



## **TREE ISLAND WIRE INCOME FUND**

TRADING SYMBOL: The Toronto Stock Exchange – TIL.UN

### **Tree Island Announces Second Quarter 2009 Results**

VANCOUVER, B.C., August 6, 2009 / Marketwire/ – Tree Island Wire Income Fund (the “Fund”) today released results for the second quarter and first half of 2009. The Fund’s results are based on the performance of Tree Island Industries Ltd. (“Tree Island” or “the company”)—one of North America’s largest producers of wire and fabricated wire products.

#### **Second Quarter 2009 Overview**

*For the three months ended June 30, 2009*

- The Fund reported second quarter sales of \$47.4 million, an EBITDA loss adjusted for foreign exchange of \$11.4 million, and a net loss of \$20.9 million.
- Selling, general and administrative (“SG&A”) expenses decreased to \$6.3 million in the second quarter, from \$6.7 million in Q2 2008, despite significant severance costs and foreign exchange impacts.
- Inventories were reduced by \$31 million during the second quarter and by \$61 million during the first six months of 2009.
- Since December 31, 2008, the Fund has reduced its revolving credit balance, net of cash, by \$36.0 million, to \$28.0 million, net of cash.
- Subsequent to the quarter end, on July 2, 2009, the Fund closed the sale of surplus lands at its Richmond, BC facility for net proceeds of \$8.6 million.

“We continued to face major challenges from a weakened North American economy and depressed residential and commercial construction sectors in the second quarter and first half of 2009,” said Ted Leja, President and CEO of Tree Island Industries and a Trustee of the Fund.

“These market pressures had a negative impact on demand and prices for our finished products. Combined with the \$5.2 million impact of inventory overvaluations related to last year’s unprecedented crash in steel prices and the related June 30, 2009 GAAP writedown, we ended the quarter with negative EBITDA. We were also unable to meet the requirements of our EBITDA covenant, which in turn, put us out of compliance in terms of our credit agreement.”

“We are committed to addressing these challenges. During the second quarter we completed the drawdown of most of our overvalued inventories and we are now moving forward with inventory levels that are aligned to the reduced level of market demand. We also lowered our revolving credit balance, net of cash, to \$28.0 million by the end of the second quarter, a reduction of \$15.3 million during the period. In addition, in July 2009 we utilized the net proceeds from the sale of surplus lands at our Richmond, BC facility to further reduce our revolving credit balance,” said Mr. Leja.

“Going forward, our intention is to increase our focus on profitability. We will be implementing strategies appropriate to the current conditions, continuing to contain costs and sharpening our focus on Tree Island’s core competencies in high-quality products, respected brands and excellent customer service,” added Mr. Leja.

## Results from Operations

(thousands of dollars except for tonnage and per unit figures)

	Three Months Ended		Six Months Ended	
	2009	2008	2009	2008
<b>Income</b>				
<i>Sales Volumes – Tons</i>	41,092	70,388	83,461	137,696
Revenue	47,430	94,988	100,385	171,409
Cost of Goods Sold	(54,680)	(76,209)	(116,040)	(145,606)
Depreciation	(1,735)	(2,596)	(4,248)	(5,226)
Gross (Loss) Profit	(8,985)	16,183	(19,903)	20,577
<i>Gross (Loss) Profit per Ton</i>	(219)	230	(238)	149
Selling, General and Administrative Expenses	(6,251)	(6,743)	(12,449)	(12,429)
Operating (Loss) Profit	(15,236)	9,440	(32,352)	8,148
Foreign Exchange Gain	2,115	2,853	1,129	3,931
Financing Expenses	(2,085)	(1,414)	(3,723)	(2,582)
Gain on Sale of Property, Plant & Equipment	60	(44)	63	(40)
Unrealized Gain on Derivatives	148	-	122	-
Amortization of Deferred Gain	135	118	279	234
Amortization of Intangible Assets	(320)	(282)	(660)	(563)
Impairment of Intangible Assets	(5,362)	-	(5,362)	-
Income Tax (Expense) Recovery	(378)	(1,666)	1,959	411
Net (Loss) Income	(20,923)	9,005	(38,545)	9,539
<b>EBITDA</b>				
Operating (Loss) Profit	(15,236)	9,440	(32,352)	8,148
Add back Depreciation	1,735	2,596	4,248	5,226
EBITDA <sup>(1)</sup>	(13,501)	12,036	(28,104)	13,374
Foreign Exchange (Loss) Gain	2,115	2,853	1,129	3,931
EBITDA Adjusted for Foreign Exchange	(11,386)	14,889	(26,975)	17,305
<b>Distributable Cash</b>				
Standardized Distributable Cash per Unit <sup>(1)</sup>	0.7053	0.4764	1.6646	0.8824
Adjusted Distributable Cash per Unit <sup>(1)</sup>	(0.5877)	0.5630	(1.3504)	0.6538
Distributable Cash Paid or Payable per Unit <sup>(1)</sup>	-	0.2500	-	0.5000
Standardized Distribution Payout % <sup>(2)</sup>	0%	53%	0%	57%
Adjusted Distribution Payout % <sup>(2)</sup>	0%	44%	0%	77%
		As at June 30		As at December 31
		2009		2008
<b>Balance Sheet</b>				
Total Assets		131,270		203,286
Revolving Credit (Net of Cash)		28,015		64,008

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

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

## Second Quarter Operating Results

For the three months ended June 30, 2009, Tree Island reported revenue of \$47.4 million, compared to \$95.0 million in the same period in 2008. This decrease primarily reflects lower sales volumes and selling prices, partially offset by the favourable impact of a weaker Canadian dollar on revenue.

