TREE ISLAND WIRE INCOME FUND

Q2 2011

Report to Unitholders
for the period ended
June 30, 2011

TREE ISLAND WIRE INCOME FUND

FUND PROFILE

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

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

Tree Island Profile

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

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TO OUR UNITHOLDERS

In this, my first report to you as the President and CEO of the Tree Island Wire Income Fund, it is my pleasure to provide an update on the Fund's progress for the three and six months ended June 30, 2011.

Financial results for the second quarter period were in line with our expectations. Sales volumes and revenues were largely similar to the results achieved in the second quarter of 2010, despite continued weakness in the US residential construction market, adverse weather conditions in both Canada and the US, and the negative impact of a stronger Canadian dollar on our US dollar-denominated sales. Second quarter revenues of $38.0 million declined by $0.7 million, or 1.9%, year-over-year, with the negative foreign exchange impact largely offset by stable volumes and higher prices for our finished products. The higher product prices were achieved through a number of price increases implemented during the quarter in response to rising steel costs.

Our bottom-line results felt more of the impact of the higher raw material costs, reflecting the typical lag that occurs as we work to align finished product prices with rising input costs. We were able to minimize much of this impact with our continued focus on more profitable products and continued cost control. We also benefited from the positive influence of a stronger Canadian dollar on our US operating costs and by a decrease in depreciation expense of $0.4 million as a result of a comprehensive review of our property, plant and equipment in the first quarter of 2011 and resulting extension of the remaining useful lives of certain of our manufacturing equipment and buildings . Accordingly, second quarter gross profit was $3.3 million compared to $3.6 million in Q2 2010 and gross profit per ton was $129 compared to $138. EBITDA before foreign exchange was $1.7 million compared to $2.3 million during the same period last year.

Our results for the first half of 2011 improved year-over-year. For the six months ended June 30, 2011, revenues increased to $76.9 million from $73.3 million. Gross profit increased to $7.9 million, from $6.2 million and EBITDA improved to $3.7 million, from $2.5 million. While the Fund generated a net loss amounting to $4.0 million or $0.18 per share during the first half of 2011, this was mainly due to a $3.2 million loss on renegotiated debt during the first quarter. Adjusted for non-cash charges, first half net income increased to $1 million, from a loss of $2.8 million during the same period last year.

While we are pleased with our progress, our outlook remains cautious due to continuing weakness in the US residential construction market. However, demand from other end markets, including commercial construction (primarily mining) and industrial/OEM, continues to show signs of improvement. Our objective is to keep a very close eye on our costs on an ongoing basis and to pick and choose end-markets that enable us to maintain profitability and cash generation. This strategy has enabled us to chart steady improvements in the past number of quarters. We are confident that this same plan will enable the Fund to reasonably prosper from any improvement in the current economic environment.

In closing, I would like to thank our employees for continuing to build Tree Island's reputation for product quality and service leadership in these challenging times. I believe we are moving forward with significant competitive advantages that enhance our prospects of success.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS

For the three and six month periods ended June 30, 2011 and 2010

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

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The following is a discussion of the financial condition and results of operations of Tree Island Wire Income Fund (the "Fund") and its wholly owned operating subsidiary Tree Island Industries Limited ("Tree Island" or the "Company"). This discussion is current to August 9, 2011 and should be read in conjunction with the unaudited interim condensed consolidated financial statements for the three and six months ended June 30, 2011. The Fund's interim condensed consolidated financial statements are prepared in accordance with International Financial Reporting Standards ("IFRS") applicable to the preparation of interim financial statements including IAS 34 Interim Financial Reporting and IFRS 1 First Time Adoption of International Financial Reporting Standards and are reported in Canadian dollars. They do not include all of the information required for full annual financial statements. The 2010 prior period comparative financial information throughout this report has been restated in accordance with IFRS; however, 2009 information is presented in accordance with Canadian GAAP and has not been restated.

Additional information relating to the Fund, including the audited consolidated financial statements, prepared in accordance with Canadian GAAP, and Annual Information Form ("AIF") for the year ended December 31, 2010, can be found at www.sedar.com or on the Fund's website at www.treeisland.com.

1. FORWARD-LOOKING STATEMENTS AND RISK

This management's discussion and analysis ("MD&A") includes forward-looking information with respect to the Fund and Tree Island, including our business, operations and strategies, as well as financial performance and conditions. The use of forward-looking words such as, "may," "will," "expect" or similar variations generally identify such statements. Any statements that are contained herein that are not statements of historical fact may be deemed to be forward-looking statements. Although we believe that expectations reflected in forward-looking statements are reasonable, such statements involve risks and uncertainties, including the risks and uncertainties discussed under the heading "Risks Relating to the Company's Business" in the Fund's AIF for the year ended December 31, 2010 as well as section 14 of this MD&A.

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 impact of the current economic uncertainties, impact of recent trade cases, 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, unit price volatility and interest rate risk related to the fair value of convertible instruments, and other risks and uncertainties set forth in our publicly filed materials.

This MD&A has been reviewed by the Fund's board of trustees, and it's Audit Committee, and contains information that is current as of the date of this MD&A, unless otherwise noted. Events occurring after that date could render the information contained herein inaccurate or misleading in a material respect. Readers are cautioned not to place undue reliance on this forward-looking information and management of the Fund undertakes no obligation to update publicly or revise any forward-looking information, whether as a result of new information, future events or otherwise except as required by applicable securities laws.

2. NON-IFRS MEASURES

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

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

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

3. THE FUND AND TREE ISLAND

3.1 About the Fund

There were 22,900,904 Units of the Fund outstanding as of June 30, 2011 and 29,900,904 as of August 9, 2011. There were 45,504 Phantom Units issued under the Fund's long-term incentive plan as at August 9, 2011. Each Phantom Unit is convertible, subject to vesting conditions, into one Unit. The Fund holds a 100% ownership interest in Tree Island and is organized as a trust on a corporation structure.

During 2009 and the early part of 2010, the Fund completed a recapitalization of the business referred to in this MD&A as the Recapitalization Transaction. As part of the Recapitalization Transaction, on November 26, 2009 the Fund issued convertible debentures ("Debentures") by way of a private placement which was then followed by a public offering of Debentures with the same terms and conditions in January 2010. In total, 197,500 Debentures with a face value of $100 each were issued. Each $100 Debenture is convertible into 200 Fund Units at the option of the Debenture holder. As at August 9, 2011, the total number of Debentures remaining outstanding is 193,846.

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

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 woven mesh; 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 internationally.

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

MARKETS	PRODUCTS	SPECIFIC END USES
Residential Construction	Collated, bulk and packaged nails, stucco reinforcing mesh	Construction and renovation for new and existing homes
Commercial Construction	Welded wire reinforcement mesh, concrete reinforcing products	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, level of quality and price point for our customers needs. 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.

Premium Brands

We manufacture our premium, branded products internally in our North American 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, high quality standards that meet customers' needs, ASTM standards and applicable codes
- Broad range of products
- Short lead times
- Technical support and reliable service

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

Select Brand

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

Direct Ship

As a service to our customer, we use our network of suppliers world-wide to source commodity products not manufactured by Tree Island for our customers. These products may not fall within our ongoing long-term product strategy.

Organizational Structure

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

4. DEVELOPMENTS AND SECOND QUARTER 2011 BUSINESS OVERVIEW

Summary of Results

Our financial results held steady in the second quarter of 2011 as we continued to target key end-markets, maintain price discipline and manage our costs closely. Product prices were increased in response to higher raw material costs, but the gains were partially offset by the negative impact of a stronger Canadian dollar on our US dollar-denominated sales.

For the three months ended June 30, 2011, the Fund reported revenues of $38.0 million, compared to $38.7 million during the same period in 2010. Sales volumes were stable at 27,676 tons, compared to 27,732 tons in 2010. Market conditions remained challenging. According to the US Census Bureau, housing starts in the key Western US region were approximately 36,900 the third lowest second quarter since 1959.

Gross profit softened as a result of higher raw material costs, decreasing $0.2 million to $3.6 million (2010 - $3.8 million), while gross profit per ton decreased 7.0% to $129 per ton (2010 - $138 per ton). EBITDA for the second quarter was $1.7 million (2010 – $2.3 million). The negative impact of higher raw material costs on EBITDA was partially offset by our ongoing focus on profitability through careful management of working capital, cash flow and tight control of overall costs, including optimization of our mix of manufactured and imported products.

Wire Rod Prices

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

Remediation on surplus lands sold in 2009

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 $10.5 million. The agreement contains a condition whereby $1.5 million 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 as approved by the purchaser, prior to the issuance of the Certificate of Compliance to a maximum of $0.5 million. The environmental remediation was required to be completed within one year from the closing of the sale. If the Fund did not deliver the Certificate of Compliance within one year from the closing of the sale, the purchaser could use the holdback to obtain a Certificate of Compliance. As of the date of these financial statements, the purchaser has not elected to complete the remediation.

The Fund has completed the remediation work based on the planned requirements and has submitted the results for approval and issuance of Certificate of Completion. The Fund has incurred $1.0 million up to June 30, 2011 of which $0.5 million was drawn down from the holdback as permitted under the agreement and the remainder was paid through the Fund's operating cash flows. The costs incurred are deferred and included in prepaid expenses.

The Fund is expecting to obtain the Certificate of Compliance in 2011 and still expects that the $1.5 million 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 $1.5 million holdback. Upon completion of the environmental remediation and issuance of a Certificate of Compliance the accounting for the disposal will be finalized and a gain or loss will be recognized for the difference between the $1.5 million holdback and the total costs incurred of the environmental remediation.

Appointment of CEO

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

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

Mr. Leja will provide assistance over the coming months to ensure a smooth transition to new leadership and will continue as a member of the Fund's Board of Trustees.

Trade Action Reviews

During the second quarter the US government announced two trade action reviews: one related to certain galvanized wire imported from China and Mexico and another related to certain nails imported from the United Arab Emirates. We are monitoring both cases closely, however, we cannot reasonably estimate the impact of these trade actions until the determination is announced in the fall of 2011.

Outlook

Given the economic weakness in the US and global economies and high levels of unemployment in the US, our outlook remains cautious with the expectation of mixed market conditions through the remainder of the year. The US residential construction market remains at historically low levels, with weather-related delays in construction starts and agricultural activity exacerbating conditions in many regions of Canada and the US. However, demand from other end markets, including commercial construction (primarily mining) and industrial/OEM show some signs of improvement.

To date, the impact of higher raw material costs has been partially offset by the positive impact of a higher Canadian dollar on our U.S. dollar-denominated raw material purchases and by our own efforts to increase prices for finished goods in line with the higher costs. Going forward, we will continue working to keep selling prices aligned with costs, although there can be no certainty that our price increases will be fully realized. To help minimize our exposure to raw material price volatility, we will also continue to practice very tight management of our inventories.

Overall, we will continue to manage the business with tight control of costs and working capital, while maintaining our strong focus on improving profitability through pricing discipline and targeted growth. We will also continue with our successful efforts to strengthen customer relationships.

5. RESULTS FROM OPERATIONS

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

	Three Months Ended June 30		Six Months Ended June 30	
Summary of Results	**2011**	**2010**	**2011**	**2010**
Sales Volumes – Tons (1)	27,676	27,732	57,624	55,619
Revenue	$ 38,000	$ 38,742	$ 76,944	$ 73,274
Cost of Goods Sold	(33,474)	(33,489)	(67,361)	(64,197)
Depreciation	(962)	(1,414)	(1,639)	(2,834)
Gross Profit	$ 3,564	$ 3,839	$ 7,944	$ 6,243
Selling, General and Administrative Expenses	(2,801)	(2,971)	(5,886)	(6,534)
Operating Income (Loss)	$ 763	$ 868	$ 2,058	$ (291)
Foreign Exchange Gain (Loss)	160	(758)	578	(1,315)
Financing Expenses	(2,040)	(2,452)	(4,106)	(6,286)
Changes in fair value on convertible instruments	1,779	3,114	887	3,750
Loss on renegotiated debt	-	-	(3,234)	-
Income (Loss) before income taxes	662	772	(3,817)	(4,142)
Income Tax (Expense) Recovery	(633)	(962)	(193)	1,415
Net Income (Loss)	$ 29	$ (190)	$ (4,010)	$ (2,727)
EBITDA (2)				
Operating Income (Loss)	763	868	2,058	(291)
Add back Depreciation	962	1,414	1,639	2,834
EBITDA	1,725	2,282	3,697	2,543
Foreign Exchange Gain (loss)	160	(758)	578	(1,315)
Adjusted EBITDA	1,885	1,524	4,275	1,228
Net Income (Loss)	29	(190)	(4,010)	(2,727)
Adjustment for significant non-cash items				
Non-cash financing expenses	1,297	1,786	2,623	3,723
Non-cash loss on renegotiated debt	-	-	3,234	-
Changes in fair value of convertible instruments	(1,779)	(3,114)	(887)	(3,750)
Adjusted Net Income (Loss) (2)	(453)	(1,518)	960	(2,754)
Per Unit				
Net income (loss) per unit - basic and fully diluted	$ 0.00	$ (0.01)	$ (0.18)	$ (0.12)
Standardized Distributable Cash per Unit - Basic and Fully Diluted (2)	$ (0.20)	$ (0.09)	$ (0.37)	$ (0.51)
Adjusted Distributable Cash per Unit - Basic and Fully Diluted (2)	$ 0.05	$ 0.07	$ 0.08	$ 0.07
Per Ton				
Gross Profit per Ton	$ 129	$ 138	$ 138	$ 112
EBITDA per Ton (2)	$ 62	$ 82	$ 64	$ 46
Adjusted EBITDA per Ton (2)	$ 68	$ 55	$ 74	$ 22

Financial Position	**As at June 30, 2011**	**As at December 31, 2010**
Total Assets	$ 94,861	$ 87,450
Total non-current financial liabilities	$ 41,439	$ 36,321

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

(2) See definition of EBITDA, Adjusted Net Income (Loss), Standardized Distributable Cash and Adjusted Distributable Cash in the Section 2 – Non-IFRS Measures

6. COMPARISON OF RESULTS FOR THE THREE MONTHS ENDED JUNE 30, 2011 AND 2010

The results for the three months ended June 30, 2011 are prepared in accordance with IFRS and the 2010 prior period comparative financial information has been restated in accordance with IFRS. For further information on the transition to IFRS, please refer to Section 12 of this management discussion and analysis as well as Note 20 of the Fund's interim condensed June 30, 2011 consolidated financial statements.

