TREE ISLAND WIRE INCOME FUND

Q2 2010

Report to Unitholders
for the period ended
June 30, 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 TI Select brand names. Tree Island also owns and operates a Hong Kong-based trading company that assists the international sourcing of products to Tree Island and its customers.

TO OUR UNITHOLDERS

Despite a period of continued macroeconomic volatility in our end markets and increasing input costs, the Fund continued to show strength and posted strong and much improved second quarter operating results during our historically strongest seasonal quarter. Revenues amounted to $38.7 million, with gross profit totalling $3.9 million or 10 percent of sales – representing a significant improvement compared to the corresponding period in 2009 and in the first quarter of 2010. Our strong gross profit generation and margin improvement, resulted in the Fund's ability to generate positive EBITDA of $2.2 million, an improvement of $15.7 million and $2.0 million on a year-over-year and consecutive quarter basis, respectively.

With the second quarter behind us, our objectives remain unchanged. We continue to watch our input costs very closely and manage working capital accordingly, to generate the best return on capital employed. This combined with our cost management at the SG&A level has and will continue to provide us with an efficient cost structure which will enable us to leverage any positive movement in the market, in our favour to contribute directly to the bottom line.

Our primary end markets remain weak, and input costs continue to be volatile and move upwards. However, the Fund itself is in better shape than in 2009, due to our focus on turning the business around during the past months. We are now better positioned to endure these external pressures while also having the ability to benefit from an improved market environment. While we cannot control the external forces that impact our business, and with the second half of the year being seasonally the most challenging, we will continue to respond to the difficult market conditions and focus on working capital, cost control and maintaining our margins and market share through the implementation of our back to basics strategy.

I would like to thank our customers for the continued business, our employees for all their hard work and our Board of Directors for their continued support and sound advice.

Theodore (Ted) Leja
President and Chief Executive Officer
Tree Island Industries Ltd.
Trustee
Tree Island Wire Income Fund

MANAGEMENT'S DISCUSSION AND ANALYSIS

August 11, 2010

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

The following is a discussion of the financial condition and results of operations of Tree Island Wire Income Fund (the "Fund"). This discussion is for the three and six months ended June 30, 2010 and should be read in conjunction with the audited consolidated financial statements for the twelve month period ended December 31, 2009. 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, 2009, 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 Ltd. (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, 2009.

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 period ended December 31, 2006, pre-tax proceeds on the sale of a property option, plus for the period ended December 31, 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 June 30, 2010 and 22,861,661 as of August 11, 2010. There were 120,246 Phantom Units issued under the Fund's long-term incentive plan as at June 30, 2010. Each Phantom Unit is convertible, subject to vesting conditions, into one Unit. The Fund holds a 100% ownership interest in Tree Island 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 June 30, 2010, the total amount of Debentures remaining after conversions amounted to 193,846.

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 and expanded metal lath.	Construction and renovation for new and existing homes
Commercial Construction	Welded wire reinforcement mesh, concrete reinforcing products, PC strand wire 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 and Industrial Alloys brands have an excellent reputation. In 2009 Tree Island introduced Tough Strand, a Premium brand of fencing products focused on the agricultural market.

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

BRANDS	PRODUCTS
Tree Island	Bright and galvanized wire, nails, welded wire mesh and fencing products
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 in outside facilities, 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.

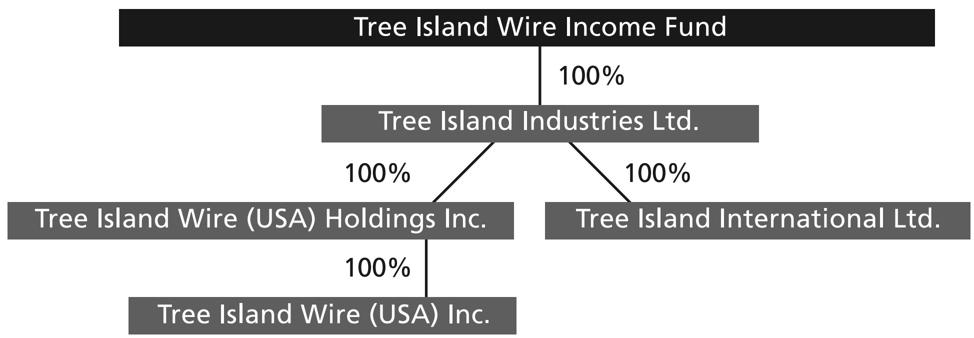
Sourcing Strategy

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 customers, 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., our Canadian operation, Tree Island Wire (USA) Inc., our US operation and Tree Island International Ltd ("TI International"). Following is our corporate structure:



4. 2010 DEVELOPMENTS

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. At the end of the second quarter the price of wire rod appeared to have stabilized however the demand for wire rod appears weak and the future price trend uncertain.

Remediation on sale of surplus land

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 June 30, 2010 amounted to approximately $0.5 million. The Fund is expecting to complete the remediation and obtain a Certificate of Compliance during the remainder of 2010.

Cost Management

We continued to tightly monitor and control our manufacturing costs and continued to strictly enforce a number of cost savings measures in the second quarter of 2010 in response to continuing 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 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. The Senior Credit Facility matures on March 25, 2013.

Financing and Recapitalization

In the second half of 2009, we began a recapitalization of our business that involved the issuance of Debentures, entering into forbearance and payment agreements with certain significant trade creditors, amendment and waiver agreements with our senior secured lenders at the time (the "Recapitalization Transaction"), and a rights offering. These steps all of which have been completed successfully involved the following:

1. Private Placement of Debentures ($9.75 million gross proceeds) – November 2009
2. Financing – Agreement with Trade Creditors and Senior Secured Lender – November 2009
3. Credit Agreement Default, Amendments and Cures – November 2009
4. Rights Offering – January 2010

   Under the terms of the Rights 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.

5. Listing of Debentures – February 2010

On February 2, 2010 we received final approval from the Toronto Stock Exchange to list the aggregate $19.75 million principal amount of Debentures. The Debentures began trading on February 4, 2010.

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 three months ended June 30, 2010, no Phantom units were granted to employees under the plan and 12,691 Phantom Units were converted into Units. 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, 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 second quarter, Debentures with a face value of $365,000 were converted into 730,000 units.

5. SECOND QUARTER OVERVIEW AND OUTLOOK

Activity within our major markets in the US, which accounted for 59.9% of our total sales volumes, remained at historically low levels, with the key US Census Bureau Western Region housing starts still below 32,500 starts for the second quarter, a level that has only been reached in 5 quarters since 1959. However despite this low level of activity our focus on profitability and on aggressively managing working capital, the alignment of inventory costs with market values and the control of costs has resulted in significantly improved results on a year-over-year basis. In addition during the last quarter of 2009 and the first quarter of 2010 the Board of Trustees and management has led a recapitalization of the business. These actions have placed the Company in a good position to take advantage of any improvements in demand. For the three months ended June 30, 2010, the Fund reported revenue of $38.7 million, compared to $47.4 million during the same period in 2009 while second quarter sales volumes decreased by 32.5% to 27,732 tons, from 41,092 tons in 2009. Gross profit increased by $12.9 million to $3.9 million and gross profit per ton increased to $140 per ton, representing a gross margin of 10.0%. The gross profit improvements, together with the ongoing focus on cost management, resulted in EBITDA before foreign exchange increasing significantly to $2.2 million from a loss of $13.5 million in 2009.

Going forward, the Fund’s primary end markets remain weak and input costs continue to be volatile. However, the Fund’s financial condition is much improved due to the management’s efforts in the recapitalization and turn around of the business in recent months. We are now better positioned to endure these external macroeconomic pressures while also having the ability to benefit when market demand improves. While we cannot control the external forces that impact our business, and the second half of the year is seasonally our most challenging, we will continue to respond to the difficult market conditions and focus on working capital, cost control and maintaining our margins and market share through the implementation of our back to basics strategy.

