TREE ISLAND WIRE INCOME FUND

Q3 2012

Report to Unitholders

for the three and nine month periods ended

September 30, 2012

TREE ISLAND WIRE INCOME FUND

FUND PROFILE

Launched on November 12, 2002, Tree Island Wire Income Fund (the "Fund") owns 100% of Tree Island Industries Ltd. On October 1, 2012, the Fund converted to a corporation named Tree Island Steel Ltd. All outstanding units and convertible debentures of the Fund were exchanged for common shares and convertible debentures of Tree Island Steel Ltd. on a one-for-one basis. Effective October 3, 2012 Tree Island Steel Ltd. began trading on the Toronto Stock Exchange (under the symbol TSL).

As well, effective October 3, 2012, Tree Island Steel Ltd.'s Convertible Debentures began trading on the Toronto Stock Exchange (under the symbol TSL.DB).

Tree Island Profile

Headquartered in Richmond, British Columbia, since 1964, Tree Island produces wire products for a diverse range of industrial, residential construction, commercial construction, agricultural, and specialty applications. Its products include bright wire; a broad array of fasteners, including packaged, collated and bulk nails; stucco reinforcing products; concrete reinforcing 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.

PRESIDENT'S LETTER

The third quarter demonstrated continued near term stability in our operating results. We remained committed to our *profitable growth* strategy by closely managing costs and applying price discipline which led to a period of stronger operating margins, despite lower revenues and sales volume. However, we continued to be faced with external pressures including ongoing limited market visibility and volatile input costs, causing us to maintain a cautious yet moderate outlook.

For the quarter ended September 30, 2012, the Fund reported revenues of $34.0 million compared to $38.0 million during the same period in 2011. Gross profit improved to $3.5 million compared to $1.4 million during the third quarter in 2011. As a result, gross profit per ton increased to $144 per ton from $51 per ton. The Fund achieved EBITDA of $1.0 million representing a $2.3 million improvement as compared to the corresponding period last year. These improvements reflect our continued focus on strict inventory and pricing controls, and an emphasis on efficiency at all levels of our operations which are paramount to our *profitable growth* strategy.

On a year-over-year basis revenues, gross profit, gross profit per ton, and EBITDA increased as compared to the nine months ending September 30, 2011.

Subsequent to the end of the third quarter, the Fund successfully converted from an income trust to a corporation, Tree Island Steel Ltd. All outstanding units, convertible debentures, and warrants of the Fund were exchanged for common shares, convertible debentures, and warrants of Tree Island Steel Ltd. on a one-for-one basis. The common shares and the convertible debentures of Tree Island Steel Ltd. commenced trading on the Toronto Stock Exchange under the symbols TSL and TSL.DB, respectively, on October 3, 2012.

As a corporation, our objectives remain unchanged. Our priority is the profitable growth of the Tree Island business through a targeted market focus, supported by focused management practices, and an emphasis on efficiency at all levels of our operations. We will continue to apply the same business principles as we have done so far to further strengthen the fundamentals of our business in an effort to take full advantage of any recovery, grow revenues and earnings, and increase shareholder value.

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

Sincerely,

Dale R. MacLean
Director, President and Chief Executive Officer Tree Island Steel Ltd.

MANAGEMENT'S DISCUSSION AND ANALYSIS

September 30, 2012 and 2011

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

The following is a discussion of the financial condition and results of operations of Tree Island Wire Income Fund (the "Fund") and its wholly owned operating subsidiary Tree Island Industries Limited ("Tree Island" or the "Company"). This discussion is current to November 8, 2012 and should be read in conjunction with the unaudited interim condensed consolidated financial statements for the three and nine month periods ended September 30, 2012. The Fund's unaudited interim condensed consolidated financial statements are prepared in accordance with International Accounting Standard 34, Interim Financial Reporting, and are reported in Canadian dollars. They do not include all of the information required for full annual financial statements.

Additional information relating to the Fund, including the audited consolidated financial statements and Annual Information Form ("AIF") for the year ended December 31, 2011, can be found at www.sedar.com or on the Fund's website at www.treeisland.com.

1. FORWARD-LOOKING STATEMENTS AND RISK

This management's discussion and analysis ("MD&A") includes forward-looking information with respect to the Fund, Tree Island Steel ltd., and Tree Island, including our business, operations and strategies, as well as financial performance and conditions. The use of forward-looking words such as, "may," "will," "expect" or similar variations generally identify such statements. Any statements that are contained herein that are not statements of historical fact may be deemed to be forward-looking statements. Although we believe that expectations reflected in forward-looking statements are reasonable, such statements involve risks and uncertainties, including the risks and uncertainties discussed under the heading "Risks Relating to the Company's Business" in the Fund's AIF for the year ended December 31, 2011 as well as Section 14 of this MD&A.

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

This MD&A has been reviewed by the Board of Directors of Tree Island Steel Ltd., and its Audit Committee, and contains information that is current as of the date of this MD&A, unless otherwise noted. Events occurring after that date could render the information contained herein inaccurate or misleading in a material respect. Readers are cautioned not to place undue reliance on this forward-looking information and management of 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 income 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 gain (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 for evaluating our 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 the 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

Up to the date of conversion from an income trust to a corporation, the Fund held a 100% ownership interest in Tree Island and was organized as a trust on a corporation structure. There were 21,797,550 Units of the Fund outstanding as of September 30, 2012.

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 was convertible into 200 Fund Units at the option of the Debenture holder. As at September 30, 2012, the total number of Debentures remaining outstanding was 193,846.

In addition, as part of the same private placement transaction mentioned above, the Fund issued 4,875,000 warrants ("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. Conversion to Tree Island Steel Ltd.

Effective October 1, 2012 the Fund converted to a corporation, Tree Island Steel Ltd ("Tree Island Steel"). The conversion to a corporation was undertaken primarily to provide the following benefits: a simplified tax and legal structure, comparable to the majority of public companies operating in Canada, providing among other things the benefit of reduced internal and external administrative costs; a tax efficient conversion of the Fund into a corporation with completion before January 1, 2013; resolution of issues relating to potential non-compliance with foreign ownership limitations; and better access to global capital markets in order to maximize returns to shareholders.

The conversion took place as a Plan of Arrangement (the "Arrangement") and was effective October 1, 2012. Under the Arrangement, unitholders of the Fund received common shares of Tree Island Steel, on a one-for-one basis. The business of the Fund continues to be conducted by Tree Island Steel, through Tree Island, and all obligations of the Fund have been assumed by Tree Island Steel.

In connection with the Arrangement, Tree Island Steel assumed all of the covenants and obligations of the Fund relating to the outstanding Debentures and Warrants. The Debentures have become convertible subordinated debentures of Tree Island Steel and holders are entitled to receive Tree Island Steel common shares, rather than Units, at the same conversion price at which the Units were previously issuable upon conversion thereof, subject to adjustment in certain events as provided for in the Debenture Indenture. The Warrants will continue to be convertible, but into common shares of Tree Island Steel at the same price at which the Warrants were convertible into units of the Fund, subject to adjustment as provided for in the Warrant Certificates governing the Warrants.

The trustees of the Fund have become the directors of Tree Island Steel and the officers and management of the Fund have become officers and management of Tree Island Steel.

Effective October 3, 2012, the shares of Tree Island Steel trade on the Toronto Stock Exchange under the symbol TSL and the Debentures trade under the symbol TSL.DB. There were 21,776,550 shares of Tree Island Steel issued and outstanding as at November 8, 2012.

As at November 8, 2012, the total number of Debentures remaining outstanding is 193,846.

As at November 8, 2012, the total number of warrants remaining outstanding is 4,875,000.

3.3. About Tree Island

Organizational Structure

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

Markets

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

Products

Tree Island is a manufacturer and supplier of premium quality wire products for a broad range of applications. Our goal is to match the appropriate wire product, level of quality and price point for our customers needs. We achieve this by manufacturing most of our products at our own manufacturing facilities (including Premium Brands), while outsourcing others from qualified manufacturers (Select Brand and Direct Ship). We market these products to customers in Canada, the United States and internationally.

Premium Brands

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

Select Brand

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

Direct Ship

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

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

Markets	Premium Brand	Key Product Groups	Specific End-Use Markets	Regions
Industrial/OEM	Tree Island, TI Wire	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), forestry, recycling	North America and International
Residential Construction	Tree Island, Halsteel, K-Lath	Collated, bulk and packaged nails, and stucco reinforcing mesh	Construction and renovation for new and existing homes	North America and International
Commercial Construction	Tree Island, TI Wire	Welded wire reinforcement mesh and concrete reinforcing products	Commercial construction, mining, infrastructure projects	North America
Agricultural	Tree Island, Tough Strand	Hi-tensile game fence, farm fence, vineyard wire, barbed wire, bailing wire, vinyl coated wire	Agriculture, farming	North America
Specialty Applications	Industrial Alloys	Stainless spring wire, cold heading wire, shaped wire, specialty alloy bar, and wire	Consumer products, industrial applications, telecommunications, aerospace, automotive, oil industry	North America

Seasonality

Our operations are impacted by the seasonal nature of the various industries we serve, primarily the Canadian residential construction, commercial 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 agricultural and construction activities.

4. DEVELOPMENTS AND THIRD QUARTER 2012 BUSINESS OVERVIEW

Business Overview

Market conditions remained challenging during the third quarter with continued uncertainty and volatility in the global economy. In addition, the ongoing low levels of housing starts in the United States continues to impact our traditional markets in the residential construction industry. In response to these challenges, we continue to diversify and manage our product mix, maintain price discipline and manage our costs closely as part of our business strategy.

For the three months ended September 30, 2012 gross profit improved to $3.5 million compared to $1.4 million during the third quarter in 2011. As a result, gross profit per ton increased to $144 per ton from $51 per ton. The Fund achieved EBITDA of $1.0 million versus an EBITDA loss of $1.3 million during the third quarter in 2011. The improvements in gross profit, gross profit per ton, and EBITDA were largely the result of closely managing costs, applying price discipline, and aligning of price to costs as part of our strategy of profitable growth.

Trust Conversion

On October 1, 2012, the Fund converted to a corporation, Tree Island Steel. Unitholders of the Fund received common shares of Tree Island Steel, on a one-for-one basis. The business of the Fund continues to be conducted by Tree Island Steel and all interests and obligations of the Fund have been assumed by Tree Island Steel. The Debentures have become convertible subordinated debentures of Tree Island Steel and holders are entitled to receive Tree Island Steel common shares, rather than Units, at the same conversion price at which the Units were previously issuable upon conversion thereof, subject to adjustment in certain events as provided for in the Debenture Indenture. The Warrants will continue to be convertible, but into common shares of Tree Island Steel at the same price at which the Warrants were convertible into units of the Fund, subject to adjustment as provided for in the Warrant Certificates governing the Warrants.

Union Negotiations

On September 10, 2012 Tree Island and the International Brotherhood of Teamster Local 213 successfully concluded a new three-year collective agreement. The agreement covers hourly employees at Tree Island's Richmond, BC manufacturing facility. The new collective agreement is retroactive to July 1, 2012 and introduces, among other improvements, a new wage and benefit structure that will provide a long term foundation for improved labour and productivity costs.