Revenue

For the three months ended June 30, 2011, we generated revenues of $38.0 million, a decrease of $0.7 million, or 1.9%, from the same period in 2010. The slight decline in revenue primarily reflects marginally lower sales volumes and the negative impact of a stronger Canadian dollar on our US dollar-denominated revenues, partially offset by price increases implemented to address rising raw material costs. During the second quarter of 2011, the average exchange rate for the Canadian dollar was 5.9% stronger than in Q2 2010. Holding all other factors constant, had exchange rates for the Canadian dollar remained consistent with the second quarter of 2010, our Q2 2011 revenues would have been approximately $1.5 million higher.

Sales volumes for the second quarter 2011 were stable but softened slightly by 0.2% to 27,676 tons, from 27,732 tons during the same period in 2010. Domestic sales increased 316 tons or 1.2%. Our results reflect the success of our "Back to Basics" strategy, which focuses on pricing discipline and targeted growth by providing customers with a broad range of high-quality products, ongoing product innovation and high levels of customer service.

These strategies helped us maintain second quarter sales in a highly competitive environment and through challenging market conditions. Sales volumes to the residential construction market, representing 30.3% of our total sales (34.3% in 2010), reflected the weak conditions, with sales volumes declining by 1,120 tons year-over-year. This was primarily due to lower fastener sales. By comparison, primarily driven by increased sales of construction fabric rolls and construction fabric sheets, our volumes to the commercial construction sector increased by 1,883 tons. Sales in this market represented 22.4% of our total sales portfolio in Q2 2011 compared to 15.5% in Q2 2010. Industrial/OEM market volumes were consistent with 2010 results. Sales volumes to the agricultural sector decreased by 670 tons, due to weather-related delays in the growing season. Second quarter 2011 sales of specialty products increased by 245 tons year-over-year as US demand for stainless steel products increased. International trading sales decreased by 480 tons year-over-year, reflecting the discontinuation of certain projects in our Asian subsidiaries. Revenues from tolled baling wire for the pulp industry increased by $0.5 million in the second quarter of 2011, compared to the same period in 2010.

Sales volumes by market were as follows:

	Three Months Ended June 30, 2011		Three Months Ended June 30, 2010	
Market	**Tons (000's) (2)**	**% of Sales Volumes**	**Tons (000's) (2)**	**% of Sales Volumes**
Residential Construction	8.4	30.3%	9.5	34.3%
Commercial Construction	6.2	22.4%	4.3	15.5%
Industrial/OEM	10.2	36.8%	10.2	36.8%
Agricultural	1.4	5.1%	2.1	7.6%
Specialty	1.0	3.6%	0.7	2.6%
International Trading (1)	0.5	1.8%	0.9	3.2%
Total	27.7	100.0%	27.7	100.0%

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

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

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

	Three Months Ended June 30, 2011		Three Months Ended June 30, 2010	
	Tons (000's) (2)	**% of Sales Volumes**	**Tons (000's) (2)**	**% of Sales Volumes**
North American Manufactured	25.5	92.1%	23.5	84.8%
Imported & Trading	2.2	7.9%	4.2	15.2%
Total	27.7	100.0%	27.7	100.0%

During the second quarter, sales volumes of our North American manufactured products increased both in total tons and as a percentage of total sales volumes. The increase in manufactured product volumes relative to import and trading product volumes reflects our increased emphasis on manufacturing as a core competency and our efforts to increase throughput at our North American manufacturing operations. By contrast, combined import and trading sales declined to 2,242 tons in Q2 2011 from 4,233 tons in Q2 2010, and represented a smaller percentage of the total sales at 7.9% in 2011 compared to 15.2% in 2010. Going forward, we will continue to review and optimize the mix of manufactured versus imported products as we work to enhance profitability and provide our customers with value and the specific products they need.

Cost of Goods Sold

Cost of goods sold for the second quarter of 2011 was consistent with that of the same period in 2010. Reflecting our strategy of strategic purchases and tight management of our raw materials inventories, raw materials inventories increased by $4.7 million and were offset by a $4.6 million decrease in finished goods for resale. This is consistent with our goal of increasing profitability and throughput in our plants.

Gross Profit

Second quarter gross profit declined by $0.2 million, to $3.6 million, while gross profit per ton decreased by $9 per ton to $129 per ton, compared to the same period in 2010. The decline in gross profit and gross profit per ton primarily reflects higher raw material costs and the impact of a stronger Canadian dollar on our US dollar-denominated sales. Our Q2 2011 gross profit was impacted positively by a decrease in depreciation expense of $0.4 million as a result of a comprehensive review of our property, plant and equipment in the first quarter and resulting extension of the remaining useful lives of certain of our manufacturing equipment and buildings.

Expenses

Selling, general and administrative ("SG&A") expenses decreased to $2.8 million in the second quarter of 2011, a reduction of $0.2 million, or 5.7%, compared to the same period in 2010. The reduction in SG&A expense reflects improved operational efficiencies and the positive impact of the stronger Canadian dollar on expenses at our US operations, partially offset by expenses related to the transition to IFRS.

EBITDA

EBITDA for the second quarter of 2011 was $1.7 million, compared to $2.3 million in Q2 2010. The year-over-year change in EBITDA reflects the lower gross profit, partially offset by the lower depreciation charge of $0.4 million in 2011 due to the comprehensive review of asset useful lives.

Adjusted EBITDA, which excludes foreign exchange gains and losses in the period, was $1.9 million compared to $1.5 million in the equivalent period in 2010.

Financing Expenses

For the three month ended June 30, 2011, financing expenses decreased by $0.4 million to $2.0 million. The components of financing expense are below:

	Three months ended June 30	
	2011	2010
Non-cash accretion of debt discount and interest on long term debt and Convertible Debentures	$ 1,297	$ 1,786
Cash interest on debentures	478	411
Interest on Senior Credit Facility	123	127
Other interest and financing costs	81	66
Financing transaction costs and amortization of deferred financing costs	61	62
	$ 2,040	$ 2,452

The decrease is primarily due to a decrease in the non-cash accretion of debt discount and interest on long term debt and convertible debentures of $0.5 million, primarily due to a reduction in the discount rate on the Forbearance Agreements as a result of the renegotiation of payment terms in the first quarter of 2011. For further information on the change of accounting on the Forbearance Agreements, see the discussion regarding the Loss on Renegotiated Debt below and Note 9 of the June 30, 2011 interim condensed consolidated financial statements.

Changes in Fair Value on Convertible Instruments

Under IFRS, certain of our financial instruments are recorded at fair market value and are re-measured each period. These instruments are the conversion feature on the Debentures, change of control option and warrants issued as part of the Recapitalization Transaction. The change in fair value for the three months ended June 30, 2011 was a gain of $1.8 million versus a gain of $3.1 million in the prior period.

The fair market value of these financial liabilities incorporates the market value of the Fund's units and as such the fair value of these instruments will fluctuate inversely with the changes in the Fund's unit price or in the risk free rate. Fair market value is determined using an option pricing model with a volatility assumption of 42% and a risk free rate of 2.65%. The sensitivity of the change in fair value on convertible instruments is discussed in section 12 of this MD&A.

Foreign Exchange

We reported a gain on foreign exchange of $0.2 million in the second quarter of 2011, compared to a loss of $0.8 million in Q2 2010. This improvement resulted from the strengthening of the Canadian dollar against the US dollar. Foreign exchange gains and losses are unpredictable in nature and therefore can be expected to vary significantly from period-to-period and over time.

Income Taxes

We recorded a Q2 2011 income tax expense of $0.6 million, compared to an income tax expense of $1.0 million in Q2 2010. The income tax expense represents a deferred income tax expense of $0.6 million (Q1 2010 - $0.9 expense) and a current income tax expense of $5 thousand (Q1 2010 - $44 thousand expense). The income tax expense was based on the statutory tax rate of 26.5% (2010 – 28.5%) applied to the income of subsidiaries before taxes, with adjustments for permanent differences between accounting and taxable income.

Net Income (Loss)

We reported net income of $29 thousand in the second quarter of 2011 (2010 - net loss of $0.2 million), or a loss of $0.00 per unit basic and diluted (2010 - net loss of $0.01 per unit basic and diluted). Net Loss reflects an increase in the gain recognized for the change in fair value of convertible instruments of $1.8 million (2010 – gain of $3.1 million). This was offset by a decrease in EBITDA to $1.7 million (2010 – $2.3 million), a decrease in financing expense to $2.0 million (2010 - $2.5 million), a foreign exchange gain of $0.2 million (2010 - loss of $0.8 million) and a tax expense of $0.6 million (2010 - income tax expense of $1.0 million).

Adjusted Net Loss

Adjusted for the impact of certain non-cash items recognized in net income, the Adjusted Net Loss was $0.5 million versus $1.5 million in the prior period. The decrease in Adjusted Net Loss reflects the decrease in EBITDA of $0.6 million, decrease in depreciation of $0.4 million, increase in foreign exchange of $0.9 million, increase in cash-related financing costs of $0.1 million, and decrease in income tax expense of $0.4 million from the same period last year.

7. COMPARISON OF RESULTS FOR THE SIX MONTHS ENDED JUNE 30, 2011 AND 2010

Results for the six months ended June, 2011 are prepared in accordance with IFRS. Comparative financial information for the same six-month period in 2010 has been restated in accordance with IFRS. For further information on the transition to IFRS, please refer to Section 12 of this MD&A as well as Note 20 of the Fund's June 30, 2011 interim condensed consolidated financial statements.

Revenue

During the six months ended June 30, 2011, we generated revenues of $76.9 million, an increase of $3.7 million, or 5.0%, from the same period in 2010. The improvement in revenue primarily reflects higher sales volumes, higher selling prices and increased tolling revenue. The gains were partially offset by the negative impact of a stronger Canadian dollar on our US dollar-denominated revenues. During the first six months of 2011, the average exchange rate for the Canadian dollar was 5.5% stronger than the same period in 2010. Holding all other factors constant, had exchange rates for the Canadian dollar remained consistent with the first six months of 2010, our six-month 2011 revenues would have been approximately $2.8 million higher.

Sales volumes for the first six months of 2011 increased by 3.6% to 57,624 tons, from 55,619 tons during the same period in 2010. These gains reflect our continued efforts towards targeted growth in key end-markets and were achieved despite continuing challenges in the US residential construction market. According to the US Census Bureau, housing starts for the key Western US region were just 60,800 for the first six months of 2011, a very low level by historical standards.

Our sales to the residential construction market reflected this weakness, with volumes down 1,049 tons compared to the same period last year, primarily due to lower fastener sales. Sales to the residential construction market represented 29.2% of first half 2011 total sales, compared to 32.2% in the same period in 2010. By comparison, primarily driven by increased sales of welded wire mesh products to the Canadian mining industry and increased sales of construction fabric rolls and construction fabric sheets, our volumes to the commercial construction sector grew by 3,726 tons year-over-year and represented 20.5% of our total sales portfolio, compared to 14.6% in 2010. Industrial/OEM market volumes improved by 1,151 tons reflecting increased volumes to the recycling (high carbon galvanized wire) and the upholstery industries (high carbon wire). Sales volumes to the agricultural sector decreased by 410 tons, due to weather-related delays in the growing season. Specialty products sales for the first six months of 2011 increased by 745 tons year-over-year as US demand for stainless steel products increased. International trading sales decreased by 746 tons year-over-year, reflecting the discontinuation of certain projects in our Asian subsidiaries. Revenues from tolled baling wire for the pulp industry increased by $0.9 million in the first half of 2011, compared to the same period in 2010.

Sales volumes by market were as follows:

	Six Months Ended June 30, 2011		Six Months Ended June 30, 2010	
Market	**Tons (000's) (2)**	**% of Sales Volumes**	**Tons (000's) (2)**	**% of Sales Volumes**
Residential Construction	16.8	29.2%	17.9	32.2%
Commercial Construction	11.8	20.5%	8.1	14.6%
Industrial/OEM	21.4	37.1%	20.2	36.3%
Agricultural	4.9	8.5%	5.3	9.5%
Specialty	2.0	3.5%	1.2	2.2%
International (1)	0.7	1.2%	2.9	5.2%
Total	57.6	100.0%	55.6	100.0%

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

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

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

	Six Months Ended June 30, 2011		Six Months Ended June 30, 2010	
Market	**Tons (000's)**	**% of Sales Volumes**	**Tons (000's)**	**% of Sales Volumes**
North American Manufactured	53.6	93.1%	46.6	83.8%
Imported & Trading	4.0	6.9%	9.0	16.2%
Total	57.6	100.0%	55.6	100.0%

During the first half of 2011, sales volumes of our North American manufactured products increased both in total tons and as a percentage of total sales volumes. As mentioned above, the increase in manufactured product volumes relative to import and trading product volumes reflects our increased emphasis on manufacturing as a core competency as well as our efforts to increase throughput at our North American manufacturing operations. By contrast, combined import and trading sales declined to 4,051 tons in the first six months of 2011 from 8,983 tons in the same period in 2010, and represented a smaller percentage of total sales at 6.9% in 2011 compared to 16.2% in 2010. Going forward, we will continue to review and optimize the mix of manufactured versus imported products as we work to enhance profitability and provide our customers with value and the specific products they need.

Cost of Goods Sold

For the first six months of 2011, cost of goods sold increased by approximately $3.2 million from the same period last year. Raw materials inventories increased by $7.5 million and were offset by a $4.9 million decrease in finished goods for resale. This is consistent with our goal of increasing profitability and throughput in our plants.

Gross Profit

During the first half of 2011, gross profit improved by $1.7 million, to $7.9 million, while gross profit per ton increased by $26 per ton to $138 per ton, compared to the same period in 2010. The increase in gross profit and gross profit per ton primarily reflects higher sales volumes together with the net benefit of a stronger Canadian dollar on US dollar-denominated costs incurred by our Canadian operations. Gross profit also benefited from a decrease in depreciation expense resulting from a comprehensive review of our property, plant and equipment in the first quarter. This review resulted in an extension of the remaining useful lives of certain of our manufacturing equipment and buildings. Although throughput at the manufacturing facilities has been increasing, gross profit in both 2011 and 2010 continued to be negatively impacted by the suboptimal utilization of our manufacturing facilities.