6. RESULTS FROM OPERATIONS

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

	Three Months Ended June 30 2010	Three Months Ended June 30 2009	Six Months Ended June 30 2010	Six Months Ended June 30 2009
Income				
Sales Volumes – Tons (3)	*27,732*	*41,092*	*55,726*	*83,461*
Revenue	38,742	47,430	73,274	100,385
Cost of Goods Sold	(33,449)	(54,680)	(64,105)	(116,040)
Depreciation	(1,407)	(1,735)	(2,840)	(4,248)
Gross Profit (Loss)	3,886	(8,985)	6,329	(19,903)
Gross Profit (Loss) per Ton	*140*	*(219)*	*114*	*(238)*
Selling, General and Administrative Expenses	(3,129)	(6,251)	(6,847)	(12,449)
Operating Profit (Loss)	757	(15,236)	(518)	(32,352)
Foreign Exchange Gain (Loss)	279	2,115	(317)	1,129
Financing Expenses	(2,389)	(2,085)	(5,863)	(3,723)
Gain on Sale of Property, Plant & Equipment	–	60	–	63
Fair Value Changes on Derivatives	–	148	–	122
Amortization of Deferred Gain	119	135	240	279
Amortization of Intangible Assets	–	(320)	–	(660)
Impairment of Intangible Assets	–	(5,362)	–	(5,362)
Income Tax (Expense) Recovery	(388)	(378)	757	1,959
Net Loss	(1,622)	(20,923)	(5,701)	(38,545)
EBITDA				
Operating Profit (Loss)	757	(15,236)	(518)	(32,352)
Add back Depreciation	1,407	1,735	2,840	4,248
EBITDA (1)	2,164	(13,501)	2,322	(28,104)
Foreign Exchange Gain (Loss)	279	2,115	(317)	1,129
EBITDA Adjusted for Foreign Exchange	2,443	(11,386)	2,005	(26,975)
Distributable Cash				
Standardized Distributable Cash per Unit (1)	(0.0728)	0.7053	(0.4916)	1.6646
Adjusted Distributable Cash per Unit (1)	0.1039	(0.5877)	0.0793	(1.3504)
Distributable Cash Paid or Payable per Unit (1)	–	–	–	–
Standardized Distribution Payout % (2)	0%	0%	0%	0%
Adjusted Distribution Payout % (2)	0%	0%	0%	0%

	As at June 30 2010	As at December 31 2009
Balance Sheet		
Total Assets	110,675	99,693
Revolving Credit, Net of Cash	2,975	(1,307)

(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 for Q2 2010 exclude 2,750 tons (2009 – 4,600 tons) which were processed as part of tolling arrangements. For the six months ended June 2010 sales volumes exclude 5,169 tons (2009 – 4,600 tons) which were processed as part of tolling arrangements.

7. THREE MONTHS ENDED JUNE 30, 2010 COMPARED TO THREE MONTHS ENDED JUNE 30, 2009

Revenue

For the three months ended June 30, 2010, we generated revenue of $38.7 million, a decrease of $8.7 million, or 18.3%, from the same period in 2009. The decline in revenue primarily reflects lower sales volumes partially offset by higher selling prices and the negative impact of the stronger Canadian dollar on our US denominated sales. The average exchange rate for the Canadian dollar in the second quarter of 2010 was 11.9% stronger than in Q2 2009.

Second quarter sales volumes decreased by 32.5% to 27,732 tons, from 41,092 tons in 2009. This decrease reflects weak economic conditions in the US resulting in reduced demand in our major US end-markets. It also reflects our decision to continue to focus working capital on higher-margin product lines, rather than higher-volume product lines as well as the boost that our prior year volumes received as we focused on the liquidation of high cost inventory. Our sales volumes to the residential construction market declined by 22.8%, while the year-over-year housing starts in the Western US region declined by 8.5%. The proportionally larger decline in volumes in our sales to this market reflects our strategy to focus on profitable sales rather than volume. Our sales volumes to the commercial construction market continued to be negatively affected by the slow down in US commercial construction activity, which reduced demand for construction fabric and concrete reinforcing products partially offset by increased sales of mesh to the mining industry. In the industrial/OEM market, due to low levels of economic activity and, in part, the drive for improved margins we experienced reduced demand for galvanized low carbon wire and chain link wire, which was partially offset by increased sales of imported galvanized chain link and pulp baling wire. During the second quarter of 2010, we tolled a total of 2,750 tons of pulp baling wire a decrease of 40.2% when compared to Q2 2009. Sales volumes in both the agricultural and specialty markets were marginally better than the prior year period as the economic activity in these markets was stronger than in our other end use markets.

Sales volumes by market were as follows:

	Three Months Ended June 30, 2010		Three Months Ended June 30, 2009	
Market	Tons (000's) (2)	% of Sales Volumes	Tons (000's)	% of Sales Volumes
Residential Construction	9.5	34.3%	12.3	29.9%
Commercial Construction	4.3	15.5%	5.9	14.4%
Industrial/OEM	10.2	36.9%	15.9	38.7%
Agricultural	2.1	7.6%	2.0	4.8%
Specialty	0.7	2.5%	0.6	1.5%
International Trading (1)	0.9	3.2%	4.4	10.7%
Total	27.7	100.0%	41.1	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 for Q2 exclude 2,750 tons (2009 – 4,600 tons) which were processed as part of tolling arrangements

International trading sales volumes decreased by 79.5% to 852 tons in 2010 reflecting reduced trading volumes in China. Combined import and trading sales declined during the same period reflecting the lower level of economic activity in our major end use markets.

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 June 30, 2010		Three Months Ended June 30, 2009	
Market	Tons (000's)	% of Sales Volumes	Tons (000's)	% of Sales Volumes
North American Manufactured	23.5	84.8%	33.4	81.3%
Imported & Trading	4.2	15.2%	7.7	18.7%
Total	27.7	100.0%	41.1	100.0%

Cost of Goods Sold

Cost of goods sold for the second quarter of 2010 decreased by approximately $21.2 million from the same period in 2009. The reduction in cost of goods sold reflects lower sales volumes, the impact of a stronger Canadian dollar on US dollar-denominated costs, lower carbon rod costs, inventory costs that were more closely aligned to market values and minimal inventory writedowns of $0.2 million ($0.9 million in Q2 2009). Our manufacturing costs relative to volumes were higher year-over-year, reflecting the negative impact of lower capacity utilization, partially offset by reductions to the fixed-cost element of our manufacturing costs.

Although market prices for carbon rod increased in the second quarter of 2010, our cost of carbon rod (representing 44.7 % of total cost of goods sold) was 22.9% lower than in the second quarter of 2009 because during the Q2 2009 period, our inventory was overvalued relative to market prices as a result of the Q4 2008 collapse in commodity prices. Stainless steel costs driven mainly by increases in the nickel surcharge (representing 6.2% of total cost of goods sold) increased by 30.3% on a per-ton basis in the second quarter of 2010. The cost of zinc (representing 3.9% of total cost of goods sold) increased by 14.5% on a per-pound basis.

Gross Profit

For the three months ended June 30, 2010, gross profit improved by $12.9 million to $3.9 million, and gross profit per ton increased by $359 per ton compared to Q2 2009. The increase in gross profit and gross profit per ton primarily reflects our focus on sales of higher margin products, increased selling prices, inventory costs that were more closely aligned with market values, minimal inventory writedowns and our continued focus on cost control, partially offset by lower volumes.

Expenses

Second quarter selling, general and administrative ("SG&A") expenses decreased to $3.1 million from $6.3 million in Q2 2009, a reduction of 50% or $3.2 million. The improvement in "SG&A" expense reflects the impact of cost savings measures, including workforce reductions, implemented during 2009 and the first quarter of 2010. It also reflects the positive impact of the stronger Canadian dollar on the SG&A from our US operations and the reduction in severance charges of $1.3 million.

Interest

For the three months ended June 30, 2010, financing expenses increased by $0.3 million to $2.4 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, a reduction in the amortization of deferred financing costs and a reduction in other interest costs. The reduction of interest on the Senior Credit Facility was mainly the result of a lower outstanding loan balance during the period. Financing expenses included interest of $0.1 million on the Senior Credit Facility (2009 - $1.1 million), minimal other interest expense (2009 - $0.6 million), interest and accretion of debt discount on the Debentures of $0.7 million (2009 - $nil), interest and accretion of debt discount on forbearance agreements of $1.5 million (2009 - $nil) and the amortization of deferred financing costs of $0.1 million (2009 - $0.4 million).

Intangible Asset Amortization and Impairment

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

Income Taxes

We recorded a Q2 2010 income tax expense of $0.4 million, compared to an income tax expense of $0.4 million in 2009. The income tax expense represents a future income tax expense of $0.4 million (2009 - $0.4 million expense). 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 second quarter 2010 EBITDA of $2.2 million, compared to an EBITDA loss of $13.5 million in the second quarter of 2009. The $15.7 million increase in EBITDA reflects our increased focus on profitability, higher selling prices, lower rod costs, inventory costs that were more closely aligned to market values, significantly lower inventory writedowns and lower SG&A, partially offset by lower volumes.

EBITDA, adjusted for foreign exchange, was $2.4 million, compared to an EBITDA loss of $11.4 million in the equivalent period in 2009. The change reflects increased EBITDA partially offset by a decrease in the gain on foreign exchange during the second quarter of 2010.