Sales volumes decreased by 41.6%, reflecting poor economic conditions in all of Tree Island's major end markets, and particularly in the residential construction, commercial construction and industrial/OEM markets. Housing starts in the key US Western Region were down 42.3% compared to Q2 2008 (per the US Census Bureau).

Sales volumes by market were as follows:

Market	Three Months Ended June 30, 2009		Three Months Ended June 30, 2008	
	Tons (000's)	% of Sales Volumes	Tons (000's)	% of Sales Volumes
Residential Construction	12	29.3%	25	35.7%
Commercial Construction	6	14.6%	11	15.8%
Industrial/OEM	16	39.0%	26	37.1%
Agricultural	2	4.9%	3	4.3%
Specialty	1	2.4%	1	1.4%
International Trading <sup>(1)</sup>	4	9.8%	4	5.7%
Total	41	100.0%	70	100.1%

*International trading includes direct trading company sales and does not include import sales, which are reflected in the company's sales volumes to other markets.*

(2) *Effective 2009, the basis for classification of sales by market was changed to enable a more accurate classification by market – 2008 numbers have been restated to reflect the reclassification.*

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

Although raw material prices leveled off toward the end of the second quarter, on balance, prices remained lower than in previous quarters. Tree Island was not able to take advantage of these lower costs as it consumed the remainder of its higher-cost inventories. As a result, cost of goods sold was significantly higher than a year ago, reflecting the continuing impact of Q1 inventory overvaluation, which together with the Q2 writedown, amounted to approximately \$5.2 million. As a result of these factors, carbon rod costs (representing 45.6% of Q2 2009 cost of goods sold) increased by 32.5% per ton compared to Q2 2008 as the company consumed higher-cost carbon rod on hand.

Selling, general and administrative (“SG&A”) expenses decreased to \$6.3 million in the second quarter, from \$6.7 million in Q1 2008. The \$0.4 million year-over-year decrease reflects the benefits from the company’s cost-cutting initiatives, and was achieved despite the addition of \$1.2 million of severance costs and the negative impact of the weaker Canadian dollar on expenses at Tree Island’s US operations during the period.

Second quarter EBITDA, before adding foreign exchange impacts, was a loss of \$13.5 million, compared to EBITDA income of \$12.0 million in Q2 2008. The change in EBITDA reflects the negative impact of high-cost inventories, reduced sales volumes and lower selling prices in the current period.

The Fund reported a second quarter net loss of \$20.9 million (loss of \$0.95 per unit), compared to net income of \$9.0 million (\$0.41 per unit) during the same period in 2008. The change in net income reflects lower EBITDA, a \$5.4 million impairment of intangible assets, higher interest expense and a loss on foreign exchange conversions.

For the three months ended June 30, 2009, the Fund reported negative distributable cash of \$0.59 per unit, and declared no distributions. By comparison, the Fund generated positive distributable cash of \$0.56 per unit and declared distributions of \$0.25 per unit during the same period in 2008.

## First-Half Operating Results

For the six months ended June 30, 2009, Tree Island generated revenue of \$100.4 million, compared to \$171.4 million in the first half of 2008. The change in revenue primarily reflects lower volumes and selling prices, partially offset by the positive impact of a weaker Canadian dollar on revenue. Sales volumes decreased by 39.4%, reflecting poor economic conditions in all of Tree Island's major end markets, and particularly in residential construction, commercial construction and the industrial/OEM markets. The sharp decrease in sales to the residential construction market reflects the 48.2% year-over-year decline in Western US housing starts (per the US Census Bureau).

Market	Six Months Ended June 30, 2009		Six Months Ended June 30, 2008	
	Tons (000's)	% of Sales Volumes	Tons (000's)	% of Sales Volumes
Residential Construction	23	27.7%	50	36.2%
Commercial Construction	11	13.3%	21	15.2%
Industrial/OEM	35	42.2%	51	37.0%
Agricultural	5	6.0%	7	5.1%
Specialty	1	1.2%	2	1.4%
International Trading <sup>(1)</sup>	8	9.6%	7	5.1%
Total	83	100.0%	138	100.0%

- (1) International trading includes direct trading company sales and does not include import sales, which are reflected in the company's sales volumes to other markets.
- (2) Effective 2009, the basis for classification of sales by market was changed to enable a more accurate classification by market – 2008 numbers have been restated to reflect the reclassification.
- (3) Sales volumes exclude tons which were processed as part of tolling arrangements

First-half SG&A expenses totaled \$12.4 million, on par with last year's levels. The benefit of cost-control initiatives and the absence of special meeting costs helped to offset the negative impact of a weaker Canadian dollar on US operational expenses and severance costs of \$2.4 million.

First-half EBITDA, before foreign exchange gains, was a loss of \$28.1 million, compared to a gain of \$13.4 million in 2008. The change in EBITDA primarily reflects the impact of high-cost inventories, reduced volumes and lower selling prices compared to last year. The Fund reported a net loss of \$38.5 million for the six months ended June 30, 2009, compared to net income of \$9.5 million in 2008. The net loss reflects the EBITDA loss, the \$5.4 million impairment of intangible assets, higher interest expense, and a \$1.1 million gain on foreign exchange conversions compared to \$3.9 million in 2008.

For the six months ended June 30, 2009, the Fund reported negative distributable cash of \$1.35 per unit, and declared no distributions. By comparison, the Fund generated positive distributable cash of \$0.65 per unit, and declared distributions of \$0.50 per unit in the first half of 2008.

## **Outlook**

The Fund's outlook remains extremely cautious with an elevated level of financing risk and expectations of continued market weakness.