Expenses

SG&A expenses decreased to $5.9 million in the first half of 2011, a reduction of $0.6 million, or 9.9%, compared to the same period in 2010. The reduction in SG&A expense reflects reductions in staffing levels and the positive impact of the stronger Canadian dollar on expenses at our US operations, partially offset by expenses related to the transition to IFRS.

EBITDA

EBITDA for the first half of 2011 increased to $3.7 million, from $2.5 million in 2010. The $1.2 million improvement reflects our focus on profitable markets and products, tight management of costs and increased volume through our manufacturing facilities.

Adjusted EBITDA, which excludes foreign exchange gains and losses in the period, increased to $4.3 million from $1.2 million in the equivalent period in 2010.

Financing Expenses

For the six month ended June 30, 2011, financing expenses decreased by $2.2 million to $4.1 million. The components of financing expense are below:

	Six months ended June 30	
	2011	2010
Non-cash accretion of debt discount and interest on long term debt and Convertible Debentures	$ 2,623	$ 3,723
Cash interest on debentures	967	507
Interest on Senior Credit Facility	213	352
Other interest and financing costs	180	163
Financing transaction costs and amortization of deferred financing costs	123	1,541
	$ 4,106	$ 6,286

The decrease is primarily due to a decrease in financing transaction costs and amortization of deferred financing fees of $1.4 million. This is primarily due to expensing in 2010 of $0.3 million of transaction costs relating to the issuance of Debentures in the quarter and the remaining amortization of $0.9 million of deferred financing fees associated with our previous senior credit facilities whose term ended in March 2010. The $0.1 million reduction in interest cost on our Senior Credit Facility was the result of a lower outstanding loan balance during the period. The decrease from the prior year in the non-cash accretion on our long term debt and Debentures of $1.1 million is due to amendments to our Forbearance Agreements which resulted in a change of accounting and consequent reduction in discount rate from approximately 22% to 13%. For further information on the change of accounting on the Forbearance Agreements, see the discussion regarding the Loss on Renegotiated Debt below and Note 9 of the June 30, 2011 interim condensed consolidated financial statements.

The overall decrease was offset by a $0.4 million increase in the cash interest on the Debentures. This reflects the fact that Debentures issued under the rights offering in the prior quarter were only outstanding for a portion of that quarter.

Changes in Fair Value on Convertible Instruments

Under IFRS, certain of our financial instruments are recorded at fair market value and are re-measured each period. These instruments are the conversion feature on the Debentures, change of control option and warrants issued as part of the Recapitalization Transaction. The change in fair value for the six months ended June 30, 2011 was a gain of $0.9 million versus a gain of $3.7 million in the prior-year period.

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

Loss on Renegotiated Debt

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

Foreign Exchange

We reported a gain on foreign exchange of $0.6 million in the first half of 2011, compared to a loss of $1.3 million in 2010. This improvement resulted from the strengthening of the Canadian dollar against the US dollar. Foreign exchange gains and losses are unpredictable in nature and therefore can be expected to vary significantly from period-to-period and over time.

Income Taxes

In the six months ended June 30, 2011, we recorded an income tax expense of $0.2 million, compared to an income tax recovery of $1.4 million in 2010. The income tax expense represents a deferred income tax expense of $45 thousand (2010 - $0.3 million recovery) and a current income tax expense of $0.1 million (2010 - $1.1 million recovery). The income tax expense was based on the statutory tax rate of 26.5% (2010 – 28.5%) applied to the income of subsidiaries before taxes, with adjustments for permanent differences between accounting and taxable income.

Net Loss

We reported a net loss of $4.0 million in the first six months of 2011 (2010 - net loss of $2.7 million), or a loss of $0.18 per unit basic and diluted (2010 - net loss of $0.12 per unit basic and diluted). The increase in the net loss primarily reflects the loss on renegotiation of debt of $3.2 million and a tax expense of $0.2 million (2010 - income tax recovery of $1.4 million). These were offset by a gain recognized for the change in fair value of convertible instruments of $0.9 million (2010 – gain of $3.7 million), increase in EBITDA to $3.7 million (2010 – $2.5 million), decrease in financing expense to $4.1 million (2010 - $6.3 million) and a foreign exchange gain of $0.6 million (2010 - loss of $1.3 million).

Adjusted Net Income (Loss)

Adjusted for the impact of certain non-cash items recognized in net loss, Adjusted Net Income for the first half of 2011 increased to $1.0 million, from a loss of $2.8 million during the same period in 2010. The $3.8 million increase in Adjusted Net Income (Loss) reflects the $1.2 million increase in EBITDA, the $1.2 million decrease in depreciation, the $1.9 million increase in foreign exchange, the $1.1 million decrease in cash related financing transaction costs, and the $1.6 million increase in income tax compared to the same period last year.

8. FINANCIAL CONDITION AND LIQUIDITY

8.1 Working Capital

Our business requires an ongoing investment in working capital, comprised primarily of accounts receivable and inventories, offset by credit in the form of 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.

Our investment in working capital fluctuates from quarter-to-quarter based on factors such as seasonal sales demand, strategic purchasing decisions taken by management, and the timing of collections from customers and payments made to our suppliers. The residential construction, commercial construction and agricultural markets are seasonal in nature. As a result, sales and working capital requirements may be higher in the first and second quarters when demand is historically highest. A summary of the composition of our working capital during the periods ended June 30, 2011 and December 31, 2010 is provided below ($000's):

	June 30 2011	December 31 2010
Investment in working capital assets		
Cash	$ 3,073	$ 5,634
Accounts receivable	15,442	9,698
Inventories	37,524	30,878
Other current assets	2,319	2,917
	$ 58,358	$ 49,127
Less current liabilities		
Senior Credit Facility	(7,437)	-
Accounts payable & accrued Llabilities	(14,831)	(13,329)
Other current liabilities	(2,371)	(2,242)
Current portion of long-term debt	(3,713)	(5,271)
Net investment in working capital	$ 30,006	$ 28,285

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

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

Our second largest working capital asset is our accounts receivable. We manage our accounts receivable and the related credit risk by focusing on well-established customers with favourable credit profiles. The credit worthiness of customers is assessed using credit scores supplied by a third party and through direct monitoring of their financial well-being on a continual basis. We have established guidelines for customer credit limits and when thresholds in these areas are reached, appropriate precautions are taken to improve collectability. We maintain provisions for potential credit losses (allowance for doubtful accounts) and such losses to date have been within our expectations.

8.2 Liquidity and Capital

Cash Flow

Following is a summary of our cash flow for the three and six month periods ended June 30, 2011 and 2010 ($000's – bracketed figures indicate use of cash):

	Three Months Ended June 30		Six Months Ended June 30	
	2011	2010	2011	2010
Net cash used in operating activities	$ 1,128	$ 1,523	$ 1,943	$ 1,646
Change in non-cash operating assets and liabilities	$ (5,748)	$ (3,516)	$ (10,338)	$ (13,034)
Net cash used for investing activities	$ (49)	$ (26)	$ (158)	$ (46)
Net cash provided by (used for) financing activities				
Amounts drawn from the Senior Credit Facility	5,303	293	7,451	3,365
Repayment of long-term debt	(669)	(712)	(1,398)	(1,538)
Financing transaction costs incurred	-	-	-	(396)
Issuance of debentures (net of transaction costs)	-	-	-	9,519
	$ 4,634	$ (419)	$ 6,053	$ 10,950
Exchange rate changes on foreign cash balances	(4)	137	(61)	35
Decrease in cash balances	$ (39)	$ (2,301)	$ (2,561)	$ (449)

During the three and six months ended June 30, 2011, cash provided by operating activities was $1.1 million and $1.9 million respectively, compared to $1.5 million and $1.6 million in the same periods last year. During Q2 2011, the $0.4 million decrease in cash provided by operating activities was the result of decreased EBITDA for the quarter. The increase in cash provided by operations for the six-month period reflects increased EBITDA in Q1 2011. In Q2 2011, $5.7 million of cash was consumed for working capital, compared to $3.5 million in Q1 2010. This primarily reflects greater reductions in accounts payable during the most recent quarter.

Investing activities consumed small amounts of cash in both periods for capital expenditures.

During the second quarter of 2011, we drew advances of $5.3 million on the Senior Credit Facility, increasing the amount outstanding from $2.1 million as at March 31, 2011 to $7.4 million as at June 30, 2011. This was primarily due to paying down accounts payable and accrued liabilities by $4.3 million during the second quarter of 2011.

In regards to the long-term debt, the Fund made payments of $0.7 million during the second quarter of 2011 (2010 - $0.7 million) and payments of $1.4 million during the six months ended June 30, 2011 (2010 - $1.5 million), in accordance with the terms of the debt.

Senior Credit Facility

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

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

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

As at June 30, 2011 the Fund's availability was significantly in excess of the Availability Test and the Fund was in compliance with its financial and other covenants on the Senior Credit Facility. For more details on the Senior Credit Facility please refer to Note 7 of the Fund's interim condensed consolidated financial statements for June 30, 2011.

Debentures Financing

As part of the Recapitalization Transaction, between Q4 2009 and the early part of 2010 we raised a total of $19.75 million through the issuance of Debentures offered through a private placement and rights offering. The proceeds after transaction costs of $2.2 million were applied to our credit facilities at the time. The Debentures are issued in $100 increments and pay interest quarterly, 30 days in arrears, at a stated rate of 10%. They mature on November 26, 2014 and are convertible into units at $0.50.

No Debentures were converted during the three or six months ended June 30, 2011 (2010 – Q2: $365,000 of Debentures were converted to 730,000 units for a total of $365,400 Debentures converted to 730,800 units in the six-month period).

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, 2011, no Phantom units were granted to employees under the plan and 28,695 Phantom Units were converted into Units of the Fund. The maximum number of Units reserved for issuance pursuant to awards of Phantom Units is 500,000.

8.3 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 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 and six month periods ended June 30, 2011 and 2010 was calculated as follows ($000's except for unit, per unit and % amounts):

	Three Months Ended June 30		Six Months Ended June 30	
	2011	2010	2011	2010
Net Cash Used in Operating Activities	$ (4,620)	$ (1,993)	$ (8,395)	$ (11,388)
Capital Expenditures	(49)	(26)	(158)	(46)
Standardized Distributable Cash	$ (4,669)	$ (2,019)	$ (8,553)	$ (11,434)
Distributions Paid or Payable	$ -	$ -	$ -	$ -
Weighted Average Units Issued and Outstanding				
Basic	22,878,200	22,473,271	22,871,096	22,417,977
Fully Diluted	22,878,200	22,473,271	22,871,096	22,417,977
Standardized Distributable Cash per Unit (1)				
Basic	(0.2041)	(0.0898)	(0.3740)	(0.5100)
Fully Diluted	(0.2041)	(0.0898)	(0.3740)	(0.5100)
Distributions Paid or Payable per Unit - Basic and Fully Diluted	$ -	$ -	$ -	$ -
Standardized Distribution Payout %	0%	0%	0%	0%

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

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

	Since Inception
Standardized Distributable Cash Generated Since Inception	170,206
Distributions Paid or Payable Since Inception	158,997
Standardized Distribution Payout % Since Inception	93%

We believe that the calculation of Standardized Distributable Cash distorts the Fund's quarter-to-quarter distributable cash and payout ratios, given that our non-cash operating working capital fluctuates significantly as a result of the seasonality of our business. As a result, we believe that our historical measure of Adjusted Distributable Cash, which excludes the impact of changes in non-cash working capital, is a better measure for determining our operating performance. Accordingly, a calculation and discussion of Adjusted Distributable Cash is provided in the following section.

8.4 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 months ended June 30, 2011 and 2010 was calculated as follows ($000's except for unit, per unit and % amounts):

	Three Months Ended June 30		Six Months Ended June 30	
	2011	**2010**	**2011**	**2010**
Standardized Distributable Cash	$ (4,669)	$ (2,019)	$ (8,553)	$ (11,434)
Change in Non-cash Operating Assets & Liabilities	5,748	3,516	10,338	13,034
Proceeds on Sale of Surplus Land	-	-	-	-
Non-maintenance Capital Expenditures	4	-	5	-
Adjusted Distributable Cash (1)	$ 1,083	$ 1,497	$ 1,790	$ 1,600
Distributions Paid or Payable	$ -	$ -	$ -	$ -
Weighted Average Units Issued and Outstanding				
Basic	22,878,200	22,473,271	22,641,642	22,035,040
Fully Diluted	22,878,200	22,473,271	22,641,642	22,035,040
Adjusted Distributable Cash per Unit				
Basic	0.0473	0.0666	0.0791	0.0726
Fully Diluted	0.0473	0.0666	0.0791	0.0726
Distributions Paid or Payable per Unit - Basic & Fully Diluted	$ -	$ -	$ -	$ -
Adjusted Distribution Payout %	0%	0%	0%	0%

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

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

	Since Inception
Adjusted Distributable Cash Generated Since Inception (1)	136,025
Distributions Paid or Payable Since Inception	158,997
Adjusted Distribution Payout % Since Inception (1)	117%

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

8.5 Utilization of Distributable Cash

For the three months ended June 30, 2011, no distributions were declared or paid out of cash generated by the Fund.

9. CAPITAL EXPENDITURES & CAPACITY

For the three and six month periods ended June 30, 2011, we made capital expenditures of $49 thousand and $0.2 million respectively (Q1 2010 - $26 thousand and $46 thousand), made up of maintenance capital. We have planned capital expenditures for the 2011 fiscal year to a level which we believe will be sufficient to maintain the existing productive capacity of our manufacturing operations. Non-maintenance Capital is funded out of our Senior Credit Facility and maintenance capital is funded from cash generated by operations. We anticipate that we will continue to have sufficient capacity to meet projected future demand.

10. CONTRACTUAL OBLIGATIONS AND COMMITMENTS

As of June 30, 2011, we were committed to the contracts, operating leases and debt repayments (including scheduled interest payments on interest bearing debt) set out below, which will be financed through working capital and our Senior Credit Facility.