Foreign Exchange

We reported a gain on foreign exchange of $0.3 million in Q2 2010, compared to a gain of $2.1 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 $0.1 million amortized in Q2 2010 ($0.1 million in Q2 2010).

Net Loss

For the three months ended June 30, 2010 we reported a net loss of $1.6 million (net loss of $20.9 million in the three months ended June 30, 2009), or a loss of $0.07 per unit basic and diluted (net loss of $0.95 per unit basic and diluted in 2009). The decrease in net loss primarily reflects the impact of our increased focus on profitability, increased selling prices, inventory costs that were more closely aligned to market values, minimal inventory writedowns, lower SG&A expenses and the absence of intangibles amortization and impairment, partially offset by lower volumes, higher financing expenses and a reduced gain on foreign exchange.

8. SIX MONTHS ENDED JUNE 30, 2010 COMPARED TO SIX MONTHS ENDED JUNE 30, 2009

Revenue

For the six months ended June 30, 2010, we generated revenue of $73.3 million, a decrease of $27.1 million, or 27.0%, from the same period in 2009. The decline in revenue primarily reflects lower sales volumes partially offset by higher selling prices and the negative impact of the stronger Canadian dollar on our US denominated sales. During the six months ended June 30, 2010, the average exchange rate for the Canadian dollar was 14.2% stronger than during the same period in 2009.

Sales volumes decreased by 33.2% to 55,726 tons in the six months ended June 30, 2010, from 83,461 tons the previous year. This decrease reflects reduced demand in all of our major US end markets, and most significantly in the residential construction, commercial construction and industrial/OEM markets, where sales volumes were down 20.8%, 30.8% and 41.8% respectively. The decline in volumes was in part attributable to the boost that the prior period volumes received as we liquidated high-cost inventory in the first half of 2009. The year-over-year housing starts in the Western US region reflected an increase of 4.6%. Our decline in sales volumes to this market compared to the increase in the housing starts reflects our strategy in 2010 to focus on profitable sales rather than volume. Our sales volumes to the commercial construction market continued to be negatively affected by the slow down in commercial construction activity, which reduced demand for construction fabric and concrete reinforcing products partially offset by increased sales of mesh to the mining industry. In the industrial/OEM market, due to low levels of economic activity and in part our drive for improved margins, we experienced a reduction in demand for manufactured galvanized low carbon wire, which was partially offset by increased sales of imported galvanized chain link. Sales of pulp baling and waste bailing wire were also down but were partially offset by an increase in the number of tons tolled as part of our strategy to supply customers through tolling arrangements. During the first six months of 2010, we tolled a total of 5,169 tons of pulp baling wire an increase of 12.4% when compared to 2009.

Sales volumes by market were as follows:

	Six Months Ended June 30, 2010		Six Months Ended June 30, 2009	
Market [2]	Tons (000's) [3]	% of Sales Volumes	Tons (000's)	% of Sales Volumes
Residential Construction	17.9	32.1%	22.6	27.1%
Commercial Construction	8.1	14.5%	11.7	14.0%
Industrial/OEM	20.2	36.3%	34.7	41.6%
Agricultural	5.3	9.6%	4.8	5.7%
Specialty	1.3	2.3%	1.2	1.4%
International Trading [1]	2.9	5.2%	8.5	10.2%
Total	55.7	100.0%	83.5	100.0%

(1) International trading includes direct trading company sales and does not include import sales, which are reflected in our sales volumes to other markets.

(2) Effective 2009, the basis for classification of sales by market was changed to enable a more accurate classification by market.

(3) Sales volumes for the six months 2010 exclude 5,169 tons (2009 – 4,600 tons) which were processed as part of tolling

International trading sales volumes decreased by 65.8% to 2,904 tons in 2010 reflecting the discontinuation of two tolling projects and reduced trading volumes in China. Combined import and trading sales also declined during the same period. 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:

	Six Months Ended June 30, 2010		Six Months Ended June 30, 2009	
Market	Tons (000's)	% of Sales Volumes	Tons (000's)	% of Sales Volumes
North American Manufactured	46.7	83.8%	68.7	82.3%
Imported & Trading	9.0	16.2%	14.8	17.7%
Total	55.7	100.0%	83.5	100.0%

Cost of Goods Sold

Cost of goods for the first half of 2010 was approximately $51.9 million lower than during the same period in 2009, The reduction in cost of goods sold reflects the lower sales volumes, the impact of a stronger Canadian dollar on our US dollar-denominated costs, lower carbon rod costs, inventory costs that were more closely aligned to market values and significantly lower inventory writedowns of $0.3 million (2009 - $3.5 million). Our manufacturing costs relative to volumes were higher year-over-year, reflecting the negative impact of lower capacity utilization, partially offset by reductions to the fixed-cost element of our manufacturing costs.

Despite the increase in the market cost of carbon rod during the six months, our cost of carbon rod (representing 49.7% of total cost of goods sold) decreased by 27.4% on a per-ton basis compared to a year ago. This reflects the impact in 2009 of the consumption of overvalued inventory. Stainless steel costs (representing 5.5% of total cost of goods sold) increased by 6.2% on a per-ton basis reflecting the increased nickel surcharges during the second quarter and the cost of zinc (representing 3.6% of total cost of goods sold) decreased by 6.7% on a per-pound basis.

Gross Profit

For the six months ended June 30, 2010, gross profit increased by $26.2 million, to a profit of $6.3 million, with gross profit per ton increasing by $352 per ton compared to 2009. The increase in gross profit and gross profit per ton primarily reflects our focus on sales of higher gross profit products, increased selling prices, inventory costs that were more closely aligned with market values, significantly lower inventory writedowns and our continued focus on cost control, partially offset by lower volumes.

Expenses

SG&A expenses amounted to $6.8 million for the six months ended June 30, 2010, a 45% reduction when compared to $12.4 million for the six month period ended June 30, 2009. The savings were a result of various cost savings measures implemented in the second half of 2009 and early in the year, the year over year reduction in severance costs of $2.2 million and the impact of the stronger Canadian dollar on expenses at our US operations.

Interest

Financing expenses increased by $2.2 million to $5.9 million in the six month period. This primarily reflects an increase in interest and accretion of debt discount related to our long term debt and Debentures and an increase in the amortization of deferred financing costs, partially offset by lower interest on our Senior Credit Facility, and a reduction in other interest costs. Financing expenses included interest of $0.4 million on the operating loan (2009 - $1.6 million), interest and accretion on Debentures of $1.3 million (2009 - $nil), interest and accretion on forbearance agreements of $2.9 million (2009 - $nil) minimal other interest expense (2009 - $1.3 million) and the amortization of deferred financing costs of $1.2 million (2009 - $0.8million).

Intangible Asset Impairment

During the second quarter, 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 losses, the intangible assets were considered to be fully impaired and an impairment of $5,362 was recorded.

Income Taxes

We recorded an income tax recovery of $0.8 million in the first half of 2010, compared to an income tax recovery of $2.0 million during the same period in 2009. The income tax recovery represents a future income tax recovery of $0.6 million (2008 - $2.0 million recovery) and for the first half of 2010, a current income tax recovery of $0.2 million. 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 a first-half EBITDA of $2.3 million, which was $30.4 million better than in the same period in 2009. The increased EBITDA reflects the positive impact of our focus on sales of higher margin products, increased selling prices, inventory costs that were more closely aligned with market values, significantly lower inventory writedowns, our continued focus on cost control and lower SG&A costs, partially offset by lower volumes.

EBITDA, adjusted for foreign exchange, was $2.0 million in the six month period ended June 30, 2010, compared to a loss of $27.0 million in the equivalent period in 2009. The change reflects improved EBITDA and a loss on foreign exchange conversions in the second half of 2009.

Foreign Exchange

The foreign exchange loss of $0.3 million in the first half of 2010, compared to a gain of $1.1 million in 2009. Foreign exchange gains and losses are unpredictable in nature and therefore can be expected to vary significantly.

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 $0.2 million amortized in the six months ended June 30, 2010 ($0.3 million in 2009).

Net Loss

We reported a first half 2010 net loss of $5.7 million (net loss of $38.5 million in 2009), or a loss of $0.25 per unit basic and diluted (net loss of $1.75 per unit basic and fully diluted in 2009). The reduction in the net loss primarily reflects the positive impact of our focus on sales of higher margin products, increased selling prices, inventory costs that were more closely aligned with market values, significantly lower inventory writedowns, our continued focus on cost control, lower SG&A costs and no impairment of intangible assets, partially offset by lower volumes, higher financing expenses, and the loss on foreign exchange.