On May 29, 2009, the Fund announced that as a result of challenging market conditions, it was out of compliance with its EBITDA covenants in terms of its GE credit facilities for the month of April 2009. It subsequently received written notice of default from its lenders on June 8, 2009. Although there can be no assurance that the Fund's lender will waive non-compliance with the covenant, discussions with the lender are underway to address this matter. As a result of these circumstances, there is considerable doubt upon the Fund's ability to continue as a going concern. Accordingly, management and the board are also reviewing alternative financing options in an effort to secure sufficient working capital going forward.

On the market front, there are signs that the US residential construction market may be starting to stabilize, however housing starts remain at historically low levels and Tree Island does not anticipate any significant near-term rebound in sales to this market. Demand from other end-use markets, including commercial construction, is also expected to remain weak through the balance of 2009.

On a more positive note, tighter supply of steel, indications of higher steel costs and lower finished product inventories among customers and suppliers are expected to support stronger finished product prices in the coming quarter. Tree Island has also depleted most of its overvalued inventories and is moving forward with inventory levels and values that are aligned with current market conditions.

Going forward, management's focus will be on restoring profitability, continuing to contain costs, and supporting Tree Island's product, brand and customer service strengths.

### **Tree Island Profile**

Headquartered in Richmond, British Columbia, Tree Island Industries produces wire products for a diverse range of construction, agricultural, manufacturing and industrial applications. Its products include bright wire, stainless steel wire and galvanized wire; a broad array of fasteners, including packaged, collated and bulk nails; stucco reinforcing products, engineered structural mesh, fencing and other fabricated wire products. The company markets these products under the Tree Island, TI Imports and HK Universe brand names. Tree Island also owns and operates a Hong Kong-based trading company that provides internationally sourced products to Tree Island and its customers worldwide.

### **Non-GAAP Measures**

References in this news release to "EBITDA" are to operating profit plus depreciation. EBITDA is a measure used by many investors to compare issuers on the basis of ability to generate cash flows from operations. EBITDA is not an earnings measure recognized by GAAP and does not have a standardized meaning prescribed by GAAP. Management believes that EBITDA is an important supplemental measure in evaluating the Fund's performance.

You are cautioned that EBITDA should not be construed as an alternative to net income or loss determined in accordance with GAAP as indicators of performance or to cash flows from operating, investing and financing activities as measures of liquidity and cash flows. Tree Island's method of calculating EBITDA may differ from methods used by other issuers and, accordingly, Tree Island's EBITDA may not be comparable to similar measures presented by other issuers.

"Distributable cash" is also not a recognized measure under GAAP and does not have a standardized meaning prescribed by GAAP. Canadian open-ended income trusts, such as this Fund, use distributable cash as an indicator of financial performance and ability to fund distributions. We define distributable cash as net cash from operating activities less all capital expenditures, plus the

change in non-cash operating assets and liabilities, plus non-maintenance capital expenditures, plus the 2006 pre-tax proceeds on the sale of a property option (the tax provision for these proceeds on sale is included in the net cash provided from operating activities). Changes in non-cash operating assets and liabilities and non-maintenance capital expenditures are added back in the calculation of distributable cash because they are funded through the Fund's committed credit facilities. Tree Island's 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. The Fund believes that distributable cash is a useful supplemental measure that may assist investors in assessing the return on their investment in units.

The Fund defines 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.

### **Forward-Looking Statements**

This press release includes forward-looking information with respect to the Fund and the company, including their 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 management believes that expectations reflected in forward-looking statements are reasonable, such statements involve risks and uncertainties including the risks and uncertainties discussed under the heading "Risk Factors" in the Fund's annual information form and management discussion and analysis for the year ended December 31, 2008.

Forward-looking statements, by their nature, necessarily involve risks and uncertainties that could cause actual results to differ materially from those contemplated by the statements. Such risks and uncertainties include, but are not limited to: general economic conditions and markets and, in particular, the potential impact of the current economic downturn, risks associated with operations such as competition, dependence on the construction industry, market conditions for the company's products, supplies of and costs for its raw materials, dependence on key

personnel, labour relations, regulatory matters, environmental risks, the successful execution of acquisition and integration strategies and other strategic initiatives, foreign exchange fluctuations, the effect of leverage and restrictive covenants in financing arrangements, the cost and availability of capital, the possibility of deterioration in working capital position, the impact on liquidity if the Fund were to go offside of covenants in its debt facilities, the impact that changes in supplier payment terms or slow payment of accounts receivable could have on liquidity, product liability, the ability to obtain insurance, energy cost increases, changes in tax legislation, other legislation and governmental regulation, changes in accounting policies and practices, operations in a foreign country, and other risks and uncertainties set forth in the Fund's publicly filed materials.

This press release has been reviewed by the Fund's Board of Trustees and its Audit Committee, and contains information that is current as of the date of this press release, 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.

*Interim Unaudited Consolidated Financial Statements of*

**TREE ISLAND WIRE INCOME FUND**

*June 30, 2009*

**Tree Island Wire Income Fund**  
**INTERIM CONSOLIDATED BALANCE SHEETS**

(In thousands of dollars)(unaudited)

(See Nature of Business and Going Concern Uncertainty - Note 2)