	Remainder of 2011	2012	2013	2014	2015	Thereafter	Total
Commitments							
Wire Rod Purchases	$ 21,482	$ -	$ -	$ -	$ -	$ -	$ 21,482
Finished Goods	1,930	-	-	-	-	-	1,930
Operating Lease Agreements	1,258	1,640	817	748	758	674	5,895
	24,670	1,640	817	748	758	674	29,307
Financial Liabilities							
Revolving Credit	7,437	-	-	-	-	-	7,437
Accounts Payable	14,831	-	-	-	-	-	14,831
Long-term debt	1,407	4,664	12,801	24,275	-	-	43,147
Debentures	976	1,938	1,938	21,132	-	-	25,984
Total	$ 49,321	$ 8,242	$ 15,556	$ 46,155	$ 758	$ 674	$120,706

The wire rod purchases are for raw materials to be used in the day-to-day operations of our manufacturing facilities and are expected to be delivered within the third and fourth quarters of 2011.

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

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

11. SUMMARY OF QUARTERLY FINANCIAL INFORMATION

The table below provides selected quarterly financial information for the eight most recent fiscal quarters to June 30, 2011. Information for 2011 and 2010 are presented in accordance with IFRS; however, the 2009 information is presented in accordance with Canadian GAAP and has not been restated to be in accordance with IFRS. This information reflects all adjustments of a normal, recurring nature which are, in our opinion, necessary to present fairly the results of operations for the periods presented ($000's, except tons and per unit amounts). Fourth quarter results are traditionally lower than the other quarters due to the seasonality of our business. Quarter-over-quarter results may also be impacted by unusual or infrequently occurring items. These financial results are not necessarily indicative of results for any future period and should not be relied upon to predict future performance.

	Jun 30 2011	Mar 31 2011	Dec 31 2010 (1)	Sep 30 2010	Jun 30 2010 (1)	Mar 31 2010	Dec 31 2009 (2)	Sep 30 2009 (2)
Sales Volumes – Tons (3)	27,676	29,948	20,565	23,192	27,732	27,886	21,171	31,565
Revenue	38,000	38,944	27,746	31,392	38,742	34,532	26,740	38,456
Gross Profit	3,564	4,380	509	(488)	3,839	2,404	(3,378)	(1,718)
EBITDA	1,725	1,972	(320)	(2,173)	2,282	261	(5,514)	(5,303)
Foreign exchange gain (loss)	160	418	763	710	(758)	(557)	150	1,162
Adjusted EBITDA	1,885	2,390	443	(1,463)	1,524	(296)	(5,364)	(4,141)
Net Income (Loss)	29	(4,039)	(3,211)	(5,459)	(190)	(2,537)	13,294	(1,625)
Net Income (Loss) per Unit – Basic	0.00	(0.18)	(0.14)	(0.24)	(0.01)	(0.12)	0.60	(0.07)
Gross Profit per Ton	119	146	25	(21)	138	86	(160)	(54)
EBITDA per Ton	58	66	(16)	(94)	78	9	(260)	(168)
Distributions Paid or Payable	-	-	-	-	-	-	-	-

(1) Balances have been reclassified for comparative purposes.
(2) Information for 2009 is presented in accordance with Canadian GAAP.
(3) Sales volumes exclude tons which are part of tolling arrangements.

- Q3 2009: Declines in the price of steel led to a reduction in the value of certain of our finished goods inventories. In accordance with prior Canadian GAAP, we recorded a write down of $0.5 million inventory values to net realizable value.
- Q2 2010: Our "Back to Basics" strategy, the focus on profitability and cost control continued to result in improved profitability and EBITDA for the quarter despite reduced volumes.
- Q3 2010: Continued weakness in the economy and in particular many of our key markets, impacted our Q3 sales. This was compounded by our decision to focus working capital on higher-margin product lines, rather than higher volume product lines, and by customers in certain markets to reduce inventories in line with low demand.
- Q4 2010: Continuing weakness in our key markets resulted in lower volumes compared to the same quarter in the prior year. However, the focus on profitability and cost control helped mitigate the negative impact.
- Q1 2011: Significant increases in steel prices required us to announce a series of price increases to mitigate the impact on our margins. A strong Canadian dollar also negatively impacted our US dollar-denominated sales but contributed to reductions in costs of sales and expenses relating to our US dollar-denominated costs.

12. ACCOUNTING POLICIES AND ESTIMATES

The Fund's significant accounting policies are contained in Note 2 of the interim condensed consolidated financial statements for the three months ended March 31, 2011 and have not changed in the second quarter of 2011. Please refer to the Fund's March 31, 2011 quarterly report for more details. Certain of these policies involve critical accounting estimates that require the Fund to make subjective or complex judgments about matters that are inherently uncertain and because of the likelihood that materially different amounts could be reported under differing conditions or using different assumptions. The Fund evaluates these estimates and assumptions regularly.

Critical Accounting Estimates

The areas that we consider to have critical accounting estimates are: going concern, valuation of financial instruments, inventory valuation, allowance for doubtful accounts, income taxes, and property, plant and equipment. These critical estimates and the judgments involved are discussed further in the Fund's interim condensed consolidated financial statements for the three months ended March 31, 2011 (Note 4) and have not changed for the second quarter of 2011.

Property, plant and equipment

During the first quarter of 2011, the Fund conducted a comprehensive review of the remaining useful life of its property, plant and equipment. As a result of this review, the estimated useful lives of certain equipment and property were extended for between 3 to 17 years. This change in estimate has been accounted for prospectively from January 1, 2011 and resulted in a $0.4 million reduction in depreciation for the second quarter and $1.2 million reduction for the six months ended June 30, 2011.

Price Risk on Convertible Instruments

Our results of operations are exposed to changes in our unit price because the conversion feature and warrants are valued at fair value, which will vary with changes in the Fund's unit price and changes in the risk free rate. The table below describes potential risks:

	Warrants	Conversion Feature
Increase (decrease) to the net income of a $0.01 increase in the Fund's unit price	(17)	(118)
Increase (decrease) to the net income of a 1% increase in risk fee rate	(11)	(72)

Adoption of International Financial Reporting Standards ("IFRS")

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

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

These reconciliations and description of the impact of the conversion to IFRS are available in the Fund's June 30, 2011 interim condensed consolidated financial statements (Note 20). Below is a summary of the more significant changes.

Property, Plant and Equipment ("PPE")

As a result of one of the available transitional elections upon adoption of IFRS, the Fund elected to value machinery and equipment on transition at fair value which then becomes the deemed cost on which to amortize/depreciate in future periods. This resulted in an increase to the carrying value of the "PPE" of $0.8 million as at the transition date and the resulting adjustment being charged to retained earnings and a minimal change to depreciation for the three and six months ended June 30, 2011

Fund Units and Instruments Convertible into Fund Units

Under Canadian GAAP, the Fund's units were classified as equity. Upon transition to IFRS, the equity classification of the units was evaluated because the units can be redeemed at the option of the holder, subject to certain terms and restrictions (see Note 12 of the June 30, 2011 interim condensed consolidated financial statements). Based on IAS 32, the units meet the conditions for equity classification and therefore continue to be classified as equity under IFRS. However, other instruments that are convertible into Fund units do not qualify for this exemption and are discussed below.

Convertible Debentures

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

Under IFRS, the Convertible Debentures continue to be considered compound instruments and the original determination of fair values at issuance are consistent between Canadian GAAP and IFRS. The accounting and classification of the Convertible Debentures and of the change of control premium have not changed on conversion to IFRS. However, the conversion feature and warrants under IFRS are classified as financial liabilities and fair value is re-measured at each reporting period with changes in fair value being recorded in the statement of operations. Under Canadian GAAP, the conversion feature and warrants were recorded in unitholders' equity net of allocated transaction costs. Under IFRS, as a result of being classified as financial liabilities, the associated transactions costs have been expensed when incurred. At the transition date, the transaction costs related to the conversion feature and warrants from the Convertible Debentures of $0.3 million issued in 2009 have been adjusted to retained earnings and for the three and six month periods ending June 30, 2010 the transaction costs of $nil and $0.3 million relating to the conversion feature and warrants from the Convertible Debentures issued in January 2010 have been charged to financing expenses in the restated statement of operations.

This change in classification of the conversion feature and warrants and resulting recognition of fair value changes in the statement of operations will result in increased volatility of net income and earnings per unit. This has resulted in a gain of $1.8 million and $0.9 million for the three and six months ended June 30, 2011 (2010 - $3.1 million gain and $3.7 million gain) on the revaluation of these instruments to fair value at each period end.

Deferred gain on sale of option

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

Under IAS 17, the Pomona option sale would have been accounted for as a gain at the time of the transaction. As such, retained earnings as at January 1, 2010 has been adjusted for the balance of the deferred gain of $3.3 million under Canadian GAAP and for the three and six months ended June 30, 2011, the amount of deferred gain recognized under Canadian GAAP in the statement of operations of $0.1 million and $0.2 million has been reversed.

13. 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 its ownership interest and the holding of two positions on the Board of Trustees. Futura has purchased $5 million of Convertible Debentures and was issued 1,875,000 warrants as part of the Recapitalization Transaction. During the three and six months ended June 30, 2011, Futura received interest settled in cash of $0.1 million and $0.2 million (2010 - $0.1 million and $0.1 million) on the Convertible Debentures at the stated rate of interest.

As well, the Fund sells products to subsidiaries of a company controlled by Futura, Canwel Building Materials Group Ltd. ("Canwel"), which amounted to, net of rebates, for the three and six months ended June 30, 2011, $1.1 million and $2.9 million (2010 - $1.2 million and $3.5 million). Trade accounts receivable owing from Canwel is $0.5 million (2010 - $nil) as at June 30, 2011. These transactions are in the normal course and are recorded at terms equivalent to an arm's length transaction. Outstanding trade accounts receivable from Canwel at period end are unsecured, interest free and settlement occurs in cash.

14. RISKS AND UNCERTAINTIES

Investment in the Fund is subject to a number of risks. Cash distributions to unitholders are dependent upon the ability of Tree Island to pay its interest and principal obligations under the notes, and to declare and pay dividends in respect of the voting common shares. Tree Island's income is dependent upon the fabricated wire products business, which is susceptible to a number of risks. A detailed discussion of our significant business risks is provided in the Fund's 2010 Annual Information Form under the heading "Risk Factors" which can be found at www.sedar.com. There have been no changes to these risks in the second quarter 2011 from those discussed in the Fund's 2010 Annual Information Form other than as discussed below.

Trade Actions

The US government announced two trade action reviews: one related to certain galvanized wire imported from China and Mexico and another related to certain nails imported from the United Arab Emirates. We are monitoring both cases closely, however, we cannot reasonably estimate the impact of these trade actions until the determination is announced in the fall of 2011. These actions could have a material negative impact on our financial results.

Price Risk on Convertible Instruments

The results of our operations are exposed to changes in our unit price because the conversion feature and warrants are valued at fair value, which will vary inversely with changes in the Fund's unit price and changes in the risk free rate. The impact of variances in the unit price volatility and risk free rate are shown in section 12 "Accounting Policies and Estimates."

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 IFRS.

Our Chief Executive Officer and Chief Financial Officer certified the appropriateness of the financial disclosures in the interim financial report together with the other financial information included in the interim filings for the period ended June 30, 2011. 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, 2011 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, 2011 unaudited interim condensed consolidated financial statements and this MD&A 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 9, 2011

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

(in thousands of Canadian dollars – unaudited)

	June 30 2011	December 31 2010	January 1 2010
Assets			
Current			
Cash	$ 3,073	$ 5,634	$ 4,153
Accounts receivable (Note 4)	15,442	9,698	9,064
Income and other taxes receivable	56	56	6,121
Inventories (Note 5)	37,524	30,878	33,626
Prepaid expenses	2,263	2,861	3,113
	58,358	49,127	56,077
Property, plant and equipment (Note 6)	36,013	37,752	43,867
Other non-current assets	490	571	1,453
	$ 94,861	$ 87,450	$ 101,397
Liabilities			
Current			
Senior credit facility (Note 7)	$ 7,437	$ -	$ 3,730
Accounts payable and accrued liabilities	14,831	13,329	18,521
Income taxes payable	2,288	2,141	2,342
Other current liabilities	83	101	76
Fair value of convertible instruments (Note 8)	1,766	2,653	4,204
Current portion of long-term debt (Note 9)	3,713	5,271	3,030
	30,118	23,495	31,903
Convertible Debentures (Note 8)	13,671	13,108	5,716
Long-term debt (Note 9)	27,386	22,802	23,435
Other non-current liabilities	382	411	203
Deferred income taxes	825	779	2,091
	72,382	60,595	63,348
Unitholders' Equity	22,479	26,855	38,049
	$ 94,861	$ 87,450	$ 101,397

Approved on behalf of Tree Island Wire Income Fund

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

See accompanying Notes to the Interim Condensed Consolidated Financial Statements

CONDENSED CONSOLIDATED STATEMENT OF OPERATIONS

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

	Three Months Ended June 30		Six Months Ended June 30	
	2011	2010	2011	2010
Sales	$ 38,000	$ 38,742	$ 76,944	$ 73,274
Cost of goods sold (Note 5)	33,474	33,489	67,361	64,197
Depreciation	962	1,414	1,639	2,834
Gross profit	3,564	3,839	7,944	6,243
Selling, general and administrative expenses	2,801	2,971	5,886	6,534
Operating income (loss)	763	868	2,058	(291)
Foreign exchange gain (loss)	160	(758)	578	(1,315)
Changes in financial liabilities recognized at fair value	1,779	3,114	887	3,750
Loss on renegotiated debt (Note 9)	-	-	(3,234)	-
Financing expenses (Note 10)	(2,040)	(2,452)	(4,106)	(6,286)
Income (loss) before income taxes	662	772	(3,817)	(4,142)
Income tax recovery (expense) (Note 14)	(633)	(962)	(193)	1,415
Net income (loss) for the period	$ 29	$ (190)	$ (4,010)	$ (2,727)
Net income (loss) per unit				
Basic	$ 0.00	$ (0.01)	$ (0.18)	$ (0.12)
Diluted	$ 0.00	$ (0.01)	$ (0.18)	$ (0.12)
Weighted-average number of units (Note 19)				
Basic	22,878,200	22,473,271	22,871,096	22,417,977
Diluted	22,878,200	22,473,271	22,871,096	22,417,977