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

9.1 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 ended June 30, 2010 and 2009 was calculated as follows:

($000's except for % amounts)	Three Months Ended June 30		Six Months Ended June 30	
	2010	2009	2010	2009
Net Cash Provided from Operating Activities	$ (1,611)	$ 15,565	$ (10,974)	$ 36,723
Capital Expenditures	(26)	(52)	(46)	(125)
Standardized Distributable Cash	*$ (1,637)*	*$ 15,513*	*$ (11,020)*	*$ 36,598*
Distributions Paid or Payable	$ –	$ –	$ –	$ –
Units Issued and Outstanding	22,473,240	21,996,104	22,417,962	21,986,232
Standardized Distributable Cash per Unit (1)	$ (0.0728)	$ 0.7053	$ (0.4916)	$ 1.6646
Distributions Paid or Payable per Unit	$ –	$ –	$ –	$ –
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)	$	168,129
Distributions Paid or Payable Since Inception	$	158,997
Standardized Distribution Payout % Since Inception (1)		95%

(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.

9.2 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 six months ended June 30, 2010 and 2009 was calculated as follows:

($000's except for % amounts)	Three Months Ended June 30				Six Months Ended June 30			
		2010		2009		2010		2009
Standardized Distributable Cash	$	(1,637)	$	15,513	$	(11,020)	$	36,598
Change in Non-cash Operating Assets & Liabilities		3,973		(28,459)		12,798		(66,357)
Non-maintenance Capital Expenditures		–		18		–		68
Adjusted Distributable Cash (1)	***$***	***2,336***	***$***	***(12,928)***	***$***	***1,778***	***$***	***(29,691)***
Distributions Paid or Payable	$	–	$	–	$	–	$	–
Units Issued and Outstanding		22,473,240		21,996,104		22,417,962		21,986,232
Adjusted Distributable Cash per Unit	$	0.1039	$	(0.5877)	$	0.0793	$	(1.3504)
Distributions Paid or Payable per Unit	$	–	$	–	$	–	$	–
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 three months ended June 30, 2010, we reported Adjusted Distributable Cash of $2.3 million (2009 negative distributable cash of $12.9 million), or $0.1039 per unit (2009 – ($0.5877) per unit). Of this, cash generated by operations amounted to $2.0 million or $0.0915 per unit (2009 - $15.0 million use of cash or ($0.6838) per unit), while gains from foreign exchange conversion amounted to $0.3 million or $0.0124 per unit (2009 – $2.1 million or $0.0961 per unit). No adjustment for taxes was made as Tree Island Industries Ltd. did not generate current income taxes payable in the first six months of either 2010 or 2009.

Adjusted Distributable Cash generated since inception is as follows:

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

		Since Inception
Adjusted Distributable Cash Generated Since Inception	$	140,016
Distributions Paid or Payable Since Inception	$	158,997
Adjusted Distribution Payout % Since Inception		114%

9.3 UTILIZATION OF DISTRIBUTABLE CASH

For the six months ended June 30, 2010, no distributions were paid out of cash generated by the Fund.

9.4 CASH FLOW AND CREDIT FACILITIES

Following is a summary of our cash flow:

($000's – bracketed figures indicate use of cash)	Three Months Ended June 30 2010	Three Months Ended June 30 2009	Six Months Ended June 30 2010	Six Months Ended June 30 2009
Net (Loss)	$ (1,622)	$ (20,923)	$ (5,701)	$ (38,545)
Items not Involving Cash	3,984	8,029	7,525	8,911
Change in Non-cash Operating Assets & Liabilities	(3,973)	28,459	(12,798)	66,357
Exchange Rate Changes on Cash & Cash Equivalents	137	(35)	35	(22)
Deferred Financing Costs	–	–	(396)	(664)
Capital Expenditures	(26)	(52)	(46)	(125)
Proceeds on Disposal of Long-lived Assets	–	211	–	215
Issuance of Convertible Debentures, net of transaction costs	–	–	9,519	–
Repayment of Long-term Debt	(712)	–	(1,538)	–
(Advance on) repayment of Revolving Credit, net of Cash	$ (2,212)	$ 15,689	$ (3,400)	$ 36,127

As of June 30, 2010, our senior credit facility balance was $6.7 million, which included our operating loan balance of $7.1 million, less deferred financing costs of $0.4 million. After allowing for cash balances of $3.7 million, we had an operating loan net of cash of $3.0 million.

At June 30, 2010 our Senior Credit Facility, net of cash, was $3.4 million higher than at December 31, 2009. This increase primarily reflects an increase in working capital, mainly related to increased inventories and receivables less increased payables, funded by $9.5 million received from the rights issuance of Debentures, net of transaction costs.

Debentures Financing

As described in Section 4 2010 Developments, we have 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 the Senior Credit Facility. The available credit capacity will be used for working capital and general corporate purposes. This financing is expected to enable us to address current challenges and provide flexibility to execute our business plan.

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 Libor 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 TII and TIW to incur additional indebtedness, to create liens or other encumbrances, to pay dividends or make certain other payments, investments, loans and guarantees and to sell or otherwise dispose of assets and merge or consolidate with another entity. As at June 30, 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 TIL, 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 credit facilities.

9.5 WORKING CAPITAL

Our business requires an ongoing investment in working capital, comprised of accounts 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, 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, additional terms given to customers to support seasonal booking programs, the timing of collections from customers and payments made to suppliers. Typically the Canadian residential, construction, commercial construction and agricultural markets are seasonal in nature. As a result of these seasonal factors, working capital requirements are typically higher in the first half of the year and consistent with this, we invested additional amounts in both inventory and accounts receivables during the three months ended June 30, 2010.

In terms of the Senior Credit Facility, accounts receivable and inventories form a key part in determining our borrowing base and availability. As a result, we will continue to put considerable focus on managing inventory and working capital levels in 2010.

A summary of changes in our non-cash working capital during the three and six months ended June 30, 2010 and 2009 follows:

(Increase) Decrease in Non-Cash Working Capital

($000's – bracketed figures indicate use of cash)	Three Months Ended June 30		Six Months Ended June 30	
	2010	2009	2010	2009
Accounts Receivable	$ 396	$ 4,265	$ (6,325)	$ 2,474
Inventories	(2,321)	31,449	(8,753)	60,988
Accounts Payable & Accrued Liabilities	(2,382)	(7,563)	2,046	863
Income and Other Taxes	(358)	–	(501)	21
Other	692	308	735	2,011
Total Change in Non-cash Working Capital	$ (3,973)	$ 28,459	$ (12,798)	$ 66,357

10. CAPITAL EXPENDITURES AND CAPACITY

For the three and six months ended June 30, 2010 and June 30, 2009, we made no notable investment in capital expenditures. We have 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. Profit improvement 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.

11. 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.

As of June 30, 2010, we were committed to the contracts set out below, which will be financed through working capital and our Senior Credit Facility.

Contractual Commitments

($000's)

	Balance of 2010	2011	2012	2013	2014	Thereafter
Wire Rod Purchases	$ 7,727	–	–	–	–	–
Finished Goods	566	–	–	–	–	–
Zinc Purchases	–	–	–	–	–	–
Natural Gas Purchases	–	–	–	–	–	–
Operating Lease Agreements (1)	1,490	2,666	2,453	859	802	1,527
Total	$ 9,783	$ 2,666	$ 2,453	$ 859	$ 802	$ 1,527

(1) The "Balance of 2010" Operating Lease Agreements disclosed in the Q1 2010 quarterly financial statements were inadvertently understated by $750.