Unit Buy-Back

During the nine months ended September 30, 2012 the Fund purchased 1,018,500 units at an average cost of $0.30 per unit, net of commission, under its normal course issuer bid. These units were cancelled by the Fund at the end of the month of purchase. The Unit Buy-Back is continuing under Tree Island Steel and after September 30, 2012, Tree Island Steel has purchased and cancelled an additional 21,000 shares at an average cost of $0.51 per share, net of commissions. On September 6, 2012, the normal course issuer bid was extended to September 6, 2013. Under the renewed normal course issuer bid the Fund may purchase up to 1,700,000 shares.

Outlook

Given the continued global economic uncertainty and high level of unemployment in the US, meaningful improvements in demand fundamentals for our end markets are difficult to predict. Our outlook remains cautious due to the lack of visibility from a macro-economic perspective. Going forward, our focus remains on the alignment of pricing against volatile raw material costs balanced with closely managing costs and applying price discipline. To help minimize our exposure to raw material price volatility, we will continue to balance our inventory sourcing between international and domestic suppliers and closely manage our inventory levels. There can be no certainty that we can make changes to sales prices to match the volatility of raw material costs. We will also carefully monitor and evaluate our other cost drivers including freight costs, the cost of other materials required to produce our products, and our labour and staffing costs.

5. RESULTS FROM OPERATIONS

	Three Months Ended September 30		Nine Months Ended September 30	
	2012	2011	2012	2011
Summary of Results *($000's except for tonnage and per unit amounts)*				
Sales Volumes – Tons [(1)]	***24,242***	***27,408***	***80,825***	***85,032***
Sales	$ 33,962	$ 38,005	$ 117,581	$ 114,949
Cost of sales	(29,697)	(35,774)	(103,564)	(103,135)
Depreciation	(778)	(820)	(2,299)	(2,459)
Gross profit	3,487	1,411	11,718	9,355
Selling, general and administrative expenses	(3,267)	(3,507)	(9,306)	(9,393)
Operating income (loss)	220	(2,096)	2,412	(38)
Foreign exchange gain (loss)	163	(1,817)	75	(1,239)
Gain on sale of property, plant and equipment	3	11	430	11
Changes in financial liabilities recognized at fair value	(727)	1,414	(727)	2,301
Gain (loss) on renegotiated debt	-	-	17,805	(3,234)
Financing Expenses	(1,422)	(2,153)	(5,975)	(6,259)
(Loss) income before income taxes	(1,763)	(4,641)	14,020	(8,458)
Income tax (expense) recovery	(228)	47	(1,304)	(146)
Net (loss) income	**$ (1,991)**	**$ (4,594)**	**$ 12,716**	**$ (8,604)**
Operating income (loss)	$ 220	$ (2,096)	$ 2,412	$ (38)
Add back depreciation	778	820	2,299	2,459
EBITDA [(2)]	**$ 998**	**$ (1,276)**	**$ 4,711**	**$ 2,421**
Foreign exchange gain (loss)	163	(1,817)	75	(1,239)
EBITDA including foreign exchange	$ 1,161	$ (3,093)	$ 4,786	$ 1,182
Net (loss) income	**$ (1,991)**	**$ (4,594)**	**$ 12,716**	**$ (8,604)**
Add back significant non-cash items				
Non-cash financing expenses	634	1,339	3,313	3,962
Non-cash (gain) loss on renegotiated debt	-	-	(17,805)	3,234
Changes in financial liabilities recognized at fair value	727	(1,414)	727	(2,301)
Adjusted net loss [(2)]	**$ (630)**	**$ (4,669)**	**$ (1,049)**	**$ (3,709)**
Per unit				
Net (loss) income per unit - basic	$ (0.09)	$ (0.20)	$ 0.57	$ (0.38)
Net (loss) income per unit - diluted	(0.09)	(0.20)	0.27	(0.38)
Per ton				
Gross profit per ton	$ 144	$ 51	$ 145	$ 110
EBITDA per ton	41	(47)	58	28

Financial position	As at September 30, 2012	As at December 31, 2011
Total assets	$ 94,036	$ 91,005
Total non-current financial liabilities	$ 29,629	$ 42,789

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

[(2)] See definition of EBITDA and Adjusted Net Loss in Section 2 - Non-IFRS Measures

6. COMPARISON OF RESULTS FOR THE THREE MONTHS ENDED SEPTEMBER 30, 2012 AND 2011

Revenue

During the three months ended September 30, 2012, we generated revenues of $34.0 million, a decrease of $4.0 million, or 10.6%, from the same period in 2011. The decrease in revenue primarily reflects an 11.6% decrease in tons sold which is a result of our continued focus on profitable growth in the marketplace. The decline in revenues was partially offset by the positive impact of a weaker Canadian dollar on our US dollar-denominated revenues. The average exchange rate for the Canadian to US dollar was 1.5% weaker than the same period in 2011. Holding all other factors constant, had exchange rates for the Canadian to US dollar remained consistent with that of 2011, our third quarter 2012 revenues would have been approximately $0.3 million lower.

Sales volumes by market were as follows:

	Three Months Ended Sep 30, 2012		Three Months Ended Sep 30, 2011	
Market	Tons	% of Sales Volumes	Tons	% of Sales Volumes
Industrial/OEM	8,807	36.4%	10,447	38.2%
Residential Construction	7,018	29.0%	8,370	30.5%
Commercial Construction	5,656	23.3%	5,611	20.5%
Agricultural	1,623	6.7%	1,207	4.4%
Specialty Applications	1,029	4.2%	1,137	4.1%
International Trading (1)	109	0.4%	636	2.3%
Total	24,242	100.0%	27,408	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

Our sales volume to the industrial/OEM, residential construction, specialty applications, and international trading markets declined as compared to the same period in 2011. Industrial/OEM market sales volumes declined as a result of our efforts to maintain price discipline together with the competitiveness in the galvanized chain link wire market. Despite recoveries in Western US housing, housing starts continue to be well below historical average levels and the residential construction market remains highly competitive. Our sales volume to this market declined driven by lower stucco mesh and fastener sales as a result of our continuing focus on margin improvements in our product mix. International trading sales decreased reflecting the discontinuation of certain projects in our Asian subsidiaries.

Though overall sales volumes declined year-over-year, sales volumes to the agricultural sector grew driven by growth in vineyard and barbed wire sales. This is a result of increasing agricultural and fencing product demand due to more favourable weather conditions in the prairies. Sales to the commercial construction sector grew driven by growth in concrete reinforcing product sales.

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

	Three Months Ended Sep 30, 2012		Three Months Ended Sep 30, 2011	
	Tons	% of Sales Volumes	Tons	% of Sales Volumes
North American Manufactured	22,806	94.1%	25,197	91.9%
Imported & Trading	1,436	5.9%	2,211	8.1%
Total	24,242	100.0%	27,408	100.0%

During the three months ended September 30, 2012, sales volumes of our North American manufactured products decreased in total tons but increased 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. Going forward, we will continue to review and optimize the mix of manufactured versus imported products as we work to enhance profitability and provide our customers with value and the specific products they need.

Cost of Sales

For the three months ended September 30, 2012, cost of sales decreased by $6.1 million or 17.0% from the same period last year. This decrease in cost of sales reflects our lower sales volumes together with lower raw material costs including realized cost recoveries. Our average cost of carbon rod (representing 55.0% of total cost of sales) decreased by 4.2% when compared to the same period in 2011. Because carbon rod is usually transacted in US dollars, the cost of carbon rod for our Canadian operations was negatively impacted by the weaker Canadian dollar during the quarter which partially offset the benefits of our overall lower carbon rod costs. Stainless steel costs (representing 7.3% of total cost of sales) decreased 18.2% on a per-ton basis, compared to 2011 and the cost of zinc (representing 2.9% of total cost of sales) decreased 9.5%.

Gross Profit

During the three months ended September 30, 2012, gross profit increased to $3.5 million, while gross profit per ton increased to $144 per ton, compared to $51 per ton in the same period in 2011. The increase in gross profit and gross profit per ton primarily reflects the decrease in cost of sales as noted above.

Expenses

SG&A expenses decreased to $3.3 million in 2012 from $3.5 million in 2011, a decrease of $0.2 million, or 6.8%. The decrease in SG&A expense is primarily the result of retention bonuses paid in 2011 as no retention bonuses were paid in 2012.

EBITDA

EBITDA for the three months ended September 30, 2012 increased to $1.0 million from an EBITDA loss of $1.3 million in 2011. The $2.3 million improvement reflects profitability gains made through our focus on cost management, pricing, and price discipline.

Financing Expenses

For the three months ended September 30, 2012, financing expenses decreased by $0.7 million to $1.4 million. The components of financing expense are below:

	Three months ended September 30	
	2012	2011
Non-cash accretion of debt discount and interest on long term debt and Convertible Debentures	$ 634	$ 1,339
Cash interest on Convertible Debentures	482	483
Interest on Senior Credit Facility	200	169
Other interest and financing costs	96	76
Financing transaction costs and amortization of deferred financing costs	10	86
	$ 1,422	$ 2,153

The decrease is primarily due to the decrease in non-cash accretion of debt discount and interest on long term debt and Convertible Debentures as a result of the renegotiation of our long-term debt in June 2012.

Changes in Fair Value on financial liabilities recognized at fair value

Under IFRS, certain of our financial instruments are recorded at fair market value and are re-measured each period.

The fair market value of these financial liabilities incorporates the market value of the Fund's units and the risk-free interest rate 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 change in fair value for the three months ended September 30, 2012 was a loss of $0.7 million in the third quarter of 2012 versus a gain of $1.4 million in the third quarter of 2011. The loss is due to the increase in unit price experienced during the quarter.

Foreign Exchange

During the three months ended September 30, 2012 the Fund reported a gain on foreign exchange of $0.2 million, compared to a loss of $1.8 million in 2011. As a portion of Tree Island's assets, liabilities, sales and expenses are denominated in currencies other than the Canadian dollar, its functional currency, Tree Island has exposure to fluctuations in the values of these currencies, in particular the US dollar, relative to the Canadian dollar. Foreign exchange gains and losses are unpredictable in nature and therefore can be expected to vary significantly from period-to-period and over time.

Income Taxes

For the three months ended September 30, 2012, we recorded an income tax expense of $228 thousand, compared to an income tax recovery of $47 thousand in 2011. The income tax expense represents a current income tax expense of $4 thousand (2011 - $88 thousand recovery) and a deferred income tax expense of $224 thousand (2011 - $41 thousand expense). The income tax expense was based on the statutory tax rate of 25.0% (2011 – 26.5%) 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 $2.0 million in the three months ended September 30, 2012 (2011 - net loss of $4.6 million), or basic and diluted loss per unit of $0.09 (2011 - net loss of $0.20 per unit basic and diluted). The decrease in the net loss primarily reflects an increase in operating income to $0.2 million (2011 – loss of $2.1 million), an increase in foreign exchange gain to $0.2 million (2011 - loss of $1.8 million), and a decrease in financing expense to $1.4 million (2011 - $2.2 million). These amounts were partially offset by a loss on fair value of convertible instruments of $0.7 million (2011 – gain of $1.4 million) and an increase in income tax expense to $0.2 million (2011 – income tax recovery of $0.1 million).

Adjusted Net Loss

Adjusted for the impact of certain non-cash items recognized in net loss, Adjusted Net Loss for the three months ended September 30, 2012 decreased to $0.6 million from a loss of $4.7 million during the same period in 2011. The $4.1 million decrease in Adjusted Net Loss is primarily due to a $2.3 million increase in operating income and an increase in foreign exchange of $2.0 million which were partially offset by a $0.3 million increase in income tax expense.