See accompanying Notes to the Interim Condensed Consolidated Financial Statements

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (LOSS)

(in thousands of Canadian dollars – unaudited)

	Three Months Ended June 30		Six Months Ended June 30	
	2011	2010	2011	2010
Net income (loss) for the period	$ 29	$ (190)	$ (4,010)	$ (2,727)
Other comprehensive income (loss)				
Unrealized gain (loss) on translating financial statements of subsidiary operations	32	1,028	(382)	(955)
Comprehensive income (loss) for the period	$ 61	$ 838	$ (4,392)	$ (1,772)

See accompanying Notes to the Interim Condensed Consolidated Financial Statements

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

(in thousands of Canadian dollars – unaudited)

	Unitholders' Capital	Accumulated Earnings (Deficit)	Distributions	Accumulated Other Comprehensive Loss	Total
Balance as at December 31, 2010	$ 211,460	$ (25,038)	$ (159,248)	$ (319)	$ 26,855
Conversion of phantom units (Note 12)	4	-	-	-	4
Net loss	-	(4,039)	-	-	(4,039)
Other comprehensive loss	-	-	-	(414)	(414)
Balance as at March 31, 2011	$ 211,464	$ (29,077)	$ (159,248)	$ (733)	$ 22,406
Conversion of phantom units (Note 12)	12	-	-	-	12
Net income	-	29	-	-	29
Other comprehensive income	-	-	-	32	32
Balance as at June 30, 2011	$ 211,476	$ (29,048)	$ (159,248)	$ (701)	$ 22,479
Balance as at January 1, 2010	$ 211,125	$ (13,828)	$ (159,248)	$ -	$ 38,049
Conversion of phantom units (Note 12)	3	-	-	-	3
Net loss	-	(2,537)	-	-	(2,537)
Other comprehensive loss	-	-	-	(73)	(73)
Balance as at March 31, 2010	$ 211,128	$ (16,365)	$ (159,248)	$ (73)	$ 35,442
Conversion of phantom units (Note 12)	6	-	-	-	6
Conversion of debentures (Note 12)	326	-	-	-	326
Net loss	-	(190)	-	-	(190)
Other comprehensive income	-	-	-	1,028	1,028
Balance as at June 30, 2010	$ 211,460	$ (16,555)	$ (159,248)	$ 955	$ 36,612

See accompanying Notes to the Interim Condensed Consolidated Financial Statements

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

(in thousands of Canadian dollars – unaudited)

	Three Months Ended June 30		Six Months Ended June 30	
	2011	2010	2011	2010
Cash flows from operating activities				
Net income (loss) for the period	$ 29	$ (190)	$ (4,010)	$ (2,727)
Items not involving cash				
Depreciation	962	1,414	1,639	2,834
Fair value changes on convertible instruments	(1,779)	(3,114)	(887)	(3,750)
Amortization and write-off of deferred financing	61	61	123	1,245
Loss on renegotiated debt	-	-	3,234	-
Non cash accretion of debt discount	1,652	1,812	2,978	3,749
Deferred income tax (recoveries)	628	918	45	(330)
Unit-based compensation	11	332	15	335
Exchange revaluation on foreign denominated debt	(436)	290	(1,194)	290
	1,128	1,523	1,943	1,646
Change in non-cash operating assets and liabilities (Note 19)	(5,748)	(3,516)	(10,338)	(13,034)
Net cash used in operating activities	(4,620)	(1,993)	(8,395)	(11,388)
Cash flows from investing activities				
Purchase of property, plant and equipment	(49)	(26)	(158)	(46)
Net cash used in investing activities	(49)	(26)	(158)	(46)
Cash flows from financing activities				
Issuance of Convertible Debentures, net of transaction costs	-	-	-	9,519
Repayment of long-term debt	(669)	(712)	(1,398)	(1,538)
Financing transaction costs incurred	-	-	-	(396)
Advance on (repayment of) revolving credit	5,303	293	7,451	3,365
Net cash (used in) provided by financing activities	4,634	(419)	6,053	10,950
Effect of exchange rate changes on cash	(4)	137	(61)	35
Decrease in cash	(39)	(2,301)	(2,561)	(449)
Cash, beginning of period	3,112	6,005	5,634	4,153
Cash, end of period	$ 3,073	$ 3,704	$ 3,073	$ 3,704
Supplemental cash flow information:				
Interest paid	$ 700	$ 510	$ 1,359	$ 866
Income taxes	$ -	$ 302	$ -	$ 302

See accompanying Notes to the Interim Condensed Consolidated Financial Statements

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the three and six month periods ended June 30, 2011 and 2010
(in thousands of Canadian dollars, except per-unit amounts - unaudited)

1. NATURE OF BUSINESS

Nature of Business

These condensed consolidated interim financial statements of Tree Island Wire Income Fund (the "Fund") for the three and six month periods ended June 30, 2011 were authorized for issue in accordance with a resolution of the Trustees on August 9, 2011.

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

The Fund owns 100% of the common shares of Tree Island Industries Ltd. ("TII" or "Tree Island"). Tree Island supplies a diverse range of steel wire and fabricated steel wire products to customers in Canada, the United States and Asia.

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

Recapitalization and Liquidity

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 on January 29, 2010, with a successful public rights offering for an additional $10,000 (Note 8). The Fund, through its operating subsidiaries, also entered into forbearance and payment agreements ("Forbearance Agreements") with the Fund's significant trade creditors pursuant to which the Fund has restructured $40,435 of trade payables through deferred payment arrangements extending to December 31, 2014 (Note 9). The Fund has also entered into senior credit facilities for a maximum facility of $35 million ("Senior Credit Facility") which are further described in Note 7.

In January 2011, the Fund amended the principal repayment schedule under the Forbearance Agreements. The new payment terms are further described in Note 9.

With the Senior Credit Facility of $35 million, working capital of $28 million, amended Forbearance Agreements and cash flow forecasts projected through 2012, the Fund believes there is sufficient capital to continue as a going concern. The accompanying condensed consolidated interim financial statements have been prepared assuming the Fund will be able to maintain sufficient capital or obtain new sources of capital to continue as a going concern which contemplates the realization of assets and the satisfaction of liabilities in the normal course of business. These condensed consolidated interim financial statements do not include any adjustments relating to the amounts and classifications of recorded asset and liabilities that might be necessary should the Fund be unable to continue as a going concern.

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES

Basis of Preparation

These condensed consolidated interim financial statements of the Fund as of and for the three and six month periods ended June 30, 2011 have been prepared in accordance with International Accounting Standard ("IAS") IAS 34, "Interim Financial Reporting". They should be read in conjunction with the annual consolidated financial statements, the notes thereto in the Fund's Annual Report for the year ended December 31, 2010 and the March 31, 2011 First Quarter condensed consolidated interim financial statements and do not include all of the information required for full annual financial statements.

Basis of consolidation

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

Functional and Presentation Currency

The functional and presentation currency of the Fund and its subsidiary Tree Island is the Canadian Dollar. The functional currencies of Tree Island's subsidiaries are: TIW and TIWH is the US Dollar; TI International is the US dollar and GIP and Shoutong have a functional currency of RMB. Transactions in currencies other than the functional currency are recorded at the rate of exchange prevailing on the date of the transaction. Monetary assets and liabilities that are denominated in foreign currencies are translated at the rate prevailing at each reporting date. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at the exchange rate at the date the fair value was determined. Non-monetary items that are measured at historical cost in a foreign currency are translated at the exchange rate on the date of the transaction.

Accounting Policies

The Canadian Accounting Standards Board ("AcSB") requires all public companies to adopt International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board, replacing Canadian generally accepted accounting principles ("GAAP"), for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011. As a result, the Fund has adopted IFRS on January 1, 2011 and prepared comparative financial information under IFRS. The impact of the transition from Canadian GAAP to IFRS on the three and six months ended June 30, 2010 is explained in Note 20. IFRS 1 First-Time Adoption of IFRS has been applied.

The accounting policies, methods of application and critical judgements and estimates used in the preparation of these interim consolidated financial statements are consistent with those disclosed in the interim condensed consolidated financial statements as at March 31, 2011.

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

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

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

IFRS 7 - On October 7, 2010, the IASB issued amendments to IFRS 7 Financial Instruments: Disclosures as part of its comprehensive review of off-balance sheet activities. The amendments are intended to provide users of financial statements additional information regarding financial assets (for example, securitizations), including the possible effects of risks that remain with the entity that transferred the assets. The amendments also require additional disclosures if a disproportionate amount of transfer transactions are undertaken around the end of a reporting period. These amendments are to be applied for annual periods beginning on or after July 1, 2011, with earlier application permitted.

IFRS 9 – Financial Instruments was issued in November 2009. This Standard is the first step in the process to replace IAS 39 – Financial Instruments: Recognition and Measurement. IFRS 9 introduces new requirements for classifying and measuring financial assets, and could affect the Fund's accounting for its financial assets. The Standard is not applicable until annual periods beginning on or after January 1, 2013, but is available for early adoption.

IFRS 10 replaces the portion of IAS 27 Consolidated and Separate Financial Statements that addresses the accounting for consolidated financial statements. It also includes the issues raised in SIC-12 Consolidation — Special Purpose Entities. IFRS 10 establishes a single control model that applies to all entities (including 'special purpose entities,' or 'structured entities' as they are now referred to in the new standards). The changes introduced by IFRS 10 will require management to exercise significant judgment to determine which entities are controlled, and therefore are required to be consolidated by a parent, compared with the requirements that were in IAS 27. Therefore, IFRS 10 may change which entities are within a group. The Standard is not applicable until annual periods beginning on or after January 1, 2013, but is available for early adoption.

IFRS 12 includes all of the disclosures that were previously in IAS 27 related to consolidated financial statements, as well as all of the disclosures that were previously included in IAS 31 – Investment in Joint Ventures and IAS 28 – Investment in Associates. These disclosures relate to an entity's interests in subsidiaries, joint arrangements, associates and structured entities. A number of new disclosures are also required. One of the most significant changes introduced by IFRS 12 is that an entity is now required to disclose the judgments made to determine whether it controls another entity. The Standard is not applicable until annual periods beginning on or after January 1, 2013, but is available for early adoption.

IFRS 13 does not change when an entity is required to use fair value, but rather, provides guidance on how to measure the fair value of financial and non-financial assets and liabilities when required or permitted by IFRS. The disclosure requirements are substantial. IFRS 13 is not applicable until annual periods beginning on or after January 1, 2013 and will be adopted prospectively.

4. ACCOUNTS RECEIVABLE

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

	June 30 2011	December 31 2010	January 1 2010
Accounts Receivable			
Up to date	$ 12,701	$ 7,158	$ 6,906
Under 30 days past due	2,405	2,296	1,893
30-60 days past due	428	358	349
61-90 days past due	106	151	62
Over 91 days past due	609	709	1,160
	16,249	10,672	10,370
Allowance for doubtful accounts	(807)	(974)	(1,306)
Balance, end of period	$ 15,442	$ 9,698	$ 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 $15,442 as at June 30, 2011. The Fund has concentrations of credit risk relating to receivables derived from the Western United States. As at June 30, 2011, this exposure was $7.2 million in accounts receivables for which $0.6 million has been provided for in the allowance for doubtful accounts.

At the end of each reporting period a review of the provision for bad and doubtful accounts is performed. It is an assessment of the potential amount of trade accounts receivable which will be paid by customers after the balance sheet date. The assessment is made by reference to age, status and risk of each receivable, current economic conditions and historical information. The trade accounts receivable balance is reduced through the use of the allowance for doubtful accounts and the amount of the loss is recognized in the income statement. Reversals to the allowance for doubtful accounts occur when previously allowed for trade accounts receivable are collected. Individual trade accounts receivable, together with any associated allowance previously recognized, are written off when there is no realistic prospect of future recovery.

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

	June 30 2011	December 31 2010
Opening Balance	$ 974	$ 1,306
Additions during the period	29	405
Reversals during the period	(99)	(568)
Write-offs during the period	(75)	(133)
Foreign exchange revaluation	(22)	(36)
Balance, end of period	$ 807	$ 974

5. INVENTORIES

The Fund had the following categories of inventory as at:

	June 30 2011	December 31 2010	January 1 2010
Raw materials	$ 8,327	$ 7,458	$ 6,686
Finished and semi finished products	21,356	15,763	19,128
Consumable supplies and spare parts	7,841	7,657	7,812
	$ 37,524	$ 30,878	$ 33,626

At each period end, the Fund reviews the ending inventories on hand to determine if a writedown to net realizable value is required. The Fund has recognized a cumulative charge over the three and six month periods ended June 30, 2011 of $129 and $129 (2010 - $158 and $261) in cost of goods sold to writedown inventories to net realizable value.

In the three and six month periods ended June 30, 2011 and 2010, the Fund has recognized, in income, inventory costs for the following:

	Three months ended June 30		Six months ended June 30	
	2011	2010	2011	2010
Opening inventory	$ 34,072	$ 40,058	$ 30,878	$ 33,626
Raw material purchases	26,764	22,042	54,195	46,746
Finished goods purchased for resale	978	4,821	1,096	7,671
Conversion costs	9,313	9,104	18,845	18,793
Writedown	(129)	(158)	(129)	(261)
Inventories, closing	(37,524)	(42,378)	(37,524)	(42,378)
Cost of goods sold	$ 33,474	$ 33,489	$ 67,361	$ 64,197

6. PROPERTY PLANT AND EQUIPMENT

	Land & improvements	Building & improvements	Machinery & equipment	Construction in progress	Total
Cost					
As at January 1, 2010	$ 9,177	$ 38,959	$ 17,609	$ 195	$ 65,940
Additions	-	-	115	(158)	(43)
Foreign currency translation	(72)	(275)	(165)	-	(512)
As at December 31, 2010	$ 9,105	$ 38,684	$ 17,559	$ 37	$ 65,385
Additions	-	-	-	170	170
Foreign currency translation	(43)	(160)	(184)	(1)	(388)
As at June 30, 2011	$ 9,062	$ 38,524	$ 17,375	$ 206	$ 65,167
Accumulated depreciation					
As at January 1, 2010	$ -	$ 20,993	$ 1,080	$ -	$ 22,073
Additions	-	2,982	2,801	-	5,783
Foreign currency translation	-	(223)	-	-	(223)
As at December 31, 2010	$ -	$ 23,752	$ 3,881	$ -	$ 27,633
Additions	-	697	937	-	1,634
Foreign currency translation	-	(103)	(10)	-	(113)
As at June 30, 2011	$ -	$ 24,346	$ 4,808	$ -	$ 29,154
Net book values as at:					
January 1, 2010	$ 9,177	$ 17,966	$ 16,529	$ 195	$ 43,867
December 31, 2010	$ 9,105	$ 14,932	$ 13,678	$ 37	$ 37,752
June 30, 2011	$ 9,062	$ 14,178	$ 12,567	$ 206	$ 36,013

The Fund reviews the carrying value of its long-lived assets annually. Where the carrying value of the assets is not expected to be recoverable from future cash flows, they are written down to fair value. In 2010, the Fund had reviewed certain idled machinery and equipment at its operations in China and concluded that impairment was indicated and likely and as a result an impairment charge $105 was recognized in 2010.