12. SUMMARY OF QUARTERLY FINANCIAL INFORMATION

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

Three Months Ended

($000's except per unit amounts)

	June 20 2010	Mar 31 2010	Dec 31 2009	Sep 30 2009	Jun 30 2009	Mar 31 2009	Dec 31 2008	Sep 30 2008
Sales Volumes – Tons (2)	*27,732*	*27,886*	*21,171*	*31,565*	*41,092*	*42,369*	*38,618*	*60,876*
Revenue	38,742	34,532	26,740	38,456	47,430	52,955	57,823	93,511
EBITDA per Ton	*78*	*6*	*(260)*	*(168)*	*(329)*	*(345)*	*(716)*	*148*
EBITDA	2,164	158	(5,514)	(5,303)	(13,501)	(14,603)	(27,651)	9,017
Foreign Exchange Gain (Loss)	279	(596)	150	1,162	2,115	(986)	1,047	1,667
EBITDA adjusted for Foreign Exchange	2,443	(438)	(5,364)	(4,141)	(11,386)	(15,589)	(26,604)	10,684
Net Income (Loss)	(1,622)	(4,079)	13,294	(1,625)	(20,923)	(17,622)	(79,871)	5,344
Net Income (Loss) per Unit – Basic	(0.07)	(0.19)	0.60	(0.07)	(0.95)	(0.80)	(3.64)	0.24
Standardized Distributable Cash	(1,637)	(9,383)	2,206	5,254	15,513	21,085	(11,574)	(8,976)
Adjusted Distributable Cash	2,336	(558)	(214)	3,394	(12,928)	(16,763)	(26,118)	8,607
Distributions Paid or Payable	–	–	–	–	–	–	3,660	5,490
Standardized Distributable Cash per Unit – Basic	(0.0728)	(0.4257)	0.0998	0.2505	0.7053	0.9594	(0.5270)	(0.4087)
Adjusted Distributable Cash per Unit – Basic	0.1039	(0.0253)	(0.0097)	0.1539	(0.5877)	(0.7628)	(1.1893)	0.3919
Distributions Paid or Payable per Unit – Basic	–	–	–	–	–	–	0.1667	0.2500
Standardized Distribution Payout % (1)	0%	0%	0%	0%	0%	0%	0%	0%
Adjusted Distribution Payout % (1)	0%	0%	0%	0%	0%	0%	0%	64%

(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.

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:

- Q4 2008: As a result of the global economic crisis, which led to an unprecedented decrease in global steel prices during the fourth quarter of 2008, our raw material and finished goods inventories were overvalued as at December 31, 2008 by approximately $34 million based on market prices at that time. In accordance with GAAP, we wrote down $20.4 million of this overvaluation at year-end. This had a material negative impact on fourth quarter results of operations, EBITDA and distributable cash.
- 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 writedown 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 writedown of $0.5 million of this overvaluation in order to adjust 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 have been used to reduce debt under the revolving credit facility.
- Q4 2009: We raised $9.75 million, less $1.1 million in 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.

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, 2009.

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

13.1 CRITICAL ACCOUNTING POLICIES

Our critical accounting policies remain unchanged from December 31, 2009. For further information regarding these policies refer to the notes to the 2009 audited consolidated financial statements and the Annual Information Form ("AIF") for the year ended December 31, 2009

13.2 CRITICAL ACCOUNTING ESTIMATES

The preparation of financial statements in accordance with GAAP requires that we 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 that also affect the reported amounts of revenues and expenses during the reporting period. We base our estimates and assumptions on past experience and other factors that are deemed reasonable under the circumstances. Actual results could differ from these estimates.

The Fund's significant accounting policies are described in the notes to the 2009 audited consolidated financial statements and in the AIF for the year ended December 31, 2009. Certain of these policies involve critical accounting estimates as a result of the requirement to make particularly subjective or complex judgments about matters that are inherently uncertain and because of the likelihood that materially different amounts could be reported under different conditions or using different assumptions.

The Fund's critical accounting estimates continue to be:

- going concern;
- inventory valuation;
- allowance for doubtful accounts;
- sales claims and returns;
- slow moving and obsolete inventory;
- provision for depreciation and amortization;
- impairment of property, plant and equipment;
- asset retirement obligations;
- income taxes; and,
- fair value of financial instruments.

For a full discussion of these accounting estimates, refer to the Fund's 2009 Annual Report, the Fund's 2009 AIF and the notes to the interim consolidated financial statements for the three and six months ended June 30, 2010.

13.3 ADOPTION OF NEW ACCOUNTING POLICIES, RECENT ACCOUNTING PRONOUNCEMENTS AND IFRS

Adoption of New Accounting Policies

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

Recent Accounting Pronouncements

Section 1582 "Business Combinations"

This section applies to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after January 1, 2011. The new CICA Handbook Section 1582 will replace Section 1581 "Business Combinations" establishing standards for the accounting for a business combination that will more closely resemble those under International Financial Reporting Standards. Earlier adoption of this section is permitted. The section is not expected to have a material impact on our consolidated financial statements unless we enter into a business combination.

Section 1601 "Consolidated Financial Statements" and Section 1602 "Non-Controlling Interests"

Effective for interim and annual financial statements for fiscal years beginning on or after January 1, 2011, the new CICA Handbooks Section 1601 and Section 1602 will replace Section 1600 "Consolidated Financial Statements". These sections establish standards for the preparation of consolidated financial statements and accounting for a non-controlling interest in a subsidiary in consolidated financial statements subsequent to a business combination. Earlier adoption of these sections is permitted as of the beginning of a fiscal year. We have not fully determined the impact of adopting these standards.

International Financial Reporting Standards ("IFRS")

The Canadian Accounting Standards Board (AcSB) will require 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 will be required to prepare comparative financial information using IFRS for the year ended December 31, 2010. We expect the transition to IFRS to impact financial reporting, business processes and information systems.

The Fund will continue 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 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 performing a line by line review of 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 are evaluating the merits of whether to elect to value certain assets on transition at fair value which then becomes the deemed cost on which to amortize/depreciate in future periods.

(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 reviewing the detailed equipment ledgers to determine if there are assets that will require componentization on transition to IFRS.

(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 considering a transition 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 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. We are working on drafting a sample financial statement at the transition date for the Audit Committee and Board of Directors to review the impact of the changes on adoption prior to our first quarter of 2011.

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:

(i) Additional training and skills for individuals involved in key internal controls and disclosure controls impacted by changes under IFRS

(ii) Project plans for systems changes, which to date the only one identified is the change of system for PPE as mentioned above

(iii) 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. 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 our 2009 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 our liquidity and operating flexibility or allow us to continue operating our business in the normal course for the 2010 fiscal year. Further deterioration in our consolidated revenues and relationships with suppliers, or an inability to manage our costs and inventory would materially adversely affect the Fund's financial condition, liquidity and results of operations and we may not be able to pay our debts as they become due.

Similarly, the inability of the Fund, through its affiliates, to meet payment and other obligations under the Forbearance Agreements would have a materially adverse effect on our financial condition, liquidity and results of operations.

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

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

Leverage, Restrictive Covenants and Liquidity

The Fund, through its subsidiaries, has third-party debt service obligations under the Senior Credit Facility entered into on March 25, 2010. The degree to which we are leveraged could have important consequences to the holders of the Units, including: (i) our ability to obtain additional financing for working capital; (ii) a portion of our cash flow from operations will be dedicated to the payment of the principal of and interest on our 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) our leveraged capital structure could place us at a competitive disadvantage by hindering our ability to adjust rapidly to changing market conditions or by making us vulnerable to a downturn in our business or the economy in general; and (v) certain of our borrowings, being at variable rates of interest, expose us to the risk of increased interest rates.

Our ability to make scheduled payments of the principal of or interest on, or to refinance, our indebtedness, including the subordinated Debentures issued on the Recapitalization Transaction, and the forbearance agreements and Notes held by the Fund, will depend on our future cash flow, which is subject to the operations of our business, prevailing economic conditions, prevailing interest rate levels, and financial, competitive, business and other factors, many of which are beyond our control.

Our Senior Credit Facility contains restrictive covenants that limit our discretion with respect to certain business matters. These covenants place restrictions on, among other things, our ability 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. In addition, our credit facility contains financial covenants that require us 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.

Current Economic Conditions

The deterioration in 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 Wire Rod, Imported Finished and Semi-finished Products

We rely on key suppliers for our wire rod, imported finished and semi-finished products, stainless steel, zinc and other materials and services. We rely on credit from our key suppliers to finance the purchase of the raw materials needed for our operations. If these suppliers determine that they are not prepared to supply these materials and services because of credit risk or other matters determined by the supplier, we would have to find other sources which could consume internal resources and result in higher costs. There is no assurance that we could obtain alternate supply on reasonable terms, or at all.

As a non-integrated producer of steel wire and fabricated wire products, we must purchase our carbon wire rod supply. Since carbon wire rod cost is a significant portion of cost of sales (49.7% in the first six months of 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.

We and our 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 our margins could be adversely affected by raw material cost increases.

Dependence on Construction Industry

Approximately 32.1% of our sales in the first six months of 2010 were directly related to the level of home construction activity. In addition, 14.5% of sales were related to the commercial and infrastructure markets, resulting in construction accounting for 46.6% of our sales in the first six months of 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 the first six months of 2010 were 4.6% better then the first six months of 2009, however housing starts for the second quarter of 2010 were still the fifth lowest quarterly starts since 1959. 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 the first six months of 2010, 46.4% of our sales were in the Western United States. California was the single largest market representing 28.1% 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 we make commitments 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 six months of 2010, approximately $17.0 million of sales from our Canadian operations were earned in US dollars ($26.4 million in 2009) and approximately $30.7 million of our costs were incurred in US dollars ($48.0 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.