7. COMPARISON OF RESULTS FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2012 AND 2011

Revenue

During the nine months ended September 30, 2012, we generated revenues of $117.6 million, an increase of $2.6 million, or 2.3%, from the same period in 2011. The improvement in revenue primarily reflects overall higher selling prices and the positive impact of a weaker Canadian dollar on our US dollar-denominated revenues. The average exchange rate for the Canadian to US dollar was 2.5% weaker than the same period in 2011. Holding all other factors constant, had exchange rates for the Canadian to US dollar remained consistent with that of 2011, revenues of our first nine months of 2012 would have been approximately $1.7 million lower.

Sales volumes by market were as follows:

	Nine Months Ended Sep 30, 2012		Nine Months Ended Sep 30, 2011	
Market	Tons	% of Sales Volumes	Tons	% of Sales Volumes
Industrial/OEM	30,933	38.2%	31,808	37.4%
Residential Construction	23,498	29.1%	25,187	29.6%
Commercial Construction	15,097	18.7%	17,399	20.5%
Agricultural	7,754	9.6%	6,121	7.2%
Specialty Applications	3,202	4.0%	3,135	3.7%
International Trading (1)	341	0.4%	1,382	1.6%
Total	80,825	100.0%	85,032	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

Overall our sales volumes are lower than the prior year due in part to our objective of focusing on profitable growth areas. Our sales volume to the industrial/OEM, residential construction, commercial construction, and international sectors declined as compared to the same period in 2011. Industrial/OEM sales volumes declined driven by our efforts to maintain price discipline together with the competitiveness in the galvanized chain link, and other wire markets. The decline was partially offset by growth in wire sales to the manufacturing and agricultural sectors. Despite some recovery in Western US housing, housing starts are well below historical average levels and the residential construction market remains highly competitive. Our sales volume to this market was driven by our continuing focus on margin improvements in our product mix. Sales to the commercial construction sector declined driven by less welded wire fabric sales which was the result of our efforts to redefine our product mix and focus on more profitable product sales. International trading sales decreased reflecting the discontinuation of certain projects in our Asian subsidiaries.

Though overall sales volumes declined year-over-year, sales volumes to the agricultural sector grew driven by growth in our vineyard, fixed knot, and barbed wire sales. This is a result of increasing agricultural and fencing product demand due to more favourable weather conditions in the prairies. Sales to the specialty sector improved due to the strengthening demand for spring wire.

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

	Nine Months Ended Sep 30, 2012		Nine Months Ended Sep 30, 2011	
	Tons	% of Sales Volumes	Tons	% of Sales Volumes
North American Manufactured	76,497	94.6%	78,770	92.6%
Imported & Trading	4,328	5.4%	6,262	7.4%
Total	80,825	100.0%	85,032	100.0%

During the nine months ended September 30, 2012, sales volumes of our North American manufactured products decreased in total tons but increased 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. Going forward, we will continue to review and optimize the mix of manufactured versus imported products as we work to enhance profitability and provide our customers with value and the specific products they need.

Cost of Sales

For the nine months ended September 30, 2012, cost of sales increased by $0.4 million or 0.4% from the same period last year. Despite a decrease in sales volumes, the increase in cost of sales was driven by higher overall raw material costs when compared to the same period last year. Our average cost of carbon rod (representing 55.2% of total cost of sales) increased by 3.5% when compared to the same period in 2011. Because carbon rod is usually transacted in US dollars, the cost of carbon rod for our Canadian operations was negatively impacted by the weaker Canadian dollar in the first nine months of 2012. The increase in cost of sales from carbon rod was partially offset by decreases in the cost of stainless steel and zinc. Stainless steel costs (representing 7.8% of total cost of sales) decreased 13.6% on a per-ton basis, compared to 2011 and the cost of zinc (representing 3.7% of total cost of sales) decreased 9.0%.

Gross Profit

During the nine months ended September 30, 2012, gross profit increased to $11.7 million (2011 - $9.4 million), while gross profit per ton increased by $35 per ton to $145 per ton, compared to $110 per ton in the same period in 2011. The increase in gross profit and gross profit per ton primarily reflects the increase in sales prices which were partially offset by the increase in the cost of carbon rod as noted above.

Expenses

SG&A expenses decreased to $9.3 million in 2012 from $9.4 million in 2011, a decrease of $0.1 million, or 0.9%. The decrease in SG&A expense is the result of a reduction in professional services compared to the prior year primarily from the transition to IFRS in 2011.

EBITDA

EBITDA for the nine months ended September 30, 2012 was $4.7 million as compared to EBITDA of $2.4 million in 2011. The $2.3 million increase reflects profitability gains made through our focus on cost management, pricing, and price discipline, particularly as it relates to the improvements realized in the third quarter of 2012 as compared to 2011.

Financing Expenses

For the nine months ended September 30, 2012, financing expenses decreased by $0.3 million to $6.0 million. The components of financing expense are below:

	Nine months ended September 30	
	2012	2011
Non-cash accretion of debt discount and interest on long term debt and Convertible Debentures	$ 3,313	$ 3,962
Cash interest on Convertible Debentures	1,453	1,450
Interest on Senior Credit Facility	521	382
Other interest and financing costs	323	256
Financing transaction costs and amortization of deferred financing costs	365	209
	$ 5,975	$ 6,259

The decrease is primarily due to the $0.6 million decrease in non-cash accretion of debt discount and interest on long term debt and Convertible Debentures as a result of the renegotiation of long-term debt in June 2012. The decrease was partially offset by a $0.1 million increase in interest on the Senior Credit Facility as the average balance increased during the nine months ended September 30, 2012, compared to the same period in the prior year. In addition, financing transaction costs and amortization of deferred financing costs increased by $0.2 million as deferred financing costs related to the Senior Credit Facility were expensed when the Senior Credit Facility was renewed on June 11, 2012.

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. The fair market value of these financial liabilities incorporates the market value of the Fund's units and the risk-free interest rate 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 change in fair value for the nine months ended September 30, 2012 was a loss of $0.7 million versus a gain of $2.3 million in 2011. The loss is due to the increase in unit price experienced during the period.

Gain (loss) on renegotiated debt

Our long-term trade debt was renegotiated in June 2012. With one of the vendors the renegotiation resulted in an exchange of debt instruments with substantially different terms for accounting purposes. As a result, in the second quarter of 2012 this long-term debt was accounted for as an extinguishment of the original financial liabilities and recognition of new financial liabilities at their present value resulting in a gain on renegotiated debt of $4.9 million, net of transaction costs. Present value was determined using discounted cash flows and a credit-adjusted discount rate of 9%. 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 long-term debt. The long-term debt with the other vendor was settled for a sum of US$5.0 million. The settlement resulted in a gain on renegotiated debt of $12.9 million, net of transaction costs, for accounting purposes and the extinguishment of US$19.8 million in principal and accrued interest.

In the prior year, the long-term trade debt was amended in January 2011 and resulted in an exchange of debt instruments with substantially different terms. As a result, in the first quarter of 2011 the amendments to the long-term debt 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%.

Foreign Exchange

During the nine months ended September 30, 2012 the Fund reported a gain on foreign exchange of $0.1 million, compared to a loss of $1.2 million in 2011. As a portion of Tree Island's assets, liabilities, sales and expenses are denominated in currencies other than the Canadian dollar, its functional currency, Tree Island has exposure to fluctuations in the values of these currencies, in particular the US dollar, relative to the Canadian dollar. Foreign exchange gains and losses are unpredictable in nature and therefore can be expected to vary significantly from period-to-period and over time.

Income Taxes

For the nine months ended September 30, 2012, we recorded an income tax expense of $1,304 thousand, compared to an income tax expense of $146 thousand in 2011. The income tax expense represents a current income tax recovery of $103 thousand (2011 - $60 thousand expense) and a deferred income tax expense of $1,407 thousand (2011 - $86 thousand expense). The income tax expense was based on the statutory tax rate of 25.0% (2011 – 26.5%) applied to the income of subsidiaries before taxes, with adjustments for permanent differences between accounting and taxable income.

Net Income (Loss)

We reported a net income of $12.7 million in the nine months ended September 30, 2012 (2011 - net loss of $8.6 million), or basic income per unit of $0.57 and diluted income per unit of $0.27 (2011 - net loss of $0.38 per unit basic and diluted). The increase in the net income primarily reflects an increase in operating income to $2.4 million (2011 – operating loss of $0.1 million), an increase in foreign exchange gain to $0.1 million (2011 – loss of $1.2 million), an increase in non-cash gain on renegotiation of debt to $17.8 million (2011 – loss of $3.2 million), a gain on sale of property, plant and equipment of $0.4 million (2011 - $11 thousand), and a decrease in financing expense to $6.0 million (2011 - $6.3 million). These amounts were offset by a decrease in the changes in financial liabilities recognized at fair value to a loss of $0.7 million (2011 – gain of $2.3 million).

Adjusted Net Loss

Adjusted for the impact of certain non-cash items recognized in net loss, Adjusted Net Loss for the nine months ended September 30, 2012 decreased to a loss of $1.1 million, from a loss of $3.7 million during the same period in 2011. The $2.6

million decrease in Adjusted Net Loss is primarily due to an increase in operating income of $2.4 million, an increase in foreign exchange gain of $1.3 million, and an increase in gain on sale of property, plant and equipment of $0.4 million. These amounts were partially offset by an increase in cash interest of $0.4 million and an increase in income tax expense of $1.2 million.

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, financed primarily by credit in the form of our Senior Credit Facility and accounts 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 commercial construction, residential construction, and agricultural markets are seasonal in nature. As a result, sales and working capital requirements may be higher in the first and second quarters when demand is historically highest.

A summary of the composition of our working capital as at September 30, 2012 and December 31, 2011 is provided below ($000's):

	September 30 2012	December 31 2011
Investment in working capital assets		
Cash	$ 2,850	$ 3,852
Accounts receivable	14,410	13,835
Inventories	43,021	36,123
Other current assets	1,435	2,533
	$ 61,716	$ 56,343
Less current liabilities		
Senior Credit Facility	(16,631)	(11,247)
Accounts payable and accrued liabilities	(13,909)	(13,745)
Other current liabilities	(3,169)	(2,573)
Current portion of long-term debt	(1,734)	(4,882)
	(35,443)	(32,447)
Net investment in working capital	$ 26,273	$ 23,896

As at September 30, 2012 inventories increased in comparison to year-end 2011. The increase in inventories relates to strategic raw material purchases during the third quarter. Offsetting the increase was an increase in the Senior Credit Facility to fund the inventory build and operating expenses until inventory is sold and cash is collected on our accounts receivable.

Also, during the quarter, there was a significant reduction in the current portion of long term debt as a result of amendments to our long-term debt as discussed in more detail in Note 10 to the interim condensed consolidated financial statements.

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

We manage our inventories with an emphasis on a continuous inflow of inventories to meet our production needs balanced with strategic purchases. 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.