	<b>As at</b>		<b>As at</b>
	<b>June 30</b>		<b>December 31</b>
	<b>2009</b>		<b>2008</b>
<b>Assets</b>			
<i>Current</i>			
Cash	\$ 4,266	\$	1,201
Accounts receivable	22,620		25,094
Income and other taxes receivable	4,764		5,018
Inventories (Note 5)	45,575		106,563
Prepaid expenses	3,765		4,010
Assets held for sale (Note 15)	2,454		-
Future income taxes	-		116
	<u>83,444</u>		<u>142,002</u>
<i>Property, plant and equipment (Note 15)</i>	47,728		54,980
<i>Intangible assets (Note 6)</i>	-		6,304
<i>Other non-current assets</i>	98		-
	<u>\$ 131,270</u>	\$	<u>203,286</u>
<b>Liabilities</b>			
<i>Current</i>			
Revolving credit (Note 7)	\$ 32,281	\$	65,209
Accounts payable and accrued liabilities	67,539		66,783
Income taxes payable	958		963
Interest payable	2,054		495
	<u>102,832</u>		<u>133,450</u>
<i>Deferred gain on sale of option</i>	3,976		4,471
<i>Other non-current liabilities</i>	226		207
<i>Future income taxes</i>	1,810		4,140
	<u>108,844</u>		<u>142,268</u>
<i>Contingent liabilities and commitments (Note 12)</i>			
<b>Unitholders' Equity</b>	<u>22,426</u>		<u>61,018</u>
	<u>\$ 131,270</u>	\$	<u>203,286</u>

See accompanying Notes to the Interim Consolidated Financial Statements

**Tree Island Wire Income Fund**

**INTERIM CONSOLIDATED STATEMENTS OF OPERATIONS**

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

	Three Months Ended June 30		Six Months Ended June 30	
	2009	2008	2009	2008
Sales	\$ 47,430	\$ 94,988	\$ 100,385	\$ 171,409
Cost of goods sold and inventory writedowns (Note 5)	54,680	76,209	116,040	145,606
Depreciation	1,735	2,596	4,248	5,226
Gross (loss) profit	(8,985)	16,183	(19,903)	20,577
Selling, general and administrative expenses	6,251	6,743	12,449	12,429
Operating (loss) income	(15,236)	9,440	(32,352)	8,148
Foreign exchange gain	2,115	2,853	1,129	3,931
Gain (loss) on sale of property, plant and equipment	60	(44)	63	(40)
Impairment of intangible assets (Note 6)	(5,362)	-	(5,362)	-
Amortization of intangible assets	(320)	(282)	(660)	(563)
Amortization of deferred gain	135	118	279	234
Unrealized gain on derivatives	148	-	122	-
Financing expenses	(2,085)	(1,414)	(3,723)	(2,582)
(Loss) income before income taxes	(20,545)	10,671	(40,504)	9,128
Income tax recovery (expense) (Note 10)	(378)	(1,666)	1,959	411
<b>Net (loss) income for the period</b>	<b>\$ (20,923)</b>	<b>\$ 9,005</b>	<b>\$ (38,545)</b>	<b>\$ 9,539</b>
<b>Net (loss) income per unit</b>				
Basic	\$ (0.95)	\$ 0.41	\$ (1.75)	\$ 0.43
Diluted	\$ (0.95)	\$ 0.41	\$ (1.75)	\$ 0.43
<b>Weighted-average number of units</b>				
Basic	21,996,104	21,960,447	21,986,232	21,947,047
Diluted	21,996,104	22,090,684	21,986,232	22,047,091

See accompanying Notes to the Interim Consolidated Financial Statements

**Tree Island Wire Income Fund**

**INTERIM CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**

*(In thousands of dollars)(unaudited)*

	Three Months Ended June 30		Six Months Ended June 30	
	2009	2008	2009	2008
<b>Net (loss) income for the period</b>	\$ (20,923)	\$ 9,005	\$ (38,545)	\$ 9,539
Other comprehensive income				
Unrealized income (loss) on translating financial statements of self-sustaining operations	(997)	(162)	(530)	1,979
Related income tax recovery (expense)	332	35	197	(115)
<b>Other comprehensive (loss) income</b>	(665)	(127)	(333)	1,864
<b>Comprehensive (loss) income for the period</b>	\$ (21,588)	\$ 8,878	\$ (38,878)	\$ 11,403

See accompanying Notes to the Interim Consolidated Financial Statements

**Tree Island Wire Income Fund**  
**INTERIM CONSOLIDATED STATEMENTS OF UNITHOLDERS' EQUITY**  
*(In thousands of dollars)(unaudited)*

	Unitholders' Capital	Contributed Surplus	Accumulated Earnings (Loss)	Distributions	Accumulated Other Comprehensive Loss	Total
Balance as at December 31, 2008	\$ 210,174	\$ 978	\$ 29,069	\$ (159,236)	\$ (19,967)	\$ 61,018
Distributions	-	-	-	-	-	-
Non-cash distributions	-	12	-	(12)	-	-
Unit-based compensation	227	59	-	-	-	286
Net Earnings	-	-	(38,545)	-	-	(38,545)
Other comprehensive loss	-	-	-	-	(333)	(333)
Balance as at June 30, 2009	\$ 210,401	\$ 1,049	\$ (9,476)	\$ (159,248)	\$ (20,300)	\$ 22,426

*See accompanying Notes to the Interim Consolidated Financial Statements*

**Tree Island Wire Income Fund**  
**INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS**

(In thousands of dollars)(unaudited)