In addition, we have long-term debt denominated in US dollars of approximately US$36 million outstanding at period end which also creates foreign currency risk. As well, we 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. We have not entered into derivative instruments to manage the foreign exchange risk.

15. DISCLOSURE CONTROLS AND PROCEDURES AND INTERNAL CONTROL OVER FINANCIAL REPORTING

Our management is responsible for designing disclosure controls and procedures that: (a) provide reasonable assurance that material information required to be disclosed by us is accumulated and communicated to management to allow timely decisions regarding required disclosure; and (b) ensure that information required to be disclosed by us is recorded, processed, summarized, and reported within the time periods specified in applicable securities legislation.

Our management is also responsible for designing, establishing and maintaining an adequate system of internal control over financial reporting. Our internal control system was designed based on the Internal Control – Integrated Framework ("COSO Framework") published by The Committee of Sponsoring Organizations of the Treadway Commission to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes, in accordance with Canadian GAAP.

Our Chief Executive Officer and Chief Financial Officer certified the appropriateness of the financial disclosures in the interim MD&A and unaudited interim consolidated financial statements for the period ended June 30, 2010. These executives also certified that they are responsible for the design of disclosure controls and procedures and internal control over financial reporting. There have been no changes in internal control over financial reporting during the quarter ended June 30, 2010 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

The Fund's Board of Trustees and Audit Committee reviewed and approved the June 30, 2010 unaudited interim consolidated financial statements and this management's discussion and analysis prior to its release.

NOTICE OF NO AUDITOR REVIEW OF INTERIM FINANCIAL STATEMENTS

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

The accompanying interim unaudited consolidated financial statements of the Fund have been prepared by and are the responsibility of the Fund's management.

The Fund's independent auditor, Ernst & Young LLP, has not performed a review of these financial statements in accordance with standards established by the Canadian Institute of Chartered Accountants for a review of interim financial statements by an entity's auditor.

August 11, 2010

INTERIM CONSOLIDATED BALANCE SHEETS

(in thousands of dollars) (unaudited)

	As at June 30 2010	As at December 31 2009
Assets		
Current		
Cash	$ 3,721	$ 4,153
Accounts receivable (Note 12)	15,447	9,064
Income and other taxes receivable (Note 13)	6,258	6,121
Inventories (Note 4)	42,379	33,626
Prepaid expenses	2,509	3,113
	70,314	56,077
Property, plant and equipment	40,352	43,047
Other non-current assets	9	569
	$ 110,675	$ 99,693
Liabilities		
Current		
Revolving credit (Note 5)	$ 6,696	$ 2,846
Accounts payable and accrued liabilities	20,493	18,351
Income taxes payable	311	748
Interest payable	70	41
Current portion of long-term debt (Note 7)	4,348	3,030
	31,918	25,016
Convertible Debentures (Note 6)	12,611	5,716
Long-term debt (Note 7)	23,500	23,063
Deferred gain on sale of option	3,135	3,337
Other non-current liabilities	614	361
Future income taxes	2,343	2,848
	74,121	60,341
Contingent liabilities and commitments (Note 15)		
Unitholders' Equity	36,554	39,352
	$ 110,675	$ 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 Interim Consolidated Financial Statements

INTERIM CONSOLIDATED STATEMENTS OF OPERATIONS

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

	Three Months Ended June 30 2010	2009	Six Months Ended June 30 2010	2009
Sales	$ 38,742	$ 47,430	$ 73,274	$ 100,385
Cost of goods sold (Note 4)	33,449	54,680	64,105	116,040
Depreciation	1,407	1,735	2,840	4,248
Gross profit (loss)	3,886	(8,985)	6,329	(19,903)
Selling, general and administrative expenses	3,129	6,251	6,847	12,449
Operating profit (loss)	757	(15,236)	(518)	(32,352)
Foreign exchange gain (loss)	279	2,115	(317)	1,129
Gain on sale of property, plant and equipment	–	60	–	63
Impairment and amortization of intangible assets	–	(5,682)	–	(6,022)
Amortization of deferred gain	119	135	240	279
Fair value changes on derivatives	–	148	–	122
Financing expenses (Note 9)	(2,389)	(2,085)	(5,863)	(3,723)
Loss before income taxes	(1,234)	(20,545)	(6,458)	(40,504)
Income tax (expense) recovery (Note 13)	(388)	(378)	757	1,959
Net loss for the period	$ (1,622)	$ (20,923)	$ (5,701)	$ (38,545)
Net loss per unit				
Basic	$ (0.07)	$ (0.95)	$ (0.25)	$ (1.75)
Diluted	$ (0.07)	$ (0.95)	$ (0.25)	$ (1.75)
Weighted-average number of units (Note 14)				
Basic	22,473,271	21,996,104	22,417,977	21,986,232
Diluted	22,473,271	21,996,104	22,417,977	21,986,232

See accompanying Notes to the Interim Consolidated Financial Statements

INTERIM CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS

(in thousands of dollars) (unaudited)

	Three Months Ended June 30		Six Months Ended June 30	
	2010	2009	2010	2009
Net loss for the period	$ (1,622)	$ (20,923)	$ (5,701)	$ (38,545)
Other comprehensive loss				
Unrealized loss on translating financial statements of self-sustaining operations	(258)	(997)	(103)	(530)
Tax effect	(8)	332	109	197
Other comprehensive (loss) income	(266)	(665)	6	(333)
Comprehensive loss for the period	$ (1,888)	$ (21,588)	$ (5,695)	$ (38,878)

See accompanying Notes to the Interim Consolidated Financial Statements

Tree Island Wire Income Fund

INTERIM CONSOLIDATED STATEMENTS OF UNITHOLDERS' EQUITY

(in thousands of dollars) (unaudited)

	Unitholders' Capital	Contributed Surplus	Accumulated Earning (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	–	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	–	218	–	–	–	218
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
Net Loss	–	–	(5,701)	–	–	(5,701)
Other comprehensive income	–	–	–	–	6	6
Balance as at June 30, 2010	$211,564	$ 5,800	$ (3,508)	$(159,248)	$ (18,054)	$ 36,554

See accompanying Notes to the Interim Consolidated Financial Statements

INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands of dollars) (unaudited)

	Three Months Ended June 30 2010	Three Months Ended June 30 2009	Six Months Ended June 30 2010	Six Months Ended June 30 2009
Cash flows from operating activities				
Net loss for the period	$ (1,622)	$ (20,923)	$ (5,701)	$ (38,545)
Items not involving cash				
Depreciation	1,407	1,735	2,840	4,248
Fair value changes on derivatives	–	(148)	–	(122)
Gain on disposal of property, plant and equipment	–	(60)	–	(63)
Amortization and write-off of deferred financing	61	433	1,245	798
Impairment and amortization of intangibles	–	5,682	–	6,022
Amortization of deferred gain	(119)	(135)	(240)	(279)
Non cash accretion / interest	1,812	–	3,749	–
Future income tax recoveries	388	378	(614)	(1,980)
Unit-based compensation	435	143	545	286
	2,362	(12,895)	1,824	(29,635)
Change in non-cash operating assets and liabilities (Note 18)	(3,973)	28,459	(12,798)	66,357
Net cash (used in) provided by operating activities	(1,611)	15,564	(10,974)	36,722
Cash flows from investing activities				
Proceeds on disposal of long-lived assets	–	211	–	215
Purchase of property, plant and equipment	(26)	(52)	(46)	(125)
Net cash (used in) provided by investing activities	(26)	159	(46)	90
Cash flows from financing activities				
Issuance of Convertible Debentures, net of transaction costs	–	–	9,519	–
Repayment of long-term debt	(712)	–	(1,538)	–
Financing transaction costs incurred	–	–	(396)	(664)
(Repayment of) advance on revolving credit	(104)	(16,801)	2,968	(33,062)
Net cash (used in) provided by financing activities	(816)	(16,801)	10,553	(33,726)
Effect of exchange rate changes on cash	137	(34)	35	(21)
(Decrease) increase in cash	(2,316)	(1,112)	(432)	3,065
Cash, beginning of period	6,037	5,378	4,153	1,201
Cash, end of period	$ 3,721	$ 4,266	$ 3,721	$ 4,266
Supplemental cash flow information:				
Interest paid	$ 510	$ 1,190	$ 866	$ 1,335
Income taxes	$ 302	$ 6	$ 302	$ 6

See accompanying Notes to the Interim Consolidated Financial Statements

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

For the three and six month periods ended June 30, 2010 and June 30, 2009
(in thousands of dollars, except per unit amounts) (unaudited)

1. INTERIM CONSOLIDATED FINANCIAL STATEMENTS

The accompanying Interim Consolidated Financial Statements of Tree Island Wire Income Fund (the "Fund") have been prepared by management in accordance with Canadian generally accepted accounting principles ("GAAP") on a basis consistent with those followed in the most recent audited annual consolidated financial statements except as described in Note 3. These Interim Consolidated Financial Statements do not include all the information and note disclosures required by GAAP for annual consolidated financial statements and therefore should be read in conjunction with the December 31, 2009 audited consolidated financial statements of the Fund and the notes below.