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 nine month periods ended September 30, 2012 and 2011 ($000's – bracketed figures indicate use of cash):

	Three Months Ended September 30		Nine Months Ended September 30	
	2012	2011	2012	2011
Net cash provided by operating activities	$ 816	$ 200	$ 4,441	$ 3,129
Working capital adjustments	$ (810)	$ (2,031)	$ (6,795)	$ (11,995)
Net cash provided by (used in) investing activities	$ (8)	$ (112)	$ 255	$ (270)
Term loan	(125)	-	4,875	-
Repayment of long-term debt	(297)	(1,200)	(6,514)	(2,598)
Interest paid	(813)	(728)	(2,321)	(2,088)
Normal Course Issuer Bid	(39)	(5)	(301)	(5)
Advance on Senior Credit Facility	(47)	3,890	5,384	11,341
Net cash (used in) provided by financing activities	$ (1,321)	$ 1,957	$ 1,123	$ 6,650
Exchange rate changes on foreign cash balances	(28)	53	(26)	(8)
(Decrease) increase in cash balances	$ (1,351)	$ 67	$ (1,002)	$ (2,494)

During the three and nine month periods ended September 30, 2012, cash flow provided by operating activities was $0.8 and $4.4 million respectively, compared to $0.2 million and $3.1 million over the same periods in the prior year. The $0.6 million and $1.3 million increase in cash provided by operating activities for the three and nine months ended September 30, 2012 was primarily the result of increased EBITDA.

During the three and nine month periods ended September 30, 2012, working capital adjustments decreased by $1.2 million and $5.2 million respectively primarily as a result of the timing of collections on our accounts receivable.

During the three months ended September 30, 2012 and 2011 cash flows used in investing activities were primarily related to maintenance capital expenditures. During the nine months ended September 30, 2012 investing activities provided $0.3 million in cash (2011 – consumed $0.3 million) which was comprised of $0.5 million (2011 - $nil) in cash from the receipt of the holdback from the sale of surplus land, and offset by $0.2 million (2011 - $0.3 million) in maintenance capital expenditures.

In regards to the long-term debt, during the three and nine month periods ended September 30, 2012 the Fund made payments of $0.3 million and $6.5 million respectively compared to $1.2 million and $2.6 million during the same periods in the previous year. The increase is the result of the $5.0 million settlement of the long-term debt agreements with one of our trade creditors. The settlement was funded through proceeds received from the Fund's term loan (described under "Senior Credit Facility"). During the three months ended September 30, 2012 we made payments of $125 thousand towards the term loan (2012 - $nil).

During the nine months ended September 30, 2012, we borrowed $5.4 million on our Senior Credit Facility (2011 - $11.3 million in advances), increasing the amount outstanding from $11.2 million as at December 31, 2011 to $16.6 million as at September 30, 2012. This was primarily due to strategic raw material purchases during the third quarter which will be utilized for the fourth quarter inventory consumption.

Senior Credit Facility

The Senior Credit Facility was renewed and amended on June 11, 2012. Under the terms of the amended Senior Credit Facility, up to $40 million may be borrowed 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 amended Senior Credit Facility matures on June 11, 2016.

The Senior Credit Facility consists of a revolving loan and a $5 million term loan. Management expects that this is sufficient to accommodate Tree Island's current daily operating needs. The credit available at any given time under the Senior Credit Facility is limited to the amount of the calculated borrowing base, less a minimum availability of $4 million and certain reserves.

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

As at September 30, 2012 the availability was in excess of the Availability Test and Tree Island was in compliance with its covenants on the Senior Credit Facility. For more details on the Senior Credit Facility please refer to Note 8 of the Fund's interim condensed consolidated financial statements for the three and nine month periods ended September 30, 2012.

8.3. Distributable Cash

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

We believe that the calculation of Standardized Distributable Cash distorts the Fund's quarter-to-quarter distributable cash and payout ratios, given that our non-cash operating working capital fluctuates significantly as a result of the seasonality of our business. As a result, we believe that our historical measure of Adjusted Distributable Cash, which excludes the impact of changes in non-cash working capital, is a better measure for determining our operating performance. Adjusted Distributable Cash for the three and nine month periods ended September 30, 2012 and 2011 were calculated as follows ($000's except for unit, per unit and % amounts):

	Three Months Ended September 30		Nine Months Ended September 30	
	2012	2011	2012	2011
Net Cash Provided from (Used in) Operating Activities	$ 6	$ (1,831)	$ (2,354)	$ (8,866)
Capital Expenditures	(23)	(161)	(232)	(319)
Standardized Distributable Cash	***$ (17)***	***$ (1,992)***	***$ (2,586)***	***$ (9,185)***
Change in Non-cash Operating Assets & Liabilities	810	2,031	6,795	11,995
Non-maintenance Capital Expenditures	-	1	-	-
Adjusted Distributable Cash	***$ 793***	***$ 40***	***$ 4,209***	***$ 2,810***
Distributions Paid or Payable	$ -	$ -	$ -	$ -
Weighted Average Units Issued and Outstanding				
Basic	21,846,714	22,900,703	22,293,598	22,867,849
Fully Diluted	21,846,714	22,900,703	61,365,072	22,867,849
Adjusted Distributable Cash per Unit				
Basic	0.0363	0.0017	0.1888	0.1229
Fully Diluted	0.0363	0.0017	0.0686	0.1229
Distributions Paid or Payable per Unit - Basic & Fully Diluted	$ -	$ -	$ -	$ -
Adjusted Distribution Payout Percentage (1)	0%	0%	0%	0%

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

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

	Since Inception
Adjusted Distributable Cash Generated Since Inception (1)	139,542
Distributions Paid or Payable Since Inception	158,997
Adjusted Distribution Payout Percentage Since Inception (1)	114%

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

Historically, our policy was to make equal monthly distributions to Unitholders based on our estimate of the annual Adjusted Distributable Cash available for distribution. The amount of Adjusted Distributable Cash available for distribution was based on the Adjusted Distributable Cash generated, after allowances for cash redemption of units, payment of debt service obligations, and any reserve deemed prudent by the Trustees of the Fund. 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.

The dividend policy of Tree Island Steel replaced the distribution policy of the Fund and is subject to the discretion of the Board of Directors who will take into account Tree Island's current and anticipated business needs and financial condition at the time a dividend is considered. Currently no dividends are paid on the common shares of Tree Island Steel.

9. CAPITAL EXPENDITURES AND CAPACITY

For the three and nine month periods ended September 30, 2012, we made capital expenditures of $23 thousand and $232 thousand respectively (2011 - $161 thousand and $319 thousand) made up primarily of maintenance capital. We have planned capital expenditures for the remainder of the 2012 fiscal year to a level which we believe will be sufficient to maintain the existing productive capacity of our manufacturing operations. Non-maintenance capital is funded out of our Senior Credit Facility and maintenance capital is funded from cash generated by operations. We anticipate that we will continue to have sufficient capacity to meet projected future demand.

10. CONTRACTUAL OBLIGATIONS AND COMMITMENTS

As of September 30, 2012, we were committed to the contracts, operating leases and debt repayments (including scheduled interest payments on interest bearing debt) set out below, which will be financed through working capital and our Senior Credit Facility.

	2012	2013	2014	2015	2016	Thereafter	Total
Commitments							
Wire Rod Purchases	$ 4,927	$ -	$ -	$ -	$ -	$ -	$ 4,927
Finished Goods	1,058	-	-	-	-	-	1,058
Operating Lease Agreements	497	1,066	796	751	684	-	3,794
	6,482	1,066	796	751	684	-	9,779
Financial Liabilities							
Revolving Credit	16,631	-	-	-	-	-	16,631
Accounts Payable and accrued liabilities	13,909	-	-	-	-	-	13,909
Finance Lease	16	65	65	29	-	-	175
Term Loan	125	500	500	500	500	2,792	4,917
Long-term debt	295	1,180	1,249	1,298	1,367	10,778	16,167
Debentures	489	1,938	21,626	-	-	-	24,053
Total	$ 37,947	$ 4,749	$ 24,236	$ 2,578	$ 2,552	$ 13,570	$ 85,631

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 before the end of 2012.

We have leases for facilities and equipment that are considered to be operating leases for accounting purposes and as such are not recorded on the statement of financial position. During the second quarter of 2012 we entered into a new lease which is considered a finance lease for accounting purposes and as such the lease obligation was recorded on the statement of financial position with the leased asset included in property, plant and equipment.

We have ongoing and renewing tolling agreements for contract manufacturing whereby our customers retain ownership of the raw materials and finished goods and we charge the customers a tolling fee for processing the raw material into finished goods.

11. SUMMARY OF QUARTERLY FINANCIAL INFORMATION

The table below provides selected quarterly financial information for the eight most recent fiscal quarters to September 30, 2012. 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 sales volumes are traditionally higher 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.

	Sept-30 2012	Jun-30 2012	Mar 31 2012	Dec-31 2011	Sep-30 2011	Jun-30 2011	Mar 31 2011	Dec 31 2010 (1)
Sales Volumes – Tons (2)	24,242	25,965	30,618	25,282	27,408	27,676	29,948	20,565
Revenue	$ 33,962	$ 39,622	$ 43,997	$ 35,081	$ 38,005	$ 38,000	$ 38,944	$ 27,746
Gross Profit	$ 3,487	$ 4,239	$ 3,992	$ 1,103	$ 1,411	$ 3,564	$ 4,380	$ 510
EBITDA	$ 998	$ 1,985	$ 1,728	$ (1,133)	$ (1,276)	$ 1,725	$ 1,972	$ (319)
Foreign exchange gain (loss)	$ 163	$ (397)	$ 309	$ 517	$ (1,817)	$ 160	$ 418	$ 763
EBITDA including foreign exchange	$ 1,161	$ 1,588	$ 2,037	$ (616)	$ (3,093)	$ 1,885	$ 2,390	$ 444
Net Income (Loss)	$ (1,991)	$ 15,125	$ (418)	$ (4,257)	$ (4,594)	$ 29	$ (4,039)	$ (3,210)
Net Income (Loss) per Unit – Basic	$ (0.09)	$ 0.69	$ (0.02)	$ (0.19)	$ (0.20)	$ 0.00	$ (0.18)	$ (0.14)
Gross Profit per Ton	$ 144	$ 163	$ 130	$ 44	$ 51	$ 129	$ 146	$ 25
EBITDA per Ton	$ 41	$ 76	$ 56	$ (45)	$ (47)	$ 62	$ 66	$ (16)
Distributions Paid or Payable	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -

(1) Reclassified for comparative purposes

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

- Q2 2012: The second quarter demonstrated sustained improvements across key financial indicators, resulting from our profitable growth strategy, despite an uncertain economic environment.
- Q1 2012: Market conditions remained challenging during the period with continued uncertainty and volatility in global economic factors. In response to these challenges, we continued to manage our product mix, maintain price discipline and manage our costs closely as part of our business strategy. However, rising raw material costs compressed margins when compared to the same period in the prior year.
- Q4 2011: Although the fourth quarter experienced some seasonal impact, this was not as pronounced as in the prior year, and overall the Fund's performance in the fourth quarter of 2011 and for the full year 2011 compare favorably with the same periods in 2010. However, we continued to observe weakness in our end markets.
- Q3 2011: Growth in our key markets resulted in higher volumes and as a result a better recovery of overhead costs contributing to an improved gross profit when compared to the same quarter in the prior year. However, when compared to the first and second quarters, rising raw material costs resulted in margin compression and consequently in lower gross profit as compared to the first and second quarters of 2011.
- Q2 2011: Continuing increases in steel prices required further price increases however the extent of realizing those price increases was not sufficient to fully mitigate the impact on gross profit. The continued strength of the Canadian dollar negatively impacted our US dollar-denominated sales but contributed to reductions in costs of sales and expenses relating to our US dollar-denominated costs.
- 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.
- 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.