	Three Months Ended June 30		Six Months Ended June 30	
	2009	2008	2009	2008
<b>Cash flows from operating activities</b>				
Net (loss) income for the period	\$ (20,923)	\$ 9,005	\$ (38,545)	\$ 9,539
Items not involving cash				
Depreciation	1,735	2,596	4,248	5,226
Unrealized loss on derivatives	(148)	-	(122)	-
(Gain) loss on disposal of property, plant and equipment	(60)	44	(63)	40
Amortization of deferred financing	433	87	530	173
Impairment of intangible assets (Note 6)	5,362	-	5,362	-
Amortization of intangible assets	320	282	660	563
Deferred financing fees written off	-	-	268	-
Amortization of deferred gain	(135)	(118)	(279)	(234)
Future income taxes	378	531	(1,980)	(746)
Unit-based compensation	144	137	287	226
	(12,894)	12,564	(29,634)	14,787
Change in non-cash operating assets and liabilities				
Accounts receivable	4,265	(7,471)	2,474	(21,365)
Inventories, net of inventory writedowns (Note 5)	31,449	(22,676)	60,988	(24,469)
Accounts payable and accrued liabilities	(7,563)	26,512	863	50,243
Income and other taxes	-	1,076	21	192
Other	308	665	2,011	424
	28,459	(1,894)	66,357	5,025
<b>Net cash provided by operating activities</b>	<b>15,565</b>	<b>10,670</b>	<b>36,723</b>	<b>19,812</b>
<b>Cash flows from investing activities</b>				
Proceeds on disposal of long-lived assets	211	17	215	23
Purchase of property, plant and equipment	(52)	(208)	(125)	(446)
<b>Net cash provided by (used in) investing activities</b>	<b>159</b>	<b>(191)</b>	<b>90</b>	<b>(423)</b>
<b>Cash flows from financing activities</b>				
Repayment of long-term debt	-	(22)	-	(43)
Deferred financing costs	-	-	(664)	-
Repayment of revolving credit	(16,801)	(1,435)	(33,062)	(11,023)
Distributions to unitholders	-	(5,490)	-	(10,977)
<b>Net cash used in financing activities</b>	<b>(16,801)</b>	<b>(6,947)</b>	<b>(33,726)</b>	<b>(22,043)</b>
<b>Effect of exchange rate changes on cash and cash equivalents</b>	<b>(35)</b>	<b>(45)</b>	<b>(22)</b>	<b>147</b>
<b>(Decrease) increase in cash</b>	<b>(1,112)</b>	<b>3,487</b>	<b>3,065</b>	<b>(2,507)</b>
<b>Cash, beginning of period</b>	<b>5,378</b>	<b>38</b>	<b>1,201</b>	<b>6,032</b>
<b>Cash, end of period</b>	<b>\$ 4,266</b>	<b>\$ 3,525</b>	<b>\$ 4,266</b>	<b>\$ 3,525</b>
<b>Supplemental cash flow information:</b>				
Interest paid	\$ 1,190	\$ 1,362	\$ 1,335	\$ 2,549
Income taxes paid	\$ 6	\$ 61	\$ 6	\$ 144

See accompanying Notes to the Interim Consolidated Financial Statements

## **Tree Island Wire Income Fund**

### **NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS**

*For the three and six month periods ended June 30, 2009 and June 30, 2008*

*(in thousands of dollars, except per unit amounts)(unaudited)*

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#### **1. INTERIM CONSOLIDATED FINANCIAL STATEMENTS**

The accompanying Interim Consolidated Financial Statements of Tree Island Wire Income Fund (the "Fund") have been prepared by management in accordance with Canadian generally accepted accounting principles ("GAAP") on a basis consistent with those followed in the most recent audited annual consolidated financial statements except as described in Note 3. These Interim Consolidated Financial Statements do not include all the information and note disclosures required by GAAP for annual consolidated financial statements and therefore should be read in conjunction with the December 31, 2008 audited consolidated financial statements of the Fund and the notes below.

Operating results for the interim periods are not necessarily indicative of the results that may be expected for the full fiscal year ending December 31, 2009. Our operations are impacted by the seasonal nature of the various industries we serve, primarily the Canadian construction and agriculture industries. Accordingly, fourth quarter results are traditionally lower than other quarters due to the onset of winter and the corresponding reduction in consumer activities.

#### **2. NATURE OF BUSINESS AND GOING CONCERN UNCERTAINTY**

The Fund is an unincorporated, open-ended, limited purpose trust established under the laws of the Province of British Columbia pursuant to a Declaration of Trust dated September 30, 2002. Each unitholder participates pro rata in distributions of net earnings and, in the event of termination of the Fund, participates pro rata in the net assets remaining after satisfaction of all liabilities. The Fund owns 100% of the common shares of Tree Island Industries Ltd. ("TIL").

The Canadian Institute of Chartered Accountants ("CICA") Handbook Section 1400 requires management to assess and disclose an entity's ability to continue as a going concern. The Fund has forecast its financial results and cash flows for the remainder of 2009. The forecasts are based on management's best estimates of operating conditions in the context of the current economic climate especially in the US, today's capital market conditions and the depressed state of the residential and commercial construction markets in both Canada and the United States.

As at December 31, 2008, the Fund had breached its debt services coverage ratio on its Canadian and US revolving credit facilities and on March 27, 2009, the Fund and its lender amended the US and Canadian credit agreements and the Fund was granted waivers for the debt services coverage ratio covenant breach as well as other subsequent breaches that occurred on both revolving credit facilities. The term of the revolving credit facilities was also changed to March 27, 2010, the covenant that required the Fund to maintain a debt service coverage ratio of not less than 2.5 to 1 was removed and the new credit facilities now contain a financial covenant that requires the Fund to maintain a minimum cumulative 12-month EBITDA through February 2010.

On May 29, 2009 the Fund announced that as a result of continuing difficult market conditions, it was out of compliance with its EBITDA covenants under the GE credit facilities for the month of April 2009 and received written notice of default from its lenders on June 8, 2009. A violation of the covenant could cause the Fund's indebtedness to become immediately due and payable and to date the lenders have not exercised this right under the credit facilities.

The Fund is actively seeking to renegotiate the terms of the credit facilities with its lenders, however, there is no assurance that such attempts will be successful or that any amendment to the credit facilities will be agreed upon. A failure to obtain waivers, modifications or concessions could result in the lenders pursuing the remedies provided for under the credit facilities. Accordingly, the Fund is also reviewing alternative options for raising capital.