Operating results for the interim periods are not necessarily indicative of the results that may be expected for the full fiscal year ending December 31, 2010. Our operations are impacted by the seasonal nature of the various industries we serve, primarily the Canadian construction and agriculture industries. Accordingly, fourth quarter results are traditionally lower than other quarters due to the onset of winter and the corresponding reduction in consumer activities.

2. 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. ("TIL")..

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 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, 2013 (Note 7). The Fund has also entered into new senior credit facilities for a maximum facility of $35 million with a new lender which are further described in Note 5.

3. RECENT ACCOUNTING PRONOUNCEMENTS

Recent Accounting Pronouncements

Section 1582 "Business Combinations"

This section applies to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after January 1, 2011. The new CICA Handbook Section 1582 will replace Section 1581 "Business Combinations" establishing standards for the accounting for a business combination that will more closely resemble those under International Financial Reporting Standards. Earlier adoption of this section is permitted. The section is not expected to have a material impact on the Fund's consolidated financial statements unless the Fund enters into a business combination.

Section 1601 "Consolidated Financial Statements" and Section 1602 "Non-Controlling Interests"

Effective for interim and annual financial statements for fiscal years beginning on or after January 1, 2011, the new CICA Handbooks Section 1601 and Section 1602 will replace Section 1600 "Consolidated Financial Statements". These sections establish standards for the preparation of consolidated financial statements and accounting for a non-controlling interest in a subsidiary in consolidated financial statements subsequent to a business combination. Earlier adoption of these sections is permitted as of the beginning of a fiscal year. Management has not fully determined the impact of adopting these standards.

International Financial Reporting Standards ("IFRS")

The Canadian Accounting Standards Board (AcSB) will require 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 will be required to prepare comparative financial information using IFRS for the year ended December 31, 2010. We expect the transition to IFRS to impact financial reporting, business processes and information systems.

A high-level diagnostic has been completed assessing the areas likely to have an impact of IFRS on the financial statements. Management continues to make progress in evaluating the transitional impacts of conversion but it is expected that the most significant changes include, but are not limited to, the treatment of property, plant and equipment, additional disclosure and notes accompanying the financial statement, and impact of elections made under IFRS 1 "First Time Adoption of International Financial Reporting Standards"

Progress continues on the next phase of the project, which includes:

- Final decisions on elective exemptions allowed under IFRS 1;
- line-by-line review of the Canadian GAAP financial statements to conclude on accounting policies and journal entries needed to restate under IFRS;
- drafting example financial statements under IFRS including new disclosures required;
- education and training of staff, management, Audit Committee and lenders; and,
- identification of potential changes required to information technology systems and business processes.

The Fund will continue 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 presented in accordance with IFRS.

4. INVENTORIES

The Fund had the following categories of inventory as at:

	June 30 2010	December 31 2009
Raw materials	$ 10,161	$ 6,686
Finished and semi finished products	23,929	19,128
Consumable supplies and spare parts	8,289	7,812
	$ 42,379	$ 33,626

Quarterly, 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 $261 (2009 - $3,492) in operating income 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 three and six months ending June 30, 2010 and 2009, the Fund has recognized, in income, inventory costs for the following:

	Three Months ended June 30 2010	2009	Six Months Ended June 30 2010	2009
Opening inventory	$ 40,058	$ 77,024	$ 33,626	$ 106,563
Raw material purchases	22,366	11,482	47,070	31,205
Finished goods purchased for resale	4,386	3,753	7,236	6,346
Conversion costs	9,176	8,933	18,813	20,993
Writedown	(158)	(937)	(261)	(3,492)
Inventories, closing	(42,379)	(45,575)	(42,379)	(45,575)
Cost of goods sold	$ 33,449	$ 54,680	$ 64,105	$ 116,040

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 defined fixed charge coverage ratio 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 June 30, 2010 the Fund was in compliance with all of its financial covenants on the Senior Credit Facility. The Fund has the following amounts outstanding on its revolving lines of credit:

	June 30 2010	December 31 2009
Wells Fargo Senior Credit Facility		
TIL Cdn revolving credit facility	$ 496	$ –
TIL US revolving credit facility	5,382	–
TIW US revolving credit faciltiy	1,217	–
GE credit agreement		
TIL Cdn revolving credit facility	–	1,416
TIW US revolving credit faciltiy	–	2,314
	7,095	3,730
Deferred financing	(399)	(884)
	$ 6,696	$ 2,846

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 TIL, 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. 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.

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. No warrants were exercised during the three and six months ended June 30, 2010.

The allocation of fair values of the Convertible Debentures at issuance is outlined in the table below:

	June 30 2010	December 31 2009
Face value of Convertible Debentures issued	$ 10,000	$ 9,750
Less allocation of fair value to:		
Conversion feature (1)	(2,739)	(2,341)
Change of control premium (2)	(162)	(158)
Warrants (3)	–	(902)
Carrying value of Convertible Debentures on issue	7,099	6,349
Financing costs allocated to debt component	(767)	(750)
Net debt component of Convertible Debentures on issue	6,332	5,599

(1) Conversion feature of $2,739 (2009 - $2,341) less allcoated transactions costs of $297 (2009 - $280) has been recorded in unitholders equity.

(2) Change of control premium of $162 (2009 - $158) 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:

	June 30 2010	December 31 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	1,301	117
Payment of interest in cash	(507)	–
Conversion of debentures to Fund units (1)	(231)	
Carrying value at period end	$ 12,611	$ 5,716

(1) During the six months ended June 30, 2010, $365 principal value of Convertible Debentures were converted to 730,000 Units.

7. LONG-TERM DEBT

	Year of Maturity	June 30 2010	December 31 2009
Forbearance Agreements - beginning of period	2013	24,952	24,771
Payments		(1,273)	(209)
Foreign exchange revaluation		359	(82)
Accretion of debt discount		2,983	472
Forbearance Agreements - end of period		27,021	24,952
Other long-term debt	2011	827	1,141
		27,848	26,093
Less current portion		(4,348)	(3,030)
		$ 23,500	$ 23,063

The forbearance agreements are payable over a term to the maturity at December 31, 2013. Interest accrues at a rate of 7% per annum calculated and compounded annually beginning November 2010 and is payable at maturity. Approximately $36 million of the principal under the forbearance agreements is denominated in US dollars.

The forbearance agreements were initially recorded at their fair value. Using the effective interest rate method and discount rates ranging between 22.4% and 23.1%, the debt discount, 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.

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

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. The Fund will become subject to Canadian corporate income taxes beginning 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:

	June 30 2010	December 31 2009
Total Unitholders' Equity	$ 36,554	$ 39,352
Senior Credit Facilty	6,696	2,846
Convertible Debentures	12,611	5,716
Long term debt	23,500	23,063
Total Capital	$ 79,361	$ 70,977

9. FINANCING EXPENSES

	Three Months ended June 30		Six Months Ended June 30	
	2010	2009	2010	2009
Accretion of debt discount and interest on long term debt and Convertible Debentures	$ 2,197	$ –	$ 4,230	$ –
Interest on revolving credit	127	1,089	352	1,634
Other interest and financing costs	4	565	36	1,291
Deferred financing costs	61	431	1,245	798
	$ 2,389	$ 2,085	$ 5,863	$ 3,723

10. LONG-TERM UNIT INCENTIVE PLAN

Compensation expense related to Phantom Units for the three and six month periods ended June 30, 2010 was $108 and $218 (2009 - $143 and $286). The expense is included in selling, general and administrative expense. Non-cash distributions related to Phantom Units for the three and six months ended June 30, 2010 were $nil (2009 - $nil and $12). A summary of the Fund's Phantom Unit plan changes during the periods ended is as follows:

	Three Months Ended June 30				Six Months ended June 30			
	2010 Vested	2010 Unvested	2009 Vested	2009 Unvested	2010 Vested	2010 Unvested	2009 Vested	2009 Unvested
Balance, beginning of period	42,773	90,165	76,131	194,584	48,454	40,165	90,694	194,584
Granted	–	–	–	–	–	50,000	–	–
Additional earned in respect of distributions	–	–	–	–	–	–	6,051	–
Vested	–	–	–	–	–	–	–	–
Forfeited	–	–	–	(2,334)	–	–	–	(2,334)
Converted	(12,691)	–	(19,969)	–	(18,372)	–	(40,583)	–
Balance, end of period	30,082	90,165	56,162	192,250	30,082	90,165	56,162	192,250

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 three and six months ended June 30, 2010, Futura received interest of $92 and $129 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., which amounted to, net of rebates, $1,152 and $3,472 for the three and six month periods ended June 30, 2010 respectively. 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.