12. ACCOUNTING POLICIES AND ESTIMATES

Certain of our accounting policies involve critical accounting estimates that require 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. These estimates and assumptions are evaluated regularly.

Our critical accounting policies remain unchanged from December 31, 2011, except as disclosed in Note 3 to the unaudited interim condensed consolidated financial statements for the three and nine month periods ended September 30, 2012. For further information regarding these policies refer to Note 4 to the December 31, 2011 audited consolidated financial statements and the Annual Information Form ("AIF") for the year ended December 31, 2011.

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

13. RELATED PARTY TRANSACTIONS

Transactions with associated companies

One of the investors in the Recapitalization Transaction (as discussed in the Fund's Annual Information Form for the year ended December 31, 2011 under the header "*General Development of the Business and Three Year History*"), The Futura Corporation ("Futura"), is considered to be a related party to the Fund, and, subsequent to conversion, Tree Island Steel, because of its ownership interest and the fact that Mr. Doman, the sole shareholder and president of Futura, and Mr. Rosenfeld, the Executive Vice President of Futura, sit on the Board of Directors. Futura has purchased $5.0 million of convertible debentures and was issued 1,875,000 warrants as part of the Recapitalization Transaction. During the three and nine month periods ended September 30, 2012, Futura received interest settled in cash of $126 thousand and $374 thousand respectively (2011 - $126 thousand and $374 thousand) on the convertible debentures at the stated rate of interest.

As well, Tree Island sells products to subsidiaries of a company controlled by Futura, CanWel Building Materials Group Ltd. ("CanWel"), which amounted to, net of rebates, $825 thousand and $3,510 thousand (2011 - $963 thousand and $3,905 thousand) during the three and nine month periods ended September 30, 2012 and trade accounts receivable owing from CanWel as at September 30, 2012 was $135 thousand (2011 - $198 thousand). 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 nine month periods ended September 30, 2012 were $637 and $1,702 (2011 - $577 and $1,456) 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 paid to members of the Board.

14. RISKS AND UNCERTAINTIES

Investment in the Fund, and going-forward the investment in Tree Island Steel, is subject to a number of risks. Tree Island's income is dependent upon the fabricated wire products business, which is susceptible to a number of risks. A detailed discussion of our significant business risks is provided in the Fund's 2011 Annual Information Form under the heading "Risk Factors" which can be found at www.sedar.com. During the nine month period ended September 30, 2012 there were no changes in the risks and uncertainties from that disclosure.

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 three and nine month periods ended September 30, 2012. 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 September 30, 2012 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

The Board of Directors and Audit Committee reviewed and approved the September 30, 2012 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 condensed 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.

November 8, 2012

Tree Island Wire Income Fund

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

(in thousands of Canadian dollars - unaudited)

		September 30 2012		December 31 2011
Assets				
Current				
Cash	$	2,850	$	3,852
Accounts receivable (Note 5)		14,410		13,835
Inventories (Note 6)		43,021		36,123
Prepaid expenses		1,435		2,533
		61,716		56,343
Property, plant and equipment (Note 7)		32,195		34,303
Other non-current assets (Note 8.1)		125		359
	$	94,036	$	91,005
Liabilities				
Current				
Senior Credit Facility (Note 8.1)	$	16,631	$	11,247
Accounts payable and accrued liabilities		13,909		13,745
Income taxes payable		1,991		2,093
Other current liabilities		129		158
Fair value of convertible instruments (Note 9)		1,049		322
Current portion of long term borrowings (Notes 8.2, 10, 19.6)		1,734		4,882
		35,443		32,447
Convertible Debentures (Note 9)		15,391		14,298
Term loan (Note 8.2)		4,417		-
Long-term debt (Note 10)		9,582		28,491
Finance lease (Note 19.6)		101		-
Other non-current liabilities (Note 10)		457		364
Deferred income taxes		2,172		766
		67,563		76,366
Unitholders' Equity		26,473		14,639
	$	94,036	$	91,005

Approved on behalf of Tree Island Wire Income Fund

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

See accompanying Notes to the Interim Condensed Consolidated Financial Statements

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

	Three Months Ended September 30		Nine Months Ended September 30	
	2012	2011	2012	2011
Sales	$ 33,962	$ 38,005	$ 117,581	$ 114,949
Cost of goods sold (Note 6)	29,697	35,774	103,564	103,135
Depreciation	778	820	2,299	2,459
Gross profit	3,487	1,411	11,718	9,355
Selling, general and administrative expenses	3,267	3,507	9,306	9,393
Operating income (loss)	220	(2,096)	2,412	(38)
Foreign exchange gain (loss)	163	(1,817)	75	(1,239)
Gain on sale of property, plant and equipment	3	11	430	11
Changes in financial liabilities recognized at fair value	(727)	1,414	(727)	2,301
Gain (loss) on renegotiated debt (Note 10)	-	-	17,805	(3,234)
Financing expenses (Note 11)	(1,422)	(2,153)	(5,975)	(6,259)
(Loss) income before income taxes	(1,763)	(4,641)	14,020	(8,458)
Income tax (expense) recovery (Note 15)	(228)	47	(1,304)	(146)
Net (loss) income for the period	$ (1,991)	$ (4,594)	$ 12,716	$ (8,604)
Net (loss) income per unit (Note 18)				
Basic	$ (0.09)	$ (0.20)	$ 0.57	$ (0.38)
Diluted	$ (0.09)	$ (0.20)	$ 0.27	$ (0.38)
Weighted-average number of units (Note 18)				
Basic	21,846,714	22,900,703	22,293,598	22,867,849
Diluted	21,846,714	22,900,703	61,365,072	22,867,849

See accompanying Notes to the Interim Condensed Consolidated Financial Statements

Tree Island Wire Income Fund

INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE LOSS

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

	Three Months Ended September 30		Nine Months Ended September 30	
	2012	**2011**	**2012**	**2011**
Net (loss) income for the period	(1,991)	(4,594)	$ 12,716	$ (8,604)
Other comprehensive (loss) income				
Unrealized (loss) income on translating financial statements of subsidiary operations	(633)	1,353	(590)	971
Comprehensive (loss) income for the period	$ (2,624)	$ (3,241)	$ 12,126	$ (7,633)

See accompanying Notes to the Interim Condensed Consolidated Financial Statements

Tree Island Wire Income Fund
INTERIM CONDENSED CONSOLIDATED STATEMENT OF UNITHOLDERS EQUITY
(in thousands of Canadian dollars, except units and per-unit amounts - unaudited)

	Unitholders' Capital (Note 13)	Accumulated Deficit	Distributions	Accumulated Other Comprehensive Income (Loss)	Total
Balance as at December 31, 2011	$ 211,450	$ (37,899)	$ (159,248)	$ 336	$ 14,639
Conversion of phantom units (Notes 12 and 13)	2	-	-	-	2
Normal course issuer bid (Note 13)	(205)	-	-	-	(205)
Net loss	-	(418)	-	-	(418)
Other comprehensive loss	-	-	-	(214)	(214)
Balance as at March 31, 2012	$ 211,247	$ (38,317)	$ (159,248)	$ 122	$ 13,804
Conversion of phantom units (Notes 12 and 13)	4	-	-	-	4
Normal course issuer bid (Note 13)	(57)	-	-	-	(57)
Net Income	-	15,125	-	-	15,125
Other comprehensive income	-	-	-	257	257
Balance as at June 30, 2012	$ 211,194	$ (23,192)	$ (159,248)	$ 379	$ 29,133
Conversion of phantom units (Notes 12 and 13)	3	-	-	-	3
Normal course issuer bid (Note 13)	(39)	-	-	-	(39)
Net loss	-	(1,991)	-	-	(1,991)
Other comprehensive loss	-	-	-	(633)	(633)
Balance as at September 30, 2012	$ 211,158	$ (25,183)	$ (159,248)	$ (254)	$ 26,473
Balance as at December 31, 2010	$ 211,460	$ (25,038)	$ (159,248)	$ (319)	$ 26,855
Conversion of phantom units (Notes 12 and 13)	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 (Notes 12 and 13)	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
Normal course issuer bid (Note 13)	(5)	-	-	-	(5)
Net loss	-	(4,594)	-	-	(4,594)
Other comprehensive income	-	-	-	1,353	1,353
Balance as at September 30, 2011	$ 211,471	$ (33,642)	$ (159,248)	$ 652	$ 19,233

See accompanying Notes to the Interim Condensed Consolidated Financial Statements

Tree Island Wire Income Fund
INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS
(in thousands of Canadian dollars, except units and per-unit amounts - unaudited)

	Three Months Ended September 30		Nine Months Ended September 30	
	2012	2011	2012	2011
Cash flows from operating activities				
Net (loss) income for the period	$ (1,991)	$ (4,594)	$ 12,716	$ (8,604)
Adjustments for				
Depreciation	778	820	2,299	2,459
Changes in financial liabilities recognized at fair value	727	(1,414)	727	(2,301)
Gain on sale of property, plant and equipment	(3)	(11)	(430)	(11)
(Gain) loss on renegotiated debt	-	-	(17,805)	3,234
Net finance costs	1,422	2,153	5,975	6,259
Deferred income tax recovery	224	41	1,407	86
Fair value change on Phantom Units	47	53	64	49
Exchange revaluation on foreign denominated debt	(388)	3,152	(512)	1,958
Working capital (Note 21)	(810)	(2,031)	(6,795)	(11,995)
Net cash provided by (used in) operating activities	6	(1,831)	(2,354)	(8,866)
Cash flows from investing activities				
Proceeds on disposal of property, plant and equipment	15	49	487	49
Purchase of property, plant and equipment	(23)	(161)	(232)	(319)
Net cash (used in) provided by investing activities	(8)	(112)	255	(270)
Cash flows from financing activities				
Term Loan	(125)	-	4,875	-
Repayment of long-term debt	(297)	(1,200)	(6,514)	(2,598)
Interest paid	(813)	(728)	(2,321)	(2,088)
Normal course issuer bid (Note 13)	(39)	(5)	(301)	(5)
(Payment of) advance on Senior Credit Facility	(47)	3,890	5,384	11,341
Net cash (used in) provided by financing activities	(1,321)	1,957	1,123	6,650
Effect of exchange rate changes on cash	(28)	53	(26)	(8)
(Decrease) increase in cash	(1,351)	67	(1,002)	(2,494)
Cash, beginning of period	4,201	3,073	3,852	5,634
Cash, end of period	$ 2,850	$ 3,140	$ 2,850	$ 3,140

See accompanying Notes to the Interim Condensed Consolidated Financial Statements

1. NATURE OF BUSINESS

These interim condensed consolidated financial statements of Tree Island Wire Income Fund (the "Fund") for the three and nine month periods ended September 30, 2012 were authorized for issue in accordance with a resolution of the Board of Directors of Tree Island Steel Ltd. ("Tree Island Steel") on November 8, 2012.

The Fund was an unincorporated, open-ended, limited purpose trust established under the laws of the Province of British Columbia pursuant to a Declaration of Trust dated September 30, 2002 and headquartered at 3933 Boundary Road, Richmond, British Columbia, Canada. Each unitholder participated pro rata in distributions of net earnings and, in the event of termination of the Fund, participated pro rata in the net assets remaining after satisfaction of all liabilities.