The Fund anticipates it would need to raise additional capital in the form of equity or debt to supplement or replace its existing credit facilities in order to have sufficient liquidity to meet its obligations over the next 12 months. Given the current credit market, there is uncertainty as to whether sufficient capital would be made available either from the Fund's current lenders or other parties. Due to these circumstances, there is substantial doubt upon the Fund's ability to continue as a going concern.

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

### 3. **ADOPTION OF NEW ACCOUNTING POLICIES AND RECENT ACCOUNTING PRONOUNCEMENTS**

#### **New Accounting Policies**

Effective January 1, 2009 the Fund adopted the following new recommendations from the CICA.

##### *Section 3064 "Goodwill and Intangible Assets"*

Effective for interim and annual financial statements for fiscal years beginning on or after October 1, 2008, the new CICA Handbook Section 3064 replaces Section 3062 "Goodwill and Other Intangible Assets" and Section 3450 "Research and Development Costs". This section establishes standards for the recognition, measurement, presentation and disclosure of goodwill and intangible assets including internally generated intangible assets. The adoption of Section 3064 did not impact the Fund's consolidated financial statements.

#### **Recent Accounting Pronouncements**

##### *Section 1582 "Business Combinations"*

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

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

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

### *International Financial Reporting Standards (“IFRS”)*

The Canadian Accounting Standards Board (AcSB) will require all public companies to adopt IFRS, replacing Canadian GAAP, for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011. We will be required to prepare comparative financial information using IFRS for the year ended December 31, 2010. We expect the transition to IFRS to impact financial reporting, business processes and information systems.

A high-level diagnostic has been completed assessing the areas likely to have an impact of IFRS on the financial statements. Management is still in the process of evaluating the impact of the diagnostic but it is expected that the most significant of changes to accounting policies will be in the treatment of property, plant and equipment. We also expect that additional MD&A disclosure and notes accompanying the financial statements will be required. Progress continues on the next phase of the project, which includes the determination of elective exemptions allowed under IFRS 1 (First Time Adoption of International Financial Reporting Standards and accounting policies), accounting policy decisions, and identification of potential changes required to information technology systems and business processes.

We have not yet fully determined the impact of adopting IFRS on our financial statements; however, it should be noted that the current financial statement may be significantly different if presented in accordance with IFRS.

## **4. FINANCIAL INSTRUMENTS**

### **Fair Value of Financial Instruments**

The Fund's financial instruments consist primarily of cash, accounts receivable, amounts payable under the revolving lines of credit, accounts payable, interest payable and non-financial derivatives that do not meet the expected purchase, sale or usage requirements exception.

The carrying values of cash, accounts receivable, amounts payable under the revolving lines of credit, accounts payable and interest payable approximate their fair values due to the immediate or short-term maturity of these financial instruments.

Certain of the Fund's natural gas forward contracts entered into in fiscal 2008 do not meet the expected purchase, sale or usage requirements exception and as such are carried on the consolidated balance sheet at fair value. The fair value of these derivatives was calculated using estimated forward prices for the relevant period. The Fund has classified these derivatives as held-for-trading. An unrealized loss of \$121 (2008 - unrealized loss of \$243) has been recorded in accrued liabilities in the consolidated financial statements.

The Fund has classified its cash as held-for-trading. Accounts receivable are classified as loans and receivables. Revolving credit, accounts payable, accrued liabilities, and interest payable are classified as other liabilities, all of which are measured at amortized cost.

Carrying value and fair value of financial assets and liabilities are summarized as follows:

	<b>Carrying Value</b>	<b>Fair Value</b>
	<b>\$'000</b>	<b>\$'000</b>
<i>Financial Assets:</i>		
Held-for-trading		
Cash	\$ 4,266	\$ 4,266
Unrealized loss on natural gas forwards	(121)	(121)
	<u>\$ 4,145</u>	<u>\$ 4,145</u>
Loans and receivables	\$ 22,620	\$ 22,620
<i>Financial Liabilities:</i>		
Revolving Credit	\$ 32,281	\$ 32,281
Accounts payable and accrued liabilities	\$ 67,539	\$ 67,539
Interest payable	\$ 2,054	\$ 2,054

Under Section 3855, certain of the Fund's non-financial contracts for forward purchases of zinc and certain of its natural gas contracts meet the definition of a derivative but qualify for an expected usage exemption as they are settled through physical delivery for use in the normal course of business. These contracts have not been recognized in the consolidated financial statements. See Note 12 for further information on these contracts.

### **Risk exposure and management**

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

#### *Credit Risk*

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

The trade accounts receivable are aged as follows:

	<b>June 30 2009</b>	<b>December 31 2008</b>
Up to date	\$ 17,587	\$ 15,707
Under 30 days past due	4,016	5,552
30-60 days past due	576	1,825
61-90 days past due	226	2,995
Over 91 days past due	1,301	1,006
	<u>23,706</u>	<u>27,085</u>
Allowance for doubtful accounts	(1,086)	(1,991)
Balance, end of period	<u>\$ 22,620</u>	<u>\$ 25,094</u>

The maximum credit risk that the Fund is exposed to by way of its accounts receivable is equal to the carrying amount of \$22,620 at June 30, 2009. The Fund has concentrations of credit risk relating to the concentration of revenue derived from the Western United States as well as revenue derived from the residential and commercial construction markets.

At the end of each reporting period a review of the provision for bad and doubtful debts is performed. It is an assessment of the potential amount of trade accounts receivable which will be paid by customers after the balance sheet date. The assessment is made by reference to age, status and risk of each receivable, current economic conditions and historical information. The following table represents a summary of the movement of the allowance for doubtful accounts.

Balance as at January 1, 2009	\$ 1,991
Additions during the period	-
Reversal during the period	(905)
Balance as at June 30, 2009	<u>\$ 1,086</u>

*Liquidity risk*

Liquidity arises from the Fund's financial obligations and in the management of its assets, liabilities and capital structure. The Fund regularly manages this risk by evaluating its liquid financial resources to fund current and long-term obligations and to meet its capital commitments in a cost-effective manner.

The main factors that affect liquidity include realized sales prices, production levels, cash production costs, working capital requirements, future capital expenditure requirements, scheduled payments on lease obligations, credit capacity and expected future debt and equity capital market conditions.

The Fund's liquidity requirements are met through a variety of sources including: cash balances on hand, cash generated from operations, existing credit facilities, leases and debt and equity capital markets. The Fund monitors and manages its liquidity risk within the constraints of its available credit facilities.

As disclosed in Note 2, on May 29, 2009 the Fund announced that as a result of continuing difficult market conditions, it was out of compliance with its EBITDA covenants under the GE credit facilities for the month of April 2009. A violation of the covenant could cause the Fund's indebtedness to become immediately due and payable, and the Fund may not be able to access funds under its revolving credit facility. In the event of such a circumstance, the Fund anticipates it would need to raise additional capital in the form of equity or debt to supplement or replace its existing credit facilities in order to have sufficient liquidity to meet its obligations over the next twelve months. Given the current credit market, there is uncertainty as to whether sufficient capital would be made available either from the Fund's current lenders or other parties. These revolving credit facilities are further described in Note 7.

The table below summarizes the future undiscounted cash flow requirements for financial liabilities at June 30, 2009:

<b>\$'000</b>	<b>On Demand</b>	<b>2009</b>	<b>2010</b>	<b>Thereafter</b>	<b>Total</b>
Revolving credit facilities	\$ 33,573	\$ -	\$ -	\$ -	\$ 33,573
Natural Gas Forwards	-	483	-	-	\$ 483
Accounts payable and interest payable	-	69,593	-	-	\$ 69,593
	<u>\$ 33,573</u>	<u>\$ 70,076</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 103,649</u>

### *Market risk*

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

#### *(i) Foreign currency exchange rates*

The Fund's US dollar-denominated accounts receivable, accounts payable and accrued liabilities, interest payable and certain of its natural gas forward contracts 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. For each US\$0.01 decrease in the US/Canadian dollar exchange rate (i.e. the US dollar strengthening against the Canadian dollar), the net value of the Fund's financial instruments outstanding as of June 30, 2009 would increase by approximately \$595 (holding all variables constant excluding foreign exchange), which would be charged to net income.

The Fund's RMB denominated accounts receivable, accounts payable and accrued liabilities, interest payable 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 RMB/Canadian dollar exchange rate. For each RMB\$0.01 decrease in the RMB/Canadian dollar exchange rate (i.e. the RMB dollar strengthening against the Canadian dollar), the net value of the Fund's financial instruments outstanding as of June 30, 2009 would increase by approximately \$107 (holding all variables constant excluding foreign exchange), which would be charged to net income.

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

#### *(ii) Interest rates*

The Fund is exposed to interest rate risk on its Canadian and US revolving loan facilities which are further discussed in Note 7. A 1% (i.e. 100-basis point) increase in the interest rate would have caused interest expense to increase by approximately \$336 per annum based on the revolver balances as at June 30, 2009 and assuming these balances represent average balances per annum. The Fund does not use derivative instruments to manage the interest rate risk.

(iii) *Commodity Price Risk Management*

The Fund is impacted by fluctuations in the price of natural gas. The Fund has entered into the following forward contracts to address this exposure.

Asset (liability)	Number of contracts	Term to maturity (years)	2009		2008	
			Carrying value	Fair value	Carrying value	Fair value
Natural gas commodity forward	5	0.5	\$ (121)	\$ (121)	\$ (243)	\$ (243)

The natural gas derivatives fair value reflects only the value of the natural gas derivatives and not the offsetting change in value of the underlying future purchases of natural gas. These fair values reflect the estimated amounts the Fund would receive or pay to terminate the contracts at the stated dates.

**5. INVENTORIES**

The Fund had the following categories of inventory at June 30:

	June 30	December 31
	2009	2008
Raw materials	\$ 9,571	\$ 41,808
Finished and semi finished products	27,595	54,704
Consumable supplies and spare parts	8,409	10,051
	\$ 45,575	\$ 106,563

The Fund has recognized a charge of \$937 in operating income for the second quarter of 2009 and \$3,492 for the six month period ending June 30, 2009 to writedown inventories to net realizable value. For the three month and six-month periods ending June 30, 2009, \$226 and \$1,259 respectively relates to raw materials and \$711 and \$2,233 respectively relates to finished and semi-finished products. The writedown is reflective of declines in raw material costs and market prices for finished and semi-finished goods.

In the three month and six month periods ending June 30, 2009, the Fund has recognized, in income, inventory costs (inclusive of inventory writedown charges) for the following:

	<b>Three Months Ended June 30</b>		<b>Six Months Ended June 30</b>	
	<b>2009</b>	<b>2008</b>	<b>2009</b>	<b>2008</b>
Opening inventory	\$ 77,024	\$ 90,292	\$ 106,563	\$ 88,499
Raw material purchases	10,545	63,656	27,713	108,425
Finished goods purchased for resale	3,753	22,867	6,346	31,038
Conversion costs	8,933	12,362	20,993	30,612
Inventories, closing	(45,575)	(112,968)	(45,575)	(112,968)
Cost of goods sold	\$ 54,680	\$ 76,209	\$ 116,040	\$ 145,606

## 6. GOODWILL AND INTANGIBLE ASSETS

### Goodwill

Annually the Fund evaluates the carrying value of goodwill recognized on the consolidated balance sheet. This test was performed in the fourth quarter of 2008 and based on discounted projected cash flows the fair value of the goodwill was less than the carrying value of \$52.1 million. The decrease in fair value of goodwill is primarily due to the precipitous decrease in the global price of steel and weak market demand.

The measurement of the goodwill impairment charge required a comparison of the fair value of goodwill to its carrying value. The estimate of fair value of goodwill required management to apply judgment in developing appropriate assumptions in selecting the valuation models and assumptions and estimates to be used in such models and value determinations. These judgments affect the determination of fair value and any resulting impairment charges are subject to uncertainties.

Due to the complexity of this exercise, an independent evaluation of the fair value of the assets and liabilities could not be completed prior to the issuance of these consolidated interim financial statements and therefore, management has made its best estimate of the allocation of fair value to each of the assets and liabilities of the Fund. The impairment of goodwill continues to be estimated at \$52.1 million. An independent evaluation of the impairment on goodwill will be performed and any adjustment to the estimated loss based on completion of the independent evaluation will be recognized in the financial statements of 2009. The final impairment charge could differ materially from the estimated impairment recognized in these financial statements.

## **Intangible Assets**

As a result of current economic conditions and projected losses related to intangible assets acquired in the Baoan acquisition in 2007, the carrying value of the intangible was determined to be unrecoverable. The fair value was based on expected future cash flows and as a result of projected weakness in demand and losses, the intangible assets are considered to be fully impaired. A charge of \$5,362 has been recorded in the income statement in the periods ended June 30, 2009.

## **7. REVOLVING CREDIT**

On February 10, 2009, the Fund received a written notice of default from its lenders under the GE credit facilities. The notice of default was the result of non-compliance with its current debt services ratio covenant and triggered the notice of default under the GE credit facilities. In addition subsequent to the notice of default it was determined that the Fund was not in compliance with covenants in respect of distributable cash and inter-company notes.

On March 27, 2009 the Company received a waiver for the financial covenant default as well as the other defaults identified subsequent to the initial default relating to distributable cash and inter-company notes. The amended agreement, among other things, removed a covenant that required the Fund to maintain a debt service coverage ratio of not less than 2.5 to 1 and now contains a financial covenant that requires the Fund to maintain minimum cumulative 12-month EBITDA values through February, 2010. The amendment reduced the Canadian dollar revolving facility from \$44.5 million to \$35 million and reduced the US dollar revolving facility from US\$44 million to US\$35 million, with further reductions to \$30.5 million on August 1, 2009 and to \$28.5 million on November 1, 2009 for both facilities. Pursuant to the amendment, the revised credit facilities will now mature on March 27, 2010.

As disclosed in Note 2, on May 29, 2009 the Fund announced that as a result of continuing difficult market conditions, it was out of compliance with its EBITDA covenants under the GE credit facilities for the month of April 2009 and received written notice of default from its lenders on June 8, 2009. A violation of the covenant could cause the Fund's indebtedness to become immediately due and payable and to date the lenders have not exercised this right under the credit facilities.

Under both facilities, the interest rates are:

- (i) US dollar revolving facility: advances under the facility will bear interest at an index rate plus applicable margin or the 90 day LIBOR, plus applicable margin the choice of which is at the discretion of the Fund.
- (ii) Canadian dollar revolving facility: advances under the facility will bear interest at the Canadian prime rate plus applicable margin or the banker's acceptance rate plus acceptable margin, the choice of which is at the discretion of the Fund.

The amounts available under the Credit Facilities are limited to the amount of the calculated borrowing base. 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 plus a percentage of fixed assets to a maximum of \$4.5 million for the Canadian Credit Facility and US\$4.0 million for the US Credit Facility. The amount of the fixed assets included in the borrowing base will be progressively reduced until it is entirely eliminated by December 1, 2009. This reduction will be accelerated if certain assets are disposed of prior to December 1, 2009. The Credit Facilities are secured against all of the Company's property and accounts receivable and contain restrictive covenants that limit the discretion of the Company's management with respect to certain business matters. These covenants place restrictions on, among other things, the ability of the Company 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.

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

	<b>June 30 2009</b>	<b>December 31 2008</b>
TIL Cdn \$44,500 revolving credit	\$ -	\$ 19,348
TIL Cdn amended and restated revolving credit facility	6,678	-
TIW US \$44,000 revolving credit facility		47,224
TIW US amended and restated revolving credit facility	26,895	-
	33,573	66,572
Deferred financing	(1,292)	(1,363)
	\$ 32,281	\$ 65,209

The TIL and TIW credit facilities are collateralized by security interests in all real and personal property of TIL (for the TIL credit facility) and of TIW (for the TIW credit facility). All existing and after-acquired real and personal property of TIL and of TIW are pledged as collateral against the credit facilities.

## **8. CAPITAL DISCLOSURES**

The capital structure of the Fund consists of its unitholders' equity and short-term borrowing consisting of its revolving credit facilities. The Fund's objectives when managing its capital are:

- (a) To maintain a strong capital base so as to preserve and enhance investor, creditor, and market confidence and to sustain future development of the business;
- (b) To manage capital in a manner that will comply with its external financial covenants and distribution requirements.

The Fund manages its capital structure in accordance with these objectives, as well as considerations given to changes in economic conditions and the risk characteristics of the underlying assets. As well, the Fund's revolving credit facilities have financial tests and other covenants with which the Fund and its subsidiaries must comply as disclosed in Note 7. These financial tests and covenants are monitored on an ongoing basis and compliance is reported to the lenders.

As disclosed in Note 2, the Fund announced it was out of compliance with its EBITDA covenants