the one year anniversary date. The Fund has incurred $637 up to December 31, 2010 of which $500 was drawn down from the holdback as permitted under the agreement and the remainder was paid through the Fund's operating cash flows. The costs incurred are deferred and included in prepaid expenses.

As of the date of these financial statements, the purchaser has not elected to complete the remediation. The Fund is now expecting to complete the remediation and obtain the Certificate of Compliance during 2011.

The Fund still expects that the $1,500 holdback will be sufficient to complete the remediation activities. At the time of the sale of the surplus land, the Fund recognized a gain excluding the $1,500 holdback. Upon completion of the environmental remediation and issuance of a Certificate of Compliance the accounting for the disposal will be finalized and a gain or loss will be recognized for the difference between the $1,500 holdback and the total costs incurred of the environmental remediation.

Commitments

The Fund's wholly-owned subsidiaries have committed to rod purchases totaling $17,284 (US$17,378) at December 31, 2010 and imported finished goods purchases of $1,070 (US$1,075).

The Fund and its subsidiaries also have various operating lease agreements with remaining terms of up to ten years with varying renewal options. Annual lease rental payments due under non-cancelable operating leases, including payments for US facilities which have been provided for under restructuring costs (see Note 19), are as follows:

2011	$ 2,613
2012	1,562
2013	830
2014	757
2015	767
Thereafter	690
	$ 7,219

18. SEGMENTED INFORMATION

General information:

The Fund operates primarily within one industry, the steel wire and fabricated wire products industry with no separately reportable business segments. The Fund's product lines include galvanized carbon wire, stainless steel wire, package, collated and bulk nails, mesh, expanded metal lath, fencing and other fabricated wire products. The products are sold primarily to customers in the United States, Canada and China.

Geographic information:

	2010	2009
SALES (1)		
Canada	$ 52,181	$ 61,408
United States	73,221	91,849
China	2,249	7,235
Other	4,760	5,089
	$ 132,411	$ 165,581

	December 31 2010	December 31 2009
PROPERTY, PLANT AND EQUIPMENT (2)		
Canada	$ 30,592	$34,878
United States	6,374	7,854
China	175	315
	$ 37,141	$ 43,047

(1) Sales are attributed to geographic areas based on the location of customers.

(2) Property, plant and equipment are attributed to geographic areas based on the location of the subsidiary company owning the assets.

19. RESTRUCTURING COSTS

From January 2009 the Fund has been implementing 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.

	2010	2009
Restructuring provision, opening balance	$ 2,599	$ –
Expenses		
Employee termination benefits (1)	115	3,649
Costs of relocation of equipment (2)	–	1,235
Lease costs	89	941
Interest	239	–
Foreign exchange effect	(12)	–
Paid	(1,945)	(3,226)
Restructuring provision, ending balance	$ 1,085	$ 2,599

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

(2) charged to cost of goods sold.

20. CHANGE IN NON-CASH OPERATING ASSETS AND LIABILITES

	2010	2009
Accounts receivable	(817)	14,934
Inventories (Note 4)	2,753	72,937
Accounts payable and accrued liabilities	(4,787)	(7,029)
Income and other taxes	5,957	(1,869)
Other	515	590
	3,621	79,563

21. SUBSEQUENT EVENTS

Subsequent to year-end, the Fund has agreed with the holders of the Forbearance Agreements 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 2014. The comparison of the amended schedule of principal repayments to the original principal payment schedule is as follows:

	Amended	Original
2011	$ 2,387	$ 4,774
2012	4,774	15,494
2013	13,099	15,522
2014	15,530	–
	35,790	35790

The other terms and conditions within the original Forbearance Agreements remain in place.

UNITHOLDER INFORMATION
TREE ISLAND WIRE INCOME FUND

Board of Trustees:

Tree Island Wire Income Fund

Amar Doman

Michael Fitch

Theodore A. Leja

Sam Fleiser

Harry Rosenfeld

Officers:

Tree Island Wire Income Fund

Amar Doman
Chair of the Board

Theodore A. Leja
President and Chief Executive Officer

Nancy Davies
Chief Financial Officer and Vice President, Finance

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

Theodore A. Leja
President and Chief Executive Officer

Nancy Davies
Chief Financial Officer and Vice President, Finance

Ken Stuttaford
Vice President, Sales and Marketing

Stephen Ogden
Vice President, Operations

Mark Stock
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