On October 1, 2012, the Fund successfully converted from an income trust to a corporation named Tree Island Steel. Under the conversion arrangement, Unitholders of the Fund received common shares of the newly formed corporation, Tree Island Steel, on a one-for-one basis for their trust units. Effective October 3, 2012, Tree Island Steel is listed on the Toronto Stock Exchange (listing symbol TSL).

The Debentures have become debentures of Tree Island Steel. The Debentures will continue to be convertible, but into common shares of Tree Island Steel at the same price at which the Debentures are now convertible into units of the Fund, subject to adjustment as provided for in the trust indenture governing the Debentures. Effective October 3, 2012, the Convertible Debentures are listed on the Toronto Stock Exchange (listing symbol TSL.DB).

The Warrants have become warrants of Tree Island Steel. The Warrants will continue to be convertible, but into common shares of Tree Island Steel at the same price at which the Warrants were convertible into units of the Fund, subject to adjustment as provided for in the Warrant Certificates governing the Warrants.

The trustees of the Fund have become the directors of Tree Island Steel, and the officers and management of the Fund have become officers and management of Tree Island Steel.

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

Tree Island operations are impacted by the seasonal nature of the various industries to which is sells products, primarily the construction and agricultural industries. Accordingly, revenues, sales volumes and operating results for the 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.

2. BASIS OF PREPARATION

Basis of presentation

The consolidated financial statements as at and for the three and nine month periods ended September 30, 2012 have been prepared in accordance with International Accounting Standard ("IAS") 34, "Interim Financial Reporting." They should be read in conjunction with the annual consolidated financial statements and the notes thereto for the year ended December 31, 2011 and do not include all of the information required for full annual financial statements. Certain comparative information has been reclassified to conform to the presentation adopted during the period.

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

Basis of consolidation

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

Functional currency

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

3. SIGNIFICANT ACCOUNTING POLICIES, CRITICAL ACCOUNTING JUDGMENTS AND ESTIMATES

The accounting policies, methods of application, and critical judgments and estimates used in the preparation of these interim condensed consolidated financial statements are consistent with those disclosed in the annual consolidated financial statements as at December 31, 2011 except as noted below:

IFRS 7 Financial Instruments: Disclosure

The Fund adopted IFRS 7 *Financial Instruments: Disclosure* on January 1, 2012. The mandatory adoption of the accounting policy had no impact on the financial statements as at and for the three and nine month periods ended September 30, 2012.

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

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

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

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

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

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

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

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

5. ACCOUNTS RECEIVABLE

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

	September 30 2012	December 31 2011
Accounts Receivable		
Up to date	$ 10,013	$ 10,508
Under 30 days past due	3,385	2,823
30-60 days past due	740	607
61-90 days past due	230	109
Over 91 days past due	336	89
	14,704	14,136
Allowance for doubtful accounts	(294)	(301)
Balance, end of period	$ 14,410	$ 13,835

The maximum credit risk that the Fund was exposed to by way of its accounts receivable is equal to the carrying amount of $14,410 as at September 30, 2012.

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

	September 30 2012	December 31 2011
Opening Balance	$ 301	$ 974
Additions during the period	32	63
Reversals during the period	(37)	(70)
Write-offs during the period	-	(676)
Foreign exchange revaluation	(2)	10
Balance, end of period	$ 294	$ 301

See Note 16.3 on credit risk of trade receivables to understand how credit quality of accounts receivable that are neither past due nor impaired are managed and measured.

6. INVENTORIES

The Fund had the following categories of inventory as at:

	September 30 2012	December 31 2011
Raw materials	$ 14,621	$ 8,598
Finished and semi finished products	20,688	19,889
Consumable supplies and spare parts	7,712	7,636
	$ 43,021	$ 36,123

At each period end, the ending inventories on hand are reviewed to determine if a write down to net realizable value is required. The Fund has recognized a cumulative charge over the three and nine month periods ended September 30, 2012 of $nil and $nil (2011 - $64 and $193) in cost of sales to write down inventories to net realizable value. In the three and nine month periods ended September 30, 2012 and 2011, the Fund recognized, in income, inventory costs for the following:

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

	Three months ended September 30		Nine Months Ended September 30	
	2012	2011	2012	2011
Opening inventory	$ 40,355	$ 37,524	$ 36,123	$ 30,878
Raw material purchases	22,809	29,962	78,686	84,157
Finished goods purchased for resale	1,351	818	4,740	1,914
Conversion costs	8,203	8,812	27,036	27,657
Writedowns	-	(64)	-	(193)
Inventories, closing	(43,021)	(41,278)	(43,021)	(41,278)
Cost of goods sold	$ 29,697	$ 35,774	$ 103,564	$ 103,135

7. PROPERTY, PLANT AND EQUIPMENT

	Land & Improvements	Building & Improvements	Machinery & Equipment	Construction in progress	Total
Cost					
As at December 31, 2011	$ 9,136	$ 38,848	$ 17,856	$ 363	$ 66,203
Additions	-	69	662	(337)	394
Disposals	-	-	(1,278)	-	(1,278)
Foreign currency translation	(47)	(196)	(162)	14	(391)
As at September 30, 2012	$ 9,089	$ 38,721	$ 17,078	$ 40	$ 64,928
Accumulated depreciation					
As at December 31, 2011	$ -	$ 25,275	$ 6,625	$ -	$ 31,900
Depreciation charge for the period	-	1,050	1,249	-	2,299
Disposals	-	-	(1,221)	-	(1,221)
Foreign currency translation	-	(75)	(170)	-	(245)
As at September 30, 2012	$ -	$ 26,250	$ 6,483	$ -	$ 32,733
Net book values as at:					
December 31, 2011	$ 9,136	$ 13,573	$ 11,231	$ 363	$ 34,303
September 30, 2012	$ 9,089	$ 12,471	$ 10,595	$ 40	$ 32,195

During the nine months ended September 30, 2012 additions to machinery and equipment related to assets under finance lease were $170 (2011 - $nil). The carrying value of machinery and equipment held under finance lease at September 30, 2012 was $151 (2011 - $nil). The leased asset is pledged as security for the related finance lease.

8. SENIOR CREDIT FACILITY

8.1 Senior Credit Facility

On June 11, 2012, the Fund amended and restated its senior secured committed credit facility (“Senior Credit Facility”) with Wells Fargo Capital Finance Corporation. Under the terms of the Senior Credit Facility, up to $40 million may be borrowed in Canadian and US currency under a revolving credit facility and a $5 million term loan (see Note 8.2). Interest is charged at variable rates based on the Canadian and/or US prime rate and the Canadian Bankers Acceptance and/or Euro rate. The Senior Credit Facility now matures on June 11, 2016.

The Senior Credit Facility includes a $10.0 million Letter of Credit sub-facility which enables TII and TIW to open documentary letters of credit for raw material purchases. There were no Letters of Credit outstanding as at September 30, 2012.

The amount available under the revolving portion of the Senior Credit Facility is limited to the amount of the calculated borrowing base, less minimum availability of $4,000, less issued Letters of Credit, and less principal due under the Term Loan (Note 8.2). 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.

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

The Senior Credit Facility has financial tests and other covenants with which Tree Island must comply. Quarterly, Tree Island 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 $4,000. As well, the Senior Credit Facility contains restrictive covenants that limit the discretion of management with respect to certain business matters. These covenants place restrictions on, among other things, the ability of TII and TIW to incur additional indebtedness, to create liens or other encumbrances, to pay dividends or make certain other payments, investments, loans and guarantees and to sell or otherwise dispose of assets and merge or consolidate with another entity.

As at September 30, 2012 the Fund was in compliance with the financial covenants on the Senior Credit Facility.

The following amounts are outstanding under the Senior Credit Facility:

	September 30 2012	December 31 2011
Senior Credit Facility (1)	$ 16,631	$ 11,247
Deferred financing costs (2)	(125)	(359)
	$ 16,506	$ 10,888

(1) The portion of the Senior Credit Facility denominated in US dollars is $6,608 (Dec 31, 2011 - $2,256).

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

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

8.2 Term Loan

On June 11, 2012, the Fund, through its subsidiaries, entered into a term loan with Wells Fargo Capital Finance Corporation (the "Term Loan"). The Term Loan matures on June11, 2016 and is repayable over 10 years through monthly principal installments of $42 plus interest at variable rates based on the Canadian prime rate and the Canadian Bankers Acceptance rate. The proceeds of the Term Loan were used to settle long-term debt (Note 10).

The covenants and collateral for the Term Loan are consistent with those noted above for the Senior Credit Facility.

The following amounts are outstanding under the Term Loan:

	Year of Maturity	September 30, 2012	December 31 2011
Term loan, beginning of period	2016	$ -	$ -
Advances		5,000	-
Payments		(83)	-
Term loan, end of period		4,917	-
Less current portion		(500)	-
		$ 4,417	$ -

9. CONVERTIBLE DEBENTURES

The convertible debentures, less fair values allocated to the conversion feature, change of control premium, and warrants issued are classified as a liability. The liability has been discounted using the effective interest rate method and a discount rate of 21.9%. The debt discount, together with the stated interest and associated transaction costs, are being amortized as interest expense over the life of the convertible debentures.

The conversion feature, change of control premium, 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 7.8% (December 31, 2011 – 18.0%) and a risk free rate of 1.08% (December 31, 2011 – 1.02%). The expected volatility reflects the assumption that the historical volatility is indicative of future trends, which may not be the actual outcome.

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

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

	September 30 2012	December 31 2011
December 31, 2011	$ 14,298	$ 13,108
Accretion of debt discount for the period	2,546	3,128
Payment of interest in cash	(1,453)	(1,938)
September 30, 2012	$ 15,391	$ 14,298

The fair values and change for the other elements are:

	Conversion Feature	Warrants	Change of Control Premium	Total
December 31, 2011	$ 2	$ -	$ 320	$ 322
Change in fair value	702	25	-	727
September 30, 2012	$ 704	$ 25	$ 320	$ 1,049

10. LONG-TERM DEBT

	Year of Maturity (1)	September 30 2012	December 31 2011
Beginning of period	2028	$ 33,373	$ 27,538
Gain (loss) on renegotiated debt		(17,805)	3,234
Payments		(6,514)	(2,375)
Foreign exchange revaluation		(512)	817
Accretion of debt discount		2,220	4,159
End of period		10,762	33,373
Less current portion (1)		(1,180)	(4,882)
		$ 9,582	$ 28,491

(1) The long-term debt agreements were amended on June 12, 2012 to extend the repayment term by fourteen years so that they now mature in 2028. The current portion as at December 31, 2011 is based on the previous terms of the agreements.

On June 11, 2012, the Fund, through two of its subsidiaries extinguished the long-term debt agreements with one of its trade creditors (“Settlement and Release Agreement”) and amended the long-term debt agreements for the other trade creditor (“Second Amendment Agreement”).

With respect to the Settlement and Release Agreement, the Fund settled long term debt with a carrying amount of $18,001 for a sum of US$5,000. The settlement resulted in a gain on renegotiated debt of $12,881, net of transaction costs, for accounting purposes and the extinguishment of US$19,842 in principal and accrued interest. The current income tax associated with the Settlement and Release Agreement is offset through the utilization of non-capital losses available to TII and TIW respectively. All transaction costs associated with the extinguishment have been expensed as per IAS 39 guidance. There are no continuing obligation with respect to the Settlement and Release Agreements.