			June 30, 2010		December 31, 2009	
	Fair Value Category	Classification	Fair Value	Carrying Value	Fair Value	Carrying Value
Financial Assets:						
Cash (1)	–	Held-For-Trading	$ 3,721	$ 3,721	$ 4,153	$ 4,153
Accounts receivable (1)	–	Loans and Receivables	15,447	15,447	9,064	9,064
Total Financial Assets			$ 19,168	$ 19,168	$ 13,217	$ 13,217
Financial Liabilities:						
Revolving credit (1, 2)	–	Other Financial Liabilities	$ 7,095	$ 6,696	$ 3,730	$ 2,846
Accounts payable and accrued liabilities (1)	–	Other Financial Liabilities	20,493	20,493	18,351	18,351
Interest payable (1)	–	Other Financial Liabilities	70	70	41	41
Change of control premium	Level 3	Held-For-Trading	315	315	158	158
Long–term debt	Level 3	Other Financial Liabilities	27,848	27,848	26,093	26,093
Convertible debentures (3)	Level 1	Other Financial Liabilities	19,200	12,611	5,716	5,716
Total Financial Liabilities			$ 75,021	$ 68,033	$ 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.

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 June 30, 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:

	June 30 2010	December 31 2009
Up to date	$ 12,445	$ 6,906
Under 30 days past due	2,578	1,893
30 - 60 days past due	670	349
61 - 90 days past due	99	62
Over 91 days past due	910	1,160
	16,702	10,370
Allowance for doubtful accounts	(1,255)	(1,306)
Balance, end of period	$ 15,447	$ 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 $15,447 as at June 30, 2010. The Fund has concentrations of credit risk relating to the concentration of revenue derived from the Western United States as well as revenue derived from the residential and commercial construction markets.

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

Balance as at December 31, 2008	$ 1,991
Additions during the period	346
Reversals during the period	(320)
Write-offs during the period	(508)
Foreign exchange revaluation	(203)
Balance as at December 31, 2009	1,306
Additions during the period	269
Reversals during the period	(231)
Write-offs during the period	(100)
Foreign exchange revaluation	11
Balance as at March 31, 2010	$ 1,255

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 June 30, 2010:

	2010	2011	2012	2013	2014	Total
Revolving credit facilities	$ 7,095	$ –	$ –	$ –	$ –	$ 7,095
Accounts payable	20,493	–	–	–	–	$ 20,493
Long-term debt	1,803	5,621	16,431	21,824	–	$ 45,679
Convertible Debentures	966	1,932	1,932	1,932	21,497	$ 28,259
	$ 30,357	$ 7,553	$ 18,363	$ 23,756	$ 21,497	$ 101,526

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	(318)
Increase (decrease) to net earnings of a $0.01 increase in CDN$ to RMB exchange rate	(89)
Decrease to net earnings on a 1% increase in interest rates	(37)

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 does not use derivative instruments to manage the foreign exchange risk.

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 TIL and its wholly-owned subsidiaries, as TIL and its wholly-owned subsidiaries are subject to tax.

The income tax (expense) recovery for the three and six month periods ending June 30 is divided between current and future taxes as follows:

	Three Months ended June 30		Six Months Ended June 30	
	2010	2009	2010	2009
Current tax recovery (expense)	$ –	$ –	143	$ (21)
Future tax (expense) recovery	(388)	(378)	614	1,980
	$ (388)	$ (378)	757	$ 1,959

In November 2009, the US government, as part of the stimulus initiatives, has provided for an elective 5 year carryback of 2008 and 2009 net operating losses for eligible corporations, extending the carryback period from the previously allowed 2 years. The Fund's US operations will be able to take advantage of this initiative the benefits of which have been recorded as a current income tax receivable on the balance sheet.

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:

	Three Months ended June 30		Six Months Ended June 30	
	2010	2009	2010	2009
Loss before provision for income taxes	$ (1,234)	$ (20,545)	$ (6,458)	$ (40,504)
Income of the Fund subject to tax in the hands of the recipient	858	258	153	(190)
Loss of wholly-owned subsidiary companies before income taxes	(376)	(20,287)	(6,305)	(40,694)
Tax Rate	28.5%	30.0%	28.5%	30.0%
Expected recovery of income taxes	$ 107	$ 6,086	$ 1,797	$ 12,208
Increased (Reduced) by:				
Revisions of prior period estimates	–	–	143	–
Items not taxable	(10)	(13)	(15)	(20)
Foreign withholding tax	–	–	–	–
Differential tax rates on U.S. and Chinese subsidiaries	139	1,600	467	2,138
Reduction (increase) in statutory future income tax rate	47	26	10	59
Future income tax valuation allowance	(482)	(7,415)	(1,625)	(11,675)
Other	(189)	(662)	(20)	(751)
Income tax (expense) recovery	$ (388)	$ (378)	$ 757	$ 1,959

14. WEIGHTED AVERAGE UNITS OUTSTANDING

	Three Months ended June 30 2010	2009	Six Months Ended June 30 2010	2009
Weighted average number of units outstanding during the periodr – basic	22,473,271	21,996,104	22,417,977	21,986,232
Convertible debentures (1)	–	–	–	–
Phantom Units (1)	–	–	–	–
Warrants (1)	–	–	–	–
Weighted average number of units outstanding during the period – diluted	22,473,271	21,996,104	22,417,977	21,986,232

(1) As there was a loss for the three and six months ended June 30, 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.

15. 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 Completion 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 $511 up to June 30, 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.

As of the date of these financial statements, the purchaser has not elected to complete the remediation. The Fund is expecting to complete the remediation and obtain the Certificate of Completion during the remainder of 2010.

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 Completion 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 and its wholly-owned subsidiaries have committed to rod purchases totaling $7,727 (US$7,285) at June 30, 2010 and imported finished goods purchases of $566 (US$534).

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 are as follows:

July - December 2010	$	1,490
2011		2,666
2012		2,453
2013		859
2014		802
Thereafter		1,527
	$	9,797

16. 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 products are sold primarily to customers in the United States, Canada and China.

Geographic Information:

	Three Months ended June 30				Six Months Ended June 30			
		2010		2009		2010		2009
Sales (i)								
Canada	$	$15,163	$	16,667	$	29,219	$	35,416
United States		21,947		27,048		39,872		57,516
China		570		2,375		1,642		4,778
Other		1,062		1,340		2,541		2,675
	$	38,742	$	47,430	$	73,274	$	100,385

		June 30 2010		December 31 2009
Property, Plant and Equipment (ii)				
Canada	$	32,693	$	34,878
United States		7,368		7,854
China		291		315
	$	40,352	$	43,047

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

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

17. 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.

	June 30 2010	December 31 2009
Restructuring provision, opening balance	$ 2,599	$ –
Expenses		
Employee termination benefits (i)	219	3,649
Costs of relocation of equipment (ii)	-	1,235
Lease costs	-	941
Foreign exchange effect	50	-
Paid	(1,167)	(3,226)
Restructuring provision, ending balance	$ 1,701	$ 2,599

(i) Charged to selling, general and administration costs.
(ii) Charged to cost of goods sold.

18. CHANGE IN NON-CASH OPERATING ASSETS AND LIABILITES

	Three Months ended June 30		Six Months Ended June 30	
	2010	2009	2010	2009
Accounts receivable	$ 396	$ 4,265	$ (6,325)	$ 2,474
Inventories (Note 4)	(2,321)	31,449	(8,753)	60,988
Accounts payable and accrued liabilities	(2,382)	(7,563)	2,046	863
Income and other taxes	(358)	–	(501)	21
Other	692	308	735	2,011
	$ (3,973)	$ 28,459	$ (12,798)	$ 66,357

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

Brian Irving
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

Brian Irving
Chief Financial Officer and Vice President, Finance

Ken Stuttaford
Vice President, Sales and Marketing

Stephen Ogden
Vice President, Operations

Mark Stock
Vice President, Human Resources and Information Technology

Corporate Head Office

Tree Island Industries Ltd.
3933 Boundary Road
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Website

www.treeisland.com

Mailing Address

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Investor Relations

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Auditors

Ernst & Young LLP
Vancouver, B.C.