7. SENIOR CREDIT FACILITY

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

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

The Senior Credit Facility has financial tests and other covenants with which the Fund and its subsidiaries must comply. Quarterly, the Fund is required to meet a rolling 4 quarters defined fixed charge coverage ratio of 1:1 if the availability on the Senior Credit Facility falls below $7,500. As well, the Senior Credit Facility contains restrictive covenants that limit the discretion of the Fund's management with respect to certain business matters. These covenants place restrictions on, among other things, the ability of TII and TIW to incur additional indebtedness, to create liens or other encumbrances, to pay dividends or make certain other payments (Note 9), investments, loans and guarantees and to sell or otherwise dispose of assets and merge or consolidate with another entity.

As at June 30, 2011 the Fund was in compliance with all of its financial covenants on the Senior Credit Facility.

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

	June 30 2011	December 31 2010	January 1 2010
Senior Credit Facility (1)	$ 7,437	$ -	$ 3,730
Deferred financing costs (2)	(484)	(571)	(884)
	$ 6,953	$ (571)	$ 2,846

(1) The portion of the Senior Credit Facility denominated in US dollars is $1,446 (Dec 31, 2010 - $nil; Jan 1, 2010 - $2,314).

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

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

8. CONVERTIBLE DEBENTURES

As part of the Recapitalization Transaction, on November 26, 2009, the Fund completed a private placement with certain investors to issue an aggregate of $9,750 principal amount of Convertible Debentures along with 4,875,000 warrants (see Note 12). 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, to the change of control premium and to the warrants issued. As a result, the recorded liability for the Convertible Debentures is lower than its face value which is characterized as the debt discount. Using the effective interest rate method and the 21.9% rate implicit in the calculation, the debt discount, together with the stated interest and associated transaction costs, are amortized as interest expense over the life of the Convertible Debentures.

The conversion feature, change of control option and warrants are classified as financial liabilities under IAS 32 and are accounted for at fair value. Changes in fair value are recognized in the statement of operations at each period end. Fair value is determined using an option pricing model with a volatility assumption of 42% and a risk free rate of 2.65%. The expected volatility reflects the assumption that the historical volatility is indicative of future trends, which may not be the actual outcome.

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

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

(1) The transaction costs associated with the conversion feature were $297 and charged to financing costs in 2010.

(2) Change of control premium has been recorded as a liability within other convertible instruments.

(3) No warrants were issued on the Rights Offering.

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

Convertible Debentures	June 30 2011	December 31 2010	January 31 2010
Opening carrying value	$ 13,108	$ 5,716	$ –
Net debt component issued in the period	-	6,332	5,599
Accretion of debt discount for the period	1,530	2,769	117
Payment of interest in cash	(967)	(1,478)	–
Conversion of debentures to Fund units [1]	-	(231)	–
Carrying value at period end	$ 13,671	$ 13,108	$ 5,716

(1) During the year ended December 31, 2010, $365 principal value of Convertible Debentures were converted to 730,400 units resulting in an increase to Unitholder's Capital of $326 (net of the proprotion of issuance costs of $39) offset by charges of $231 from Convertible Debentures and $6 from Change of Control.

The fair values and change for the other elements are:

Fair Value	Conversion Feature	Warrants	Change of Control Option	Total
January 1, 2010	$ 3,055	$ 991	$ 158	$ 4,204
Addition on Rights Offering	2,739	-	162	2,901
Change in fair value	(3,743)	(709)	-	(4,452)
December 31, 2010	2,051	282	320	2,653
Change in fair value	(772)	(115)	-	(887)
June 30, 2011	$ 1,279	$ 167	$ 320	$ 1,766

9. LONG TERM DEBT

	Year of Maturity (1)		June 30 2011		December 31 2010		January 31 2010
Forbearance Agreements - beginning of period	2014	$	27,538	$	25,324	$	25,143
Renegotiation of debt			3,234		-		–
Payments			(1,157)		(2,483)		(209)
Foreign exchange revaluation			(1,185)		(1,300)		(82)
Accretion of debt discount			2,415		5,997		472
Forbearance Agreements - end of period			30,845		27,538		25,324
Other long-term debt	2011		254		535		1,141
			31,099		28,073		26,465
Less current portion (1)			(3,713)		(5,271)		(3,030)
		$	27,386	$	22,802	$	23,435

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

In 2009 as part of the Recapitalization Transaction, the Fund entered into five Forbearance Agreements with two significant trade creditors. Subsequently, on January 31, 2011, the Fund and the holders of the Forbearance Agreements agreed to amend the agreements by extending the schedule of repayment of principal by an additional year so that the term of the agreements now ends on December 31, 2014. The other terms and conditions within the original Forbearance Agreements remain in place. The comparison of the amended schedule of principal repayments to the original principal payment schedule is as follows:

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

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

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

Approximately $33.3 million of the principal under the Forbearance Agreements is denominated in US dollars.

The Forbearance Agreements include a provision for early payment of a portion of the principal outstanding if certain conditions are met. 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.

10. FINANCING EXPENSES

	Three months ended June 30		Six months ended June 30	
	2011	2010	2011	2010
Non-cash accretion of debt discount and interest on long term debt and Convertible Debentures	$ 1,297	$ 1,786	$ 2,623	$ 3,723
Cash interest on Convertible Debentures	478	411	967	507
Interest on Senior Credit Facility	123	127	213	352
Other interest and financing costs	81	66	180	163
Financing transaction costs and amortization of deferred financing costs	61	62	123	1,541
	$ 2,040	$ 2,452	$ 4,106	$ 6,286

11. PHANTOM UNITS

The Fund has a long-term incentive plan that grants Phantom Units to certain executives and management personnel. The Phantom Units are accounted for at fair value and is measured at each reporting date using an option pricing model taking into account the terms and conditions that the Phantom Units were granted.

The change in fair value related to Phantom Units for three and six months ended June 30, 2011 were $11 and $15 (2010 - $332 and $335). The expense is included in selling, general and administrative expense. A summary of the Fund's Phantom Units changes during the periods ended is as follows:

	Three months ended June 30				Six months ended June 30			
	2011		2010		2011		2010	
	Vested	Unvested	Vested	Unvested	Vested	Unvested	Vested	Unvested
Balance, beginning of period	70,032	37,500	37,106	95,832	63,999	54,081	42,787	95,832
Vested	4,167	(4,167)	-	-	20,748	(20,748)	-	-
Forfeited	-	(33,333)	-	-	-	(33,333)	-	-
Converted	(28,695)	-	(12,691)	-	(39,243)	-	(18,372)	-
Balance, end of period	45,504	-	24,415	95,832	45,504	-	24,415	95,832

12. UNITHOLDER'S CAPITAL

Fund Units

An unlimited number of Fund units may be issued by the Fund pursuant to the Fund's Declaration of Trust. Each unit is transferable and represents an equal, undivided beneficial interest in any distributions from the Fund and in the net assets of the Fund. All units are of the same class with equal rights and privileges and are not subject to future calls or assessments. Each unit entitles the holder to one vote at all meetings of unitholders. Fund units are redeemable at any time at the option of the holder at a price based on market value as defined in the trust agreement, subject to a maximum of $50,000 in cash redemption by the Fund in any one month. The limitations may be waived at the discretion of the Trustees of the Fund. Redemption in excess of these amounts, assuming no waiver of the limitation, shall be paid by way of pro-rata distribution of TII securities held by the Fund. Based on IAS 32, the units meet the conditions set out in paragraphs 16A and 16B for equity classification. However, other instruments that are convertible into Fund units do not qualify for this exemption and are discussed in Note 8.

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

	Units	Gross	Issuance Costs	Net
Unitholders' capital - December 31, 2010	22,861,661	$ 222,860	$ 11,400	$ 211,460
Conversion of Phantom Units	39,243	16	-	16
Unitholders' capital - June 30, 2011	22,900,904	$ 222,876	$ 11,400	$ 211,476

	Units	Gross	Issuance Costs	Net
Unitholders' capital - January 1, 2010	22,112,489	$ 222,525	$ 11,400	$ 211,125
Conversion of Convertible Debentures	730,800	$ 326	$ -	326
Conversion of Phantom Units	18,372	9	-	9
Unitholders' capital - June 30, 2010	22,861,661	$ 222,860	$ 11,400	$ 211,460

Warrants

As part of the Recapitalization Transaction, the Fund issued 4,875,000 warrants, with an expiry of November 26, 2014, to certain investors. The warrants have an exercise price of $0.57 and expire November 26, 2014. No warrants have been exercised since issuance. As discussed in Note 8, the warrants are measured at fair value at each period end.

13. RELATED PARTY TRANSACTIONS

Transactions with associated companies

One of the investors in the Recapitalization Transaction, The Futura Corporation (“Futura”), is considered to be a related party to the Fund because of 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. During the three and six month periods ended June 30, 2011, Futura received interest settled in cash of $125 and $248 (2010 - $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. (“Canwel”), which amounted to, net of rebates, $1,135 and $2,942 (2010 - $1,152 and $3,472) during the three and six month periods ended June 30, 2011 and trade accounts receivable owing from Canwel is $479 (2010 - $nil) as at June 30, 2011. These transactions are in the normal course and are recorded at terms equivalent to an arm’s length transaction. Outstanding trade accounts receivable from Canwel at period end are unsecured, interest free and settlement occurs in cash.

Transactions with key management personnel

Included in the definition of key management for purposes of disclosure of related party transactions are members of Board of the Fund and officers of Tree Island. Short term employee benefits for key management personnel for the three and six month periods ended March 31, 2011 were $535 and $878 (2010 - $398 and $932) which includes wages, salaries, unit-based compensation and social security contributions, paid annual and sick leave, vehicle costs and bonuses. It also includes Trustees fees for members of the Board.

Post Retirement Benefits

The Fund has three defined contribution pension plans for the benefit of all eligible personnel employed by the Fund’s subsidiaries. Contributions made by the Fund’s subsidiaries amounted to $293 and $566 for the three and six month periods ended June 30, 2011 (2010 - $281 and $605). Funding obligations are satisfied upon making contributions.

14. INCOME TAXES

Income tax obligations relating to distributions from the Fund are the obligations of the unitholders. A provision for income taxes is recognized for TII and its wholly-owned subsidiaries, as TII and its wholly-owned subsidiaries are subject to tax.

Deferred Tax Assets

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

Income Tax (Expense) Recovery

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

	Three months ended June 30		Six months ended June 30	
	2011	2010	2011	2010
Recorded in the income statement				
Current tax (expense) recovery	$ (5)	$ (44)	$ (148)	$ 1,085
Deferred tax (expense) recovery	(628)	(918)	(45)	330
	$ (633)	$ (962)	$ (193)	$ 1,415

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	
	2011	2010	2011	2010
Income (loss) before provision for income taxes	$ 662	$ 772	$ (3,817)	$ (4,142)
Income of the Fund subject to tax in the hands of the recipient	(1,419)	(2,370)	(124)	(3,518)
Loss of wholly-owned subsidiary companies before income taxes	(757)	(1,598)	(3,941)	(7,660)
Tax Rate	26.5%	28.5%	26.5%	28.5%
Expected recovery of income taxes	$ 201	$ 455	$ 1,044	$ 2,183
Increased (Reduced) by:				
Revisions of prior period estimates	-	-	(123)	143
Items not taxable	(8)	(10)	(15)	(15)
Non-taxable foreign exchange gain included in other comprehensive income (loss)	118	(775)	476	(519)
Differential tax rates on U.S. and Chinese subsidiaries	123	141	183	474
Reduction (increase) in statutory future income tax rate	43	(89)	(11)	(17)
Future income tax valuation allowance	(304)	451	(1,407)	(952)
Other	(806)	(1,135)	(340)	118
Income tax (expense) recovery	$ (633)	$ (962)	$ (193)	$ 1,415

Taxation of the Trust

In 2006 the Canadian federal government announced proposed legislation to tax distributions made by income trusts. This legislation has received royal assent and as a result income trusts will be subject to tax at corporate rates on the taxable portion of their distributions and unitholders will be taxed as if they have received a dividend equal to the taxable portion of their distributions beginning in 2011.

In 2009, rules were enacted to facilitate the conversion of trusts, such as the Fund, into corporations without undue income tax consequences (generally effective for conversions that occur after July 13, 2008 and before 2013). The Fund will be evaluating the merits and costs of conversion into a corporation to take advantage of the transitional rules.

15. FINANCIAL INSTRUMENTS

Fair Value of Financial Instruments

The Fund records certain of its financial instruments at fair value using various techniques. These include estimates of fair values based on prevailing market rates (bid and ask prices, as appropriate) for instruments with similar characteristics and risk profiles or internal or external valuation models, such as discounted cash flow analysis, 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 following tables summarize the bases used to measure certain financial liabilities at fair value through profit and loss. The Fund does not have any financial assets valued at fair value through profit and loss. Financial liabilities carried at fair value have been classified into three levels based upon a fair value hierarchy that reflects the significance of the inputs used in making the measurements.

			June 30, 2011		December 31, 2010		January 1, 2010	
	Fair Value Category	Classification(3)	Fair Value	Carrying Value	Fair Value	Carrying Value	Fair Value	Carrying Value
Financial Liabilities:								
Change of control premium	Level 3	HFT	$ 320	$ 320	$ 320	$ 320	$ 158	$ 158
Long-term debt (1)	Level 2	OFL	30,927	31,099	30,360	28,073	26,465	26,465
Convertible Debentures (2)	Level 3	OFL	17,619	13,671	18,415	13,108	5,716	5,716
Conversion feature	Level 3	HFT	1,279	1,279	2,051	2,051	3,055	3,055
Warrants	Level 3	HFT	167	167	282	282	991	991
Total Financial Liabilities			$ 50,312	$ 46,536	$ 51,428	$ 43,834	$ 36,385	$ 36,385

(1) Fair value on the Company's long-term debt is based on estimated market interest rate on similar borrowings. A 1% change in the market interest rate would change the fair value by $757.

(2) Convertible Debentures began trading on the TSX in the first quarter of 2010 and the fair value disclosed is based on the closing price at period end less the fair values of the conversion feature, warrants and change of control premium.

(3) Held for Trading ("HFT"), Other Financial Liabilities ("OFL").

Risk exposure and Management

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

Credit Risk

The Fund is exposed to credit losses in the event of non-payment of accounts receivable of its subsidiaries' customer accounts. However the credit risk is minimized through selling to well-established customers of high-credit quality. The credit worthiness of customers is assessed using credit scores supplied by a third party and through direct monitoring of their financial well-being on a continual basis. The Fund establishes guidelines for customer credit limits and should thresholds in these areas be reached, appropriate precautions are taken to improve collectability. The Fund maintains provisions for potential credit losses (allowance for doubtful accounts) and any such losses to date have been within management's expectations (see note 4).

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, 2011:

	Carrying Amount	Contractual Cash Flow	Less than 1 Year	1-2 Years	3 Years
Senior Credit Facilities (Note 7)	$ 7,437	$ 7,437	$ 7,437	$ -	$ -
Accounts payable	14,831	14,831	14,831	-	-
Long-term Debt (Note 9)	31,099	43,147	1,407	17,465	24,275
Convertible Debentures (Note 8)	13,671	25,984	976	3,876	21,132
	$ 67,038	$ 91,399	$ 24,651	$ 21,341	$ 45,407

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

Market Risk

Foreign Currency Risk

The Fund is exposed to risk related to foreign currency exchange rates which are explained as follows:

	June 30 2011
Increase (decrease) to net earnings of a $0.01 increase in Cdn$ to US$ exchange rate	(303)
Increase (decrease) to net earnings of a $0.01 increase in Cdn$ to RMB exchange rate	(70)

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.

Interest Rate Risk

The Fund is exposed to interest rate risk on its Senior Credit Facility which is further discussed in Note 7. A 1% increase in the interest rates charged on the Senior Credit Facility would increase financing expenses by $74. The Fund does not use derivative instruments to manage the interest rate risk.

Price Risk on Convertible Instruments

The Fund's results of operations are exposed to changes in its own unit price because the conversion feature and warrants are valued at fair value which will vary with changes in the Fund's unit price and changes in the risk free rate. The table below describes potential risks:

	Warrants	Conversion Feature
Increase (decrease) to net income of a $0.01 increase in the Fund's unit price	(17)	(118)
Increase (decrease) to net income of a 1% increase in the risk free rate	(11)	(72)

16. WEIGHTED AVERAGE UNITS OUTSTANDING

	Three months ended June 30		Six months ended June 30	
	2011	2010	2011	2010
Weighted average number of units outstanding during the period - basic	22,878,200	22,473,271	22,871,096	22,417,977
Dilutive effect of:				
Convertible Debentures (1)	-	-	-	-
Phantom units (1)	-	-	-	-
Warrants (1)	-	-	-	-
Weighted average number of units outstanding during the period - diluted	22,878,200	22,473,271	22,871,096	22,417,977

(1) As there was a loss for the three and six month periods ended June 30, 2011 and 2010, the Fund has excluded all Convertible Debentures, phantom units, and warrants from the calculation of diluted loss per share because they would be anti-dilutive.

17. PROVISIONS AND COMMITMENTS

Litigation and Claims

The Fund is party to certain legal actions and claims, none of which individually, or in the aggregate, is expected to have a material adverse effect on the Fund's financial position, 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 as approved by the purchaser, prior to the issuance of the Certificate of Compliance to a maximum of $500. The environmental remediation was required to be completed within one year from the closing of the sale. If the Fund did not deliver the Certificate of Compliance within one year from the closing of the sale, the purchaser could use the holdback to obtain a Certificate of Compliance. As of the date of these financial statements, the purchaser has not elected to complete the remediation.

The Fund has completed the remediation work based on the planned requirements and has submitted the results for approval and issuance of Certificate of Completion. The Fund has incurred $1,000 up to June 30, 2011 of which $500 was drawn down from the holdback as permitted under the agreement and the remainder was paid through the Fund's operating cash flows. The costs incurred are deferred and included in prepaid expenses.

The Fund is expecting to obtain the Certificate of Compliance in 2011 and still expects that the $1,500 holdback will be sufficient to complete the remediation activities. At the time of the sale of the surplus land, the Fund recognized a gain excluding the $1,500 holdback. Upon completion of the environmental remediation and issuance of a Certificate of Compliance the accounting for the disposal will be finalized and a gain or loss will be recognized for the difference between the $1,500 holdback and the total costs incurred of the environmental remediation.

Restructuring

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

	June 30 2011	December 31 2010	January 1 2010
Restructuring provision, opening balance	$ 53	$ 1,658	$ -
Expenses			
Employee termination benefits (1)	-	115	1,658
Foreign exchange effect	-	(13)	-
Paid	(53)	(1,707)	-
Restructuring provision, ending balance	$ -	$ 53	$ 1,658

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

Closure of Facilities

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

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

Below is a table summarizing the provisions:

	Corona	Ontario Warehousing Facility	Total
Balance at January 1, 2010	$ 1,154	$ 31	$ 1,186
Provisions made during the period	257	174	432
Provisions used during the period	(238)	(28)	(266)
Foreign exchange effect	(57)	(7)	(64)
Adjustments during the period	-	-	-
Balance at December 31, 2010	$ 1,117	$ 171	$ 1,288
Provisions made during the period	123	14	137
Provisions used during the period	(117)	(58)	(175)
Foreign exchange effect	(35)	(5)	(40)
Adjustments during the period	-	-	-
Balance at June 30, 2011	$ 1,088	$ 122	$ 1,210

Purchase Commitments

The Fund's wholly-owned subsidiaries have committed to rod purchases totaling $21,482 (US$22,278) at June 30, 2011 and imported finished goods purchases of $1,930 (US$2,002).

Operating Lease Commitments

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

Less than 1 year	$ 1,258
1 to 5 years	4,637
More than 5 years	-
	$ 5,895

18. SEGMENTED INFORMATION

General Information

The Fund operates primarily within one industry, the steel wire and fabricated wire products industry with no separately reportable business segments. The Fund groups its products into the following: residential construction, commercial construction, industrial/OEM, agricultural, and specialty. No one customer is more than 10% of total revenue earned by the Fund. The products are sold primarily to customers in the United States, Canada and China.

Geographic Information

	Three months ended June 30		Six months ended June 30	
	2011	2010	2011	2010
SALES (1)				
Canada	$ 14,476	$ 15,163	$ 31,948	$ 29,219
United States	21,981	21,947	42,463	39,872
China	534	570	703	1,642
Other	1,009	1,062	1,830	2,541
	$ 38,000	$ 38,742	$ 76,944	$ 73,274

	June 30 2011	December 31 2010	January 1 2010
PROPERTY, PLANT AND EQUIPMENT (2)			
Canada	$ 27,621	$ 28,696	$ 33,609
United States	8,260	8,895	9,943
China	132	161	315
	$ 36,013	$ 37,752	$ 43,867

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

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

19. CHANGE IN NON-CASH OPERATING ASSETS AND LIABILITES

	Three months ended June 30		Six months ended June 30	
	2011	2010	2011	2010
Accounts receiveable (Note4)	$ 2,248	$ 311	$ (5,934)	$ (6,435)
Inventories (Note 6)	(3,542)	(2,320)	(6,646)	(8,752)
Accoutns payable and accrued liabilities	(4,228)	(1,986)	1,869	2,498
Income and other taxes	5	(12)	148	(1,141)
Other	(320)	491	226	795
	$ (5,748)	$ (3,516)	$ (10,338)	$ (13,034)

20. TRANSITION TO IFRS

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

Initial Elections upon Adoption

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

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

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

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

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

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

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

Reconciliations of Canadian GAAP to IFRS

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

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

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

II. Reconciliation of consolidated statement of financial position as at June 30, 2010:

As at June 30, 2010	Note		Canadian GAAP		Effect of transition to IFRS		IFRS
Assets							
Current							
Cash	(h)	$	3,721	$	(17)	$	3,704
Accounts receivable	(h)		15,447		110		15,557
Income and other taxes receivable			6,258		-		6,258
Inventories	(h)		42,379		(1)		42,378
Prepaid expenses	(h)		2,509		5		2,514
Deferred income taxes	(f)		-		-		-
		$	70,314	$	97	$	70,411
Property, plant and equipment	(a), (h)		40,352		885		41,237
Other non-current assets			317		-		317
		$	110,983	$	982	$	111,965
Liabilities							
Current							
Senior Credit Facility		$	7,095	$	716	$	7,095
Accounts payable and accrued liabilities	(b), (h)		20,402		530		21,118
Income taxes payable	(h)		311		1,424		1,735
Other current liabilities	(c)		70		26		96
Fair value of convertible instruments	(c)		320		2,940		3,260
Current portion of long-term debt			4,348		-		4,348
		$	32,546	$	5,106	$	37,652
Convertible Debentures			12,611		-		12,611
Long-term debt	(d)		23,500		372		23,872
Deferred gain on sale of option	(e)		3,135		(3,135)		-
Other non-current liabilities			294		5		299
Deferred income taxes	(f)		2,343		(1,424)		919
		$	74,429	$	924	$	75,353
Unitholders' Equity			36,554		58		36,612
		$	110,983	$	982	$	111,965

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

As at December31, 2010	Note	Canadian GAAP	Effect of transition to IFRS	IFRS
Assets				
Current				
Cash	(h)	5,623	11	5,634
Accounts receivable	(h)	9,695	3	9,698
Income and other taxes receivable		56	-	56
Inventories	(h)	30,873	5	30,878
Prepaid expenses	(h)	2,863	(2)	2,861
		49,110	17	49,127
Property, plant and equipment	(a), (h)	37,141	611	37,752
Other non-current assets		571	-	571
		86,822	628	87,450
Liabilities				
Current				
Senior Credit Facilty		-	-	-
Accounts payable and accrued liabilities	(b), (h)	13,243	86	13,329
Income taxes payable		1,662	479	2,141
Other current liabilities	(c)	68	33	101
Fair value of convertible instruments	(c)	-	2,653	2,653
Current portion of long-term debt	(g)	2,884	2,387	5,271
		17,857	5,638	23,495
Convertible Debentures		13,108	-	13,108
Long-term debt	(g)	24,815	(2,013)	22,802
Deferred gain on sale of option	(e)	2,710	(2,710)	-
Other non-current liabilities		667	(256)	411
Deferred income taxes	(f)	-	779	779
		59,157	1,438	60,595
Unitholders' Equity		27,665	(810)	26,855
		86,822	628	87,450

IV. Reconciliation of consolidated statement of operations for the three months ended June 30, 2010:

Three months ended June 30, 2010	Note	Canadian GAAP	Effect of transition to IFRS	IFRS
Sales		$ 38,742	$ -	$ 38,742
Cost of goods sold	(b)	33,449	40	33,489
Depreciation	(a)	1,407	7	1,414
Gross profit		$ 3,886	$ (47)	$ 3,839
Selling, general and administrative expenses	(a)	3,129	(158)	2,971
Operating income		$ 757	$ 111	$ 868
Foreign exchange loss	(h)	(702)	(56)	(758)
Amortization of deferred gain	(e)	119	(119)	-
Changes in fair value of convertible instruments	(c)	-	3,114	3,114
Financing expenses	(b), (c)	(2,389)	(63)	(2,452)
Income (loss) before income taxes		$ (2,215)	$ 2,987	$ 772
Income tax expense	(f)	(84)	(878)	(962)
Net loss for the period		$ (2,299)	$ 2,109	$ (190)
Net loss per unit				
Basic		$ (0.10)	$ 0.09	$ (0.01)
Diluted		$ (0.10)	$ 0.09	$ (0.01)
Weighted-average number of units (Note 16)				
Basic		22,473,271	-	22,473,271
Diluted		22,473,271	-	22,473,271

V. Reconciliation of consolidated statement of operations for the six months ended June 30, 2010:

Six months ended June 30, 2010	Note		Canadian GAAP		Effect of transition to IFRS		IFRS
Sales		$	73,274	$	-	$	73,274
Cost of goods sold	(b)		64,105		92		64,197
Depreciation	(a)		2,840		(6)		2,834
Gross profit		$	6,329	$	(86)	$	6,243
Selling, general and administrative expenses	(a)		6,847		(313)		6,534
Operating loss		$	(518)	$	227	$	(291)
Foreign exchange loss	(h)		(1,298)		(17)		(1,315)
Amortization of deferred gain	(e)		240		(240)		-
Changes in fair value of convertible instruments	(c)		-		3,750		3,750
Financing expenses	(b), (c)		(5,863)		(423)		(6,286)
Loss before income taxes		$	(7,439)	$	3,297	$	(4,142)
Income tax recovery	(f)		1,061		354		1,415
Net loss for the period		$	(6,378)	$	3,651	$	(2,727)
Net loss per unit							
Basic		$	(0.28)	$	0.16	$	(0.12)
Diluted		$	(0.28)	$	0.16	$	(0.12)
Weighted-average number of units (Note 16)							
Basic			22,417,977		-		22,417,977
Diluted			22,417,977		-		22,417,977

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

Tweleve months ended December 31, 2010	Note	Canadian GAAP	Effect of transition to IFRS	IFRS
Sales		$ 132,411	$ -	$ 132,411
Cost of goods sold	(b)	120,409	78	120,487
Depreciation	(a)	5,577	80	5,657
Gross profit		$ 6,425	$ (158)	$ 6,267
Selling, general and administrative expenses	(a)	12,143	(269)	11,874
Operating loss		$ (5,718)	$ 111	$ (5,607)
Foreign exchange loss	(h)	124	33	157
Gain on sale of property, plant and equipment		66	-	66
Property, plant and equipment impairment	(h)	(105)	(11)	(116)
Amortization of deferred gain	(e)	477	(477)	-
Changes fair value of convertible instruments	(c)	-	4,362	4,362
Financing expenses	(b), (c)	(10,958)	(307)	(11,265)
Loss before income taxes		$ (16,114)	$ 3,711	$ (12,403)
Income tax recovery	(f)	1,334	(141)	1,193
Net loss for the period		$ (14,780)	$ 3,570	$ (11,210)
Net loss per unit				
Basic		$ (0.65)	$ 0.16	$ (0.50)
Diluted		$ (0.65)	$ 0.16	$ (0.50)
Weighted-average number of units				
Basic		22,641,642	-	22,641,642
Diluted		22,641,642	-	22,641,642

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

	Notes	Unitholders' Capital	Contributed Surplus	Accumulated Earnings (Deficit)	Distributions	Accumulated Other Comprehensive Loss	Total
Balance as at Janaury 1, 2010 Canadian GAAP		$ 211,125	$ 3,342	$ 2,193	$ (159,248)	$ (18,060)	$ 39,352
IFRS Adjustments							
Reverse compensation expense on phantom units	(c)	-	-	429	-	-	429
Reverse prior unit based compensation expense	(c)	-	(3,342)	-	-	-	(3,342)
Adjust financing cost on conversion feature and warrants	(c)	-	-	(330)	-	-	(330)
Adjust conversion feature and warrants to fair value	(c)	-	-	(803)	-	-	(803)
Adjust phantom units to fair value	(c)	-	-	(35)	-	-	(35)
Reclass of CTA into retained earnings	IFRS 1	-	-	(18,060)	-	18,060	-
Reverse balance of gain on sale leaseback	(e)	-	-	3,337	-	-	3,337
Adjustment due to revaluation of PPE to fair value	(a)	-	-	820	-	-	820
Adjustment to the Corona lease accrual	(b)	-	-	(170)	-	-	(170)
Expense financing cost on forbearance	(d)	-	-	(372)	-	-	(372)
Adjustment to deferred income taxes	(f)	-	-	(837)	-	-	(837)
Balance as at January 1, 2010		211,125	-	(13,828)	(159,248)	-	38,049

VIII. Reconciliation of Unitholders' Equity as at June 30, 2010

	Notes	Unitholders' Capital	Contributed Surplus	Accumulated Deficit	Distributions	Accumulated Other Comprehensive Income (Loss)	Total
Balance as at June 30, 2010 Canadian GAAP		$ 211,564	$ 5,800	$ (3,508)	$ (159,248)	$ (18,054)	$ 36,554
IFRS Adjustments							
Reclass of CTA into retained earnings	IFRS 1	-	-	(18,060)	-	18,060	-
Reverse phantom unit compensation	(c)	-	(647)	429	-	-	(218)
Adjust conversion of phantom units to market value	(c)	(104)	113	-	-	-	9
Reclass to liability conversion feature on debentures	(c)	-	(5,355)	-	-	-	(5,355)
Expense cost of conversion of debentures	(c)	-	89	-	-	-	89
Change in functional currency for TI International	(h)	-	-	(20)	-	-	(20)
Reverse compensation expense on phantom units	(c)	-	-	218	-	-	218
Expense financing cost on conversion feature and warrants	(c)	-	-	(626)	-	-	(626)
Adjust for changes in fair value on conversion feature and warrants	(c)	-	-	3,750	-	-	3,750
Depreciation adjustment due to PPE revaluation	(a)	-	-	(6)	-	-	(6)
Reversal of amortization gain on sale leaseback	(e)	-	-	3,135	-	-	3,135
Adjustment to CTA	(h)	-	-	-	-	949	949
Adjustment to the Corona lease accrual	(b)	-	-	(273)	-	-	(273)
Expense financing cost on forbearance	(d)	-	-	(372)	-	-	(372)
Adjustment to current income taxes	(f)	-	-	202	-	-	202
Adjustment to deferred income taxes	(f)	-	-	(1,424)	-	-	(1,424)
Balance as at June 30, 2010		$ 211,460	$ -	$ (16,555)	$ (159,248)	$ 955	$ 36,612

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

	Notes	Unitholders' Capital	Contributed Surplus	Accumulated Deficit	Distributions	Accumulated Other Comprehensive Loss	Total
Balance as at December 31, 2010 Canadian GAAP		$ 211,564	$ 5,750	$ (12,587)	$ (159,248)	$ (17,814)	$ 27,665
IFRS Adjustments							
Reclass of CTA into retained earnings	IFRS 1	-	-	(18,060)	-	18,060	-
Reverse phantom unit compensation	(c)	-	(533)	429	-	-	(104)
Adjust conversion of phantom units to market value	(c)	(104)	113	-	-	-	9
Reclass to liability conversion feature on debentures	(c)	-	(5,355)	-	-	-	(5,355)
Expense cost of conversion of debentures	(c)	-	89	-	-	-	89
Reclass to liability rights equity element	(c)	-	(64)	-	-	-	(64)
Change in functional currency for TI International	(h)	-	-	(17)	-	-	(17)
Reverse compensation expense on phantom units	(c)	-	-	97	-	-	97
Expense financing cost on conversion feature and warrants	(c)	-	-	(626)	-	-	(626)
Adjust for changes in fair value on conversion feature and warrants	(c)	-	-	4,362	-	-	4,362
Depreciation adjustment due to PPE revaluation	(a)	-	-	80	-	-	80
Reversal of amortization gain on sale leaseback	(e)	-	-	2,860	-	-	2,860
Adjustment to CTA	(h)	-	-	-	-	(565)	(565)
Adjustment to the Corona lease accrual	(b)	-	-	82	-	-	82
Expense financing cost on forbearance	(d)	-	-	(372)	-	-	(372)
Adjustment to current income taxes	(f)	-	-	(479)	-	-	(479)
Adjustment to deferred income taxes	(f)	-	-	(807)	-	-	(807)
Balance as at December 31, 2010		$ 211,460	$ -	$ (25,038)	$ (159,248)	$ (319)	$ 26,855

X. Reconciliation of consolidated comprehensive income (loss) for the three months ended June 30, 2010:

Three months ended June 30, 2010	Note		Canadian GAAP		Effect of transition to IFRS		IFRS
Net loss for the period		$	(1,622)	$	1,618	$	(4)
Other comprehensive income (loss)							
Unrealized gain (loss) on translating financial statements of subsidiary operations			(258)		1,286		1,028
Tax effect	(f)		(8)		8		-
Other comprehensive income (loss)			(266)		1,294		1,028
Comprehensive income (loss) for the period		$	(1,888)	$	2,912	$	1,024

XI. Reconciliation of consolidated comprehensive loss for the six months ended June 30, 2010:

Six months ended June 30, 2010	Note		Canadian GAAP		Effect of transition to IFRS		IFRS
Net loss for the period		$	(5,701)	$	3,160	$	(2,541)
Other comprehensive income							
Unrealized loss on translating financial statements of subsidiary operations			(103)		1,058		955
Tax effect	(f)		109		(109)		-
Other comprehensive income (loss)			6		949		955
Comprehensive income (loss) for the period		$	(5,695)	$	4,109	$	(1,586)

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

Year ended December 31, 2010	Note		Canadian GAAP		Effect of transition to IFRS		IFRS
Net loss for the period		$	(14,780)	$	3,570	$	(11,210)
Other comprehensive income (loss)							
Unrealized loss on translating financial statements of subsidiary operations			(34)		(288)		(322)
Tax effect	(f)		280		(280)		-
Other comprehensive income (loss)			246		(568)		(322)
Comprehensive loss for the period		$	(14,534)	$	3,002	$	(11,532)

Notes to the Reconciliations

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

As discussed above in the initial elections upon adoption of IFRS, the Fund elected to value machinery and equipment on transition at fair value which then becomes the deemed cost on which to amortize/depreciate in future periods. This resulted in an increase to the carrying value of the "PPE" of $820 as at the transition date and the resulting adjustment being charged to retained earnings.

(b) Accounts payable and accrued liabilities

In accordance with IAS 37, the provision for the Corona onerous contract was re-evaluated to reduce the future expected sub-lease rental income to the contractual sub-lease receipts. Therefore, the present value of the provision increased as at the transition date by $170. This difference increased the amount of accretion amortized using the effective interest method by $64 and $127 in the three and six months ending June 30, 2010.

(c) Fund units and instruments convertible into Fund units

Under Canadian GAAP, the Fund's units were classified as equity. Upon transition to IFRS, the equity classification of the units was evaluated because the units can be redeemed at the option of the holder subject to certain terms and restrictions (see Note 12). Based on IAS 32, the units meet the conditions set out in paragraphs 16A and 16B for equity classification and therefore continue to be classified as equity under IFRS. However, other instruments that are convertible into Fund units do not qualify for this exemption and are discussed below.

Convertible Debentures

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

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

As well, under Canadian GAAP, the conversion feature and warrants were recorded in unitholders' equity net of allocated transaction costs. Under IFRS, as a result of being classified as financial liabilities, the associated transactions costs have been expensed when incurred. At the transition date, the transaction costs related to the conversion feature and warrants from the Convertible Debentures of $330 issued in 2009 have been adjusted to retained earnings and for the three and six months ending June 30, 2010 the transaction costs of $nil and $296 relating to the conversion feature and warrants from the Convertible Debentures issued in January 2010 have been charged to financing expenses in the restated statement of operations.

Phantom Units

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

Under IFRS, the Phantom Units do not qualify for the exemption under IAS 32 and are considered instead financial liabilities and are now included with other current liabilities. Also, the calculation of compensation expense has changed upon adoption of IFRS so that the Phantom Units are accounted for under IFRS 2 as cash-settled awards whereby the outstanding Phantom Units are accounted for at fair value at each reporting period and changes in fair value are recognized in compensation expense. As there is no exercise price, the fair value of the Phantom Units is considered to be the market price for the Fund units. The changes in fair value for unvested awards are recognized over the vesting period and the changes in fair value of vested awards are recognized in full each period until converted to units or forfeited. When a Phantom Unit is converted, the associated liability will be derecognized and recorded as Unitholders' capital at the market price on the date of conversion.

(d) Long-term debt

Under Canadian GAAP, transaction costs related to the original extinguishment of the trade payable and recognition of the Forbearance Agreements in 2009 were netted against the present value upon initial recognition. Under IAS 39 Appendix AG62, if the debt is accounted for as an extinguishment any costs or fees incurred are recognized as part of the gain or loss on extinguishment. As a result, the transaction costs of $0.4 million on the initial renegotiation in 2009 were charged against retained earnings at the transition date.

(e) Deferred gain on sale of option

In 2006 the Fund sold a purchase option on its leased property in Pomona, California. The net pre-tax cash proceeds received on the sale was $5,264. The sale was treated as a sale and lease back under Canadian GAAP and the gain was deferred and amortized over the ten year life of the new lease. Under IAS 17, the Pomona option sale would have been accounted for as a gain at the time of the transaction. As such, retained earnings as at January 1, 2010 has been adjusted for the balance of the deferred gain of $3,337 under Canadian GAAP and for the three months ended June 30, 2010, six months ending June 30, 2010 and year-ended December 31, 2010, the amount of deferred gain recognized under Canadian GAAP in the statement of operations of $121, $119 and $477 respectively has been reversed.

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

The current and deferred income tax adjustments reflect changes in the accounting of tax on various items including creation of temporary differences resulting from the effect of the IFRS adjustments described above. In particular, a deferred tax liability was recorded as at the transition date of $837 and was charged to retained earnings. In addition, under IFRS, there is no longer income tax allocated to any exchange gains/losses relating to foreign denominated intercompany balances as a result, comprehensive income was increased by $8 and reduced by $109 for the three and six months ending June 30, 2010 and reduced by $280 for the year ended December 31, 2010.

(g) Current portion of long-term debt

The Fund had amended the term of the Forbearance Agreements in the first quarter of 2011 and Canadian GAAP allowed the reduced payment terms to be presented in the current portion of long-term debt as at December 31, 2010 because the agreement had been reached prior to the issuance of the financial statements. IFRS, under IAS 1 is strict in this regard and the change in presentation of current versus long-term portions of the long-term debt must be reflected in the period it occurred. As a result, the current portion of long-term debt for the December 31, 2010 has been increased by $2,387 and the long-term debt has been reduced by the equivalent amount. The amended payment schedule has been reflected now in the June 30, 2011 presentation of current portion of long-term debt and the long-term debt balance.

(h) Foreign currency translation

Cumulative foreign currency translation balances

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

Functional currency

Under prior Canadian GAAP, Tree Island International, the Hong Kong parent company to the Fund’s Chinese subsidiaries, was considered to be an integrated subsidiary and was translated into Canadian dollars using the temporal method. The concept of integrated subsidiaries does not exist under IFRS. It was determined that the functional currency of the Hong Kong company is US dollars. The Chinese subsidiaries of Tree Island International continue to have a functional currency of RMB. The change in functional currency of the Hong Kong company resulted in various immaterial translation difference throughout the statement of financial position including the change in cash balance of $17 as at June 30, 2010 and $11 as at the December 31, 2010.

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Tree Island Wire Income Fund

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Michael Fitch

Sam Fleiser

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Harry Rosenfeld

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Theodore A. Leja
Vice-Chair of the Board

Dale McLean
President and Chief Executive Officer

Nancy Davies
Chief Financial Officer and Vice President, Finance

Kelly Stark-Anderson
Secretary

Units:

Market Information

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

Registrar and Transfer Agent

Computershare Investor Services Inc.

Convertible Debentures:

Market Information

Convertible Debentures Listed:
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Trading Symbol: TIL.DB

Registrar and Transfer Agent

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