The Second Amendment Agreement extended the repayment term to June 2028 with principal payments over a 10 year amortization period and non-compounding interest at 4% commencing June 2017, payable monthly over 4 years commencing June 2024. Principal payments are monthly in the amounts of US$100 in years 1 and 2, US$110 in years 3 and 4, US$120 in years 5, 6 and 7, and US$185 in years 8, 9 and 10. For accounting purposes, it was determined that the June 11, 2012 amendment resulted in an exchange of debt instruments with substantially different terms. As a result for the period ended September 30, 2012, the amendment was accounted for as an extinguishment of the original financial liabilities and the recognition of new financial liabilities at their present value resulting in a gain on renegotiated debt of $4,924, net of transaction costs which were expensed as per IAS 39 guidance. Present value was determined using discounted cash flows and a credit adjusted discount rate of 9%. 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 amended long-term debt agreements.

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

The principal under the Second Amendment Agreement is denominated in US dollars.

A provision exists for early payment of a portion of the principal outstanding if certain conditions are met. As at September 30, 2012 a provision of $138 has been accrued and is included in other noncurrent liabilities.

11. FINANCING EXPENSES

	Three months ended September 30		Nine Months ended September 30	
	2012	2011	2012	2011
Non-cash accretion of debt discount and interest on long term debt and Convertible Debentures	$ 634	$ 1,339	$ 3,313	$ 3,962
Cash interest on Convertible Debentures	482	483	1,453	1,450
Interest on Senior Credit Facility	200	169	521	382
Other interest and financing costs	96	76	323	256
Amortization of deferred financing costs	10	86	365	209
	$ 1,422	$ 2,153	$ 5,975	$ 6,259

12. PHANTOM UNITS

On August 20, 2012 the Phantom Unit Plan was terminated. There are no continuing obligations with respect to the Plan and as a result the liability for the Phantom Units at September 30, 2012 was $nil (December 31, 2011 - $52). The change in fair value related to Phantom Units for the three and nine month periods ended September 30, 2012 was $47 and $64 (2011 - $53 and $49). The expense is included in selling, general and administrative expense. A summary of the Fund's Phantom Units changes during the three and nine month periods ended September 30, 2012 and 2011 are as follows:

	Three months ended September 30				Nine months ended September 30			
	2012		2011		2012		2011	
	Vested	Unvested	Vested	Unvested	Vested	Unvested	Vested	Unvested
Balance, beginning of period	223,765	-	45,504	-	245,504	-	63,999	54,081
Granted	-	-	200,000	-	-	-	200,000	-
Cash Settlement [(1)]	(219,847)	-	-	-	(219,847)	-	-	-
Vested	-	-	-	-	-	-	20,748	(20,748)
Forfeited	(11)	-	-	-	(11)	-	-	(33,333)
Converted	(3,907)	-	-	-	(25,646)	-	(39,243)	-
Balance, end of period	-	-	245,504	-	-	-	245,504	-

(1) The cash settlement was determined as the closing unit price on August 20, 2012 multiplied by the number of Phantom Units outstanding.

13. UNITHOLDERS' CAPITAL

Fund units

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

	Units	Gross	Issuance Costs	Net
Unitholders' capital - December 31, 2011	22,790,404	$ 222,850	$ 11,400	$ 211,450
Conversion of Phantom Units	25,646	9	-	9
Normal course issuer bid	(1,018,500)	(301)	-	(301)
Unitholders' capital - September 30, 2012	21,797,550	$ 222,558	$ 11,400	$ 211,158

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

Normal Course Issuer Bid

During the nine months ended September 30, 2012 the Fund purchased 1,018,500 units for $301 at an average market price of $0.30 per unit, net of commission. These units were cancelled upon being purchased by the Fund.

Warrants

As part of the Recapitalization Transaction, the Fund issued 4,875,000 warrants to certain investors. The warrants have an exercise price of $0.57 and expire November 26, 2014. No warrants have been exercised since issuance. As discussed in Note 9, the warrants are measured at fair value.

14. RELATED PARTY TRANSACTIONS

Transactions with associated companies

During the three and nine month period ended September 30, 2012, The Futura Corporation ("Futura") received interest settled in cash of $126 and $374 (2011 - $126 and $374) on the convertible debentures at the stated rate of interest.

As well, Tree Island sells products to subsidiaries of a company controlled by Futura, CanWel Building Materials Group Ltd. ("CanWel"), which amounted to, net of rebates, $825 and $3,510 (2011 - $963 and $3,905) during the three and nine months ended September 30, 2012 and trade accounts receivable owing from CanWel as at September 30, 2012 was $135 (2011 - $198). 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 nine months ended September 30, 2012 were $637 and $1,702 (2011 - $577 and $1,456) 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 paid to members of the Board.

15. INCOME TAXES

For the three and nine month periods ended September 30, 2012 and 2011, income tax obligations relating to distributions from the Fund are the obligations of the Unitholders and, accordingly, no provision for current income taxes on the income of the Fund has been made. A provision for income taxes is recognized for TII and its wholly owned subsidiaries, as TII and its wholly owned subsidiaries are subject to tax.

Income tax (recovery) expense

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

	Three months ended September 30		Nine months ended September 30	
	2012	2011	2012	2011
Recorded in the statement of operations				
Current tax recovery (expense)	$ (4)	$ 88	$ 103	$ (60)
Deferred tax expense	(224)	(41)	(1,407)	(86)
	$ (228)	$ 47	$ (1,304)	$ (146)

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:

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

	Three months ended September 30		Nine months ended September 30	
	2012	**2011**	**2012**	**2011**
(Loss) income before provision for income taxes	$ (1,763)	$ (4,641)	$ 14,020	$ (8,458)
Income (loss) of the Fund subject to tax in the hands of the recipient	162	(945)	900	(1,069)
(Loss) income of wholly-owned subsidiary companies before income taxes	(1,601)	(5,586)	14,920	(9,527)
Tax Rate	25.0%	26.5%	25.0%	26.5%
Expected recovery of income taxes (income tax expense)	$ 400	$ 1,481	$ (3,730)	$ 2,525
Increased (reduced) by:				
Revisions of prior period estimates	4	3	(34)	(120)
Items not taxable	(9)	(10)	(21)	(25)
Non-taxable foreign exchange gain (loss) included in other comprehensive loss	525	(1,172)	495	(696)
Differential tax rates on U.S. and Chinese subsidiaries	388	146	247	329
(Increase) decrease in statutory future income tax rate	(289)	7	(297)	(4)
(Unrecognized) recognized deferred tax benefits	(1,082)	(703)	1,696	(2,110)
Non-taxable items of the Fund	64	(41)	395	(86)
Other	(229)	336	(55)	41
Income tax (recovery) expense	$ (228)	$ 47	$ (1,304)	$ (146)

Taxation of the trust

In 2009, rules were enacted to facilitate the conversion of trusts, such as the Fund, into corporations without undue income tax consequences (generally effective for conversions that occur after July 13, 2008 and before January 1, 2013). The Fund evaluated the merits and costs of conversion into a corporation to take advantage of the transitional rules and the conversion was completed on October 1, 2012 (see note 22).

16. FINANCIAL INSTRUMENTS

16.1 Fair value of financial instruments

The Fund records certain of its financial instruments at fair value using various techniques. These include estimates of fair values based on prevailing market rates (bid and ask prices, as appropriate) for instruments with similar characteristics and risk profiles or internal or external valuation models, such as discounted cash flow analysis and option pricing models, using, to the extent possible, observable market-based inputs.

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

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

	September 30, 2012		December 31, 2011	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial assets				
Cash	$ 2,850	$ 2,850	$ 3,852	$ 3,852
Accounts receivable	14,410	14,410	13,835	13,835
Total financial assets	$ 17,260	$ 17,260	$ 17,687	$ 17,687
Financial liabilities				
Senior Credit Facility	$ 16,631	$ 16,631	$ 11,247	$ 11,247
Accounts payable and accrued liabilities	13,909	13,909	13,745	13,745
Finance lease	155	155	-	-
Term loan	4,917	4,917	-	-
Long-term debt	10,762	11,435	33,373	32,329
Convertible debentures	15,391	18,927	14,298	14,410
Change of control premium	320	320	320	320
Conversion feature	704	704	2	2
Warrants	25	25	-	-
Early payment option	138	138	-	-
Total financial liabilities	$ 62,952	$ 67,161	$ 72,985	$ 72,053

The fair values of the financial assets and financial liabilities is included at the amount at which the instrument could be exchanged in a current transaction between willing parties, other than a forced or liquidation sale. The following methods and assumptions were used to estimate the fair values:

- Cash, accounts receivable, Senior Credit Facility, and accounts payable and accrued liabilities approximate their carrying amounts largely due to the short-term nature of these instruments.
- Fair value on the Company's finance lease, term loan, and long-term debt are based on estimated market interest rate on similar borrowings. The fair value of the finance lease and term loan approximate fair value as the interest rates approximate market. A 1% change in the market interest rate would change the fair value of long term debt by $697.
- Convertible debentures are traded on the TSX and the fair value disclosed is based on the closing price at period end less the fair values of the change of control premium, conversion feature, and warrants.
- Fair value of change of control premium, conversion feature, and warrants are estimated using the Black-Scholes Option Pricing Model.
- Fair value of the early payment option was estimated using a discounted cash flow analysis and a discount rate of 9.0%.

16.2 Fair value hierarchy

The financial instruments have been categorized on a fair value hierarchy based on whether the inputs to those valuation techniques are observable (inputs reflect market data obtained from independent sources) or unobservable (inputs reflect the Fund's market assumptions).

The three levels of fair value estimation are:

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

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

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

The following tables summarize the bases used to measure certain financial liabilities at fair value through profit and loss. The Fund does not have any financial assets valued at fair value through profit and loss. Financial liabilities carried at fair value have been classified into three levels based upon a fair value hierarchy that reflects the significance of the inputs used in making the measurements.

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

	Classification (1)		September 30 2012		Level 1		Level 2		Level 3
Change of control premium	HFT	$	320	$	-	$	-	$	320
Conversion feature	HFT		704		-		-		704
Warrants	HFT		25		-		-		25
Early payment option	HFT		138		-		-		138
		$	1,187	$	-	$	-	$	1,187

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

(1) Held for Trading ("HFT")

Refer to Note 9 for a reconciliation of the opening and closing balances of the change of control premium, conversion feature, and warrants. The balance of the early payment option is consistent with June 30, 2012.

16.3 Risk exposure and management

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

Credit risk

Credit risk consists of credit losses arising in the event of non-payment of accounts receivable of 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. Management establishes guidelines for customer credit limits and should thresholds in these areas be reached, appropriate precautions are taken to improve collectability. Provisions for potential credit losses (allowance for doubtful accounts) are maintained and any such losses to date have been within management's expectations.

Liquidity risk

Liquidity arises from our financial obligations and in the management of our assets, liabilities and capital structure. This risk is managed by regular evaluation of our 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) as at September 30, 2012 and December 31, 2011:

September 30, 2012		Carrying Amount		Contractual Cash Flow		Less than 1 Year		1 - 2 Years		Greater than 2 Years
Senior Credit Facilities (Note 8.1)	$	16,631	$	16,631	$	16,631	$	-	$	-
Accounts payable and accrued liabilities		13,909		13,909		13,909		-		-
Finance lease (Note 19.6)		155		175		65		110		-
Term loan (Note 8.2)		4,917		4,917		500		1,000		3,417
Long-term debt (Note 10)		10,762		16,168		1,180		2,518		12,470
Convertible debentures (Note 9)		15,391		24,053		1,938		22,115		-
	$	61,765	$	75,853	$	34,223	$	25,743	$	15,887

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

December 31, 2011	Carrying Amount	Contractual Cash Flow	Less than 1 Year	1 - 2 Years	Greater than 2 Years
Senior Credit Facilities (Note 8)	$ 11,247	$ 11,247	$ 11,247	$ -	$ -
Accounts payable and accrued liabilities	13,745	13,745	13,745	-	-
Long-term debt (Note 10)	33,373	43,587	4,882	38,705	-
Convertible debentures (Note 9)	14,298	25,008	1,938	23,070	-
	$ 72,663	$ 93,587	$ 31,812	$ 61,775	$ -

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

Market risk

Foreign currency risk

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

	September 30 2012
Increase (decrease) to net comprehensive loss of a $0.01 increase in Cdn$ to US$ exchange rate	146
Increase (decrease) to net comprehensive loss of a $0.01 increase in Cdn$ to RMB exchange rate	36

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

Interest rate risk

Tree Island is exposed to interest rate risk on its Senior Credit Facility, which is further discussed in Note 8. A 1% increase in the interest rates charged on the Senior Credit Facility would increase financing expenses by $166. Tree Island does not use derivative instruments to manage the interest rate risk.

Price risk on convertible instruments

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

	Warrants	Conversion Feature
Increase (decrease) to net income of a $0.01 increase in the Fund's unit price	9	173
Increase (decrease) to net income of a 1% increase in the risk free rate	10	166

17. MANAGEMENT OF CAPITAL

Our objectives when managing its capital are:

(i) To maintain a capital base so as to preserve and enhance investor, creditor, and market confidence and to sustain viability and future development of the business;

(ii) To manage capital in a manner that will comply with the financial covenants on the Senior Credit Facility, term loan, convertible debentures and long-term debt agreements as described further in Notes 8.1, 8.2, 9, and 10.

Management manages the capital structure in accordance with these objectives, as well as considerations given to changes in economic conditions and the risk characteristics of the underlying assets, in particular by close monitoring of cash flows and compliance with external debt covenants.

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

The capital structure of the Fund is as follows:

	September 30 2012	December 31 2011
Total unitholders' equity	$ 26,473	$ 14,639
Senior Credit Facilty (Note 8.1)	16,631	11,247
Term Loan (Note 8.2)	4,417	-
Convertible debentures (Note 9)	15,391	14,298
Long-term debt (Note 10)	9,582	28,491
Total capital	$ 72,494	$ 68,675

18. NET INCOME (LOSS) PER UNIT

Basic earnings per unit amounts are calculated by dividing net income (loss) for the period by the weighted average number of unit outstanding during the period.

Diluted earnings per unit amounts are calculated by dividing the net income (loss) for the period (after adjusting for interest and accretion, net of tax, on the convertible preference shares and the change in fair value of the Phantom Units) by the weighted average number of units outstanding during the period plus the weighted average number of units that would be issued on conversion of all the dilutive potential units into units.

The following reflects the income (loss) and unit data used in the basic and diluted earnings per unit computations:

	Three months ended September 30		Nine months ended September 30	
	2012 (1)	2011 (1)	2012	2011 (1)
Net Income (loss) for the period	(1,991)	(4,594)	12,716	(8,604)
Dilutive effect of:				
Convertible Debentures	-	-	3,632	-
Phantom units	-	-	47	-
Warrants (3)	-	-	-	-
Net income (loss) for the period adjusted for the effect of dilution	(1,991)	(4,594)	16,394	(8,604)

	Three months ended September 30		Nine months ended September 30	
	2012 (2)	2011 (2)	2012	2011 (2)
Weighted average number of units outstanding during the period - basic	21,846,714	22,900,703	22,293,598	22,867,849
Dilutive effect of:				
Convertible Debentures	-	-	38,769,200	-
Phantom units	-	-	302,274	-
Warrants (3)	-	-	-	-
Weighted average number of units outstanding during the period - diluted	21,846,714	22,900,703	61,365,072	22,867,849

(1) There was a loss for the three months ended September 30, 2011 and 2012 and the nine months ended September 30, 2011; therefore the Fund has excluded all convertible debentures, Phantom units, and warrants from the calculation of diluted loss per unit because they would be anti-dilutive.

(2) The convertible debentures, Phantom units, and warrants would be anti-dilutive; therefore, the Fund has excluded these amounts from the calculation of diluted income per unit.

(3) The warrants are anti-dilutive and have been excluded from all calculations.

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

	Three months ended September 30		Nine months ended September 30	
	2012	**2011**	**2012**	**2011**
Net income (loss) per unit				
Basic	(0.09)	(0.20)	0.57	(0.38)
Diluted	(0.09)	(0.20)	0.27	(0.38)

Between September 30, 2012 and November 8, 2012, Tree Island Steel purchased and cancelled 21,000 shares under the normal course issue bid. This transaction would have a nominal impact on the both the basic and diluted income (loss) per unit. There have been no additional transactions involving units or potential units between the reporting date and the date of completion of these consolidated condensed financial statements.

19. PROVISIONS AND COMMITMENTS

19.1 Litigation and claims

The Fund, and subsequent to conversion Tree Island Steel, 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 its financial position, statement of operations or cash flows.

19.2 Environmental remediation on sale of surplus land

The Fund received the final Certificate of Compliance in the first quarter of 2012 and a gain of $422 was recognized for the difference between the $1,500 holdback and the total costs incurred of the environmental remediation.

19.3 Closure of facilities

As part of prior restructuring activities, the Fund closed its Corona operating facilities in 2009 and relocated the operations to other existing plants in the vicinity. The facility was closed prior to the expiry of its non-cancellable lease. 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 this lease 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 the 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 liability was recorded at the discounted future cash flows using a discount rate of 13% and is being amortized with a charge to financing expense over the remaining term using the effective interest method. The Ontario warehousing facility's non-cancellable lease was also considered an onerous contract and was completed in January 2012.

Below is a table summarizing the provisions:

	Corona	Ontario Warehousing Facility	Total
Balance at December 31, 2011	$ 1,095	$ 20	$ 1,115
Provisions made during the period	72	-	72
Provisions used during the period	(860)	(20)	(880)
Foreign exchange effect	(19)	-	(19)
Balance at September 30, 2012	$ 288	$ -	$ 288

19.4 Purchase commitments

The Fund's wholly owned subsidiaries have committed to rod purchases totaling $4,927 (US$5,009) at September 30, 2012 and imported finished goods purchases of $1,058 (US$1,075).

19.5 Operating lease commitments

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

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

Less than 1 year	$	973
1 to 5 years		2,821
More than 5 years		-
	$	3,794

During the three and nine month periods ended September 30, 2012, the Fund recognized $459 and $1,505 (2011 – $558 and $1,322) in operating lease payments, net of sub-lease receipts, in cost of sales.

19.6 Finance lease commitments

The Fund has a finance lease for certain machinery and equipment which bears interest at 5.5% per annum and matures in May 2015. Future minimum lease payments under the finance lease with the present value of the net minimum lease payments are as follows:

		Minimum Payments		2012 Present Value of payments		Minimum Payments		2011 Present Value of payments
Less than 1 year	$	65	$	54	$	-	$	-
1 to 5 years		110		101		-		-
More than 5 years		-				-		-
Total minimum lease payments		175		155		-		-
Less amounts representing finance charges		(20)		-		-		-
Present value of minimum lease payments	$	155	$	155	$	-	$	-

20. SEGMENTED INFORMATION

The Fund operates primarily within one industry, the steel wire and fabricated wire products industry, with no separately reportable operating segments. The Fund groups its products into the following: industrial / Original Equipment Manufacturer ("OEM"), residential construction, commercial construction, agricultural, and specialty. Revenues for each group for the nine months ended September 30, 2012 and 2011 were as follows:

	Three months ended September 30				Nine months ended September 30			
		2012		2011		2012		2011
Industrial / OEM [(1)]	$	11,198	$	13,450	$	40,467	$	40,055
Residential construction		10,983		11,816		36,174		34,979
Commercial construction		6,622		6,769		18,466		19,617
Agricultural		2,252		1,889		11,041		8,529
Specialty		2,907		4,081		11,433		11,769
	$	33,962	$	38,005	$	117,581	$	114,949

(1) Includes revenues from tolling arrangements

No one customer is more than 10% of total revenue earned by the Fund.

Geographic information

The products are sold primarily to customers in the United States and Canada.

	Three months ended September 30				Nine months ended September 30			
		2012		2011		2012		2011
Sales [(1)]								
Canada	$	12,724	$	14,975	$	47,746	$	46,923
United States		20,380		21,555		66,561		64,018
China		-		328		34		1,031
Other		858		1,147		3,240		2,977
	$	33,962	$	38,005	$	117,581	$	114,949

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

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

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

	September 30 2012	December 31 2011
Non-current assets		
Canada	$ 25,518	$ 26,943
United States	6,738	7,654
China	64	65
	$ 32,320	$ 34,662

21. CHANGES IN WORKING CAPITAL

	Three Months Ended September 30		Nine Months Ended September 30	
	2012	**2011**	**2012**	**2011**
Accounts receivable (Note 6)	2,942	570	(770)	(5,364)
Inventories (Note 7)	(3,237)	(3,075)	(7,395)	(9,721)
Accounts payable and accrued liabilities	(444)	1,415	324	3,289
Income and other taxes	3	(32)	(103)	116
Other	(74)	(909)	1,149	(315)
	(810)	(2,031)	(6,795)	(11,995)

22. EVENTS AFTER THE REPORTING PERIOD

Trust Conversion

On October 1, 2012, the conversion of the Fund to a corporation took place. Under the conversion arrangement, Unitholders of the Fund received common shares of the newly formed corporation, Tree Island Steel, on a one-for-one basis for their trust units. Refer to note 1 for additional information.

SHAREHOLDER INFORMATION TREE ISLAND STEEL LTD. (formerly Tree Island Wire Income Fund)

Board of Directors:

Amar S. Doman – Chair of the Board

Dale R. MacLean

Harry Rosenfeld

Michael Fitch

Sam Fleiser

Theodore A. Leja

Leadership Team:

Dale R. MacLean
President and Chief Executive Officer

Nancy Davies
Chief Financial Officer and Vice President, Finance

Stephen Ogden
Vice President, Operations

Shares:

Market Information

On October 1, 2012, Tree Island Wire Income Fund converted to a corporation. Effective October 3, 2012, the corporation, Tree Island Steel Ltd., is listed on the Toronto Stock Exchange trading symbol: TSL.

Registrar and Transfer Agent

Computershare Investor Services Inc.

Convertible Debentures:

Market Information

Effective October 3, 2012, Tree Island Steel Ltd. has convertible Debentures listed on the Toronto Stock Exchange trading symbol: TSL.DB.

Debenture Trustee

Valiant Trust Company

Corporate Head Office:

3933 Boundary Road
Richmond, B.C.
Canada, V6V 1T8

Website:

www.treeisland.com

Investor Relations:

Nancy Davies
Chief Financial Officer and Vice President, Finance
604-523-4587
ndavies@treeisland.com

Auditors:

Ernst & Young LLP
Vancouver, B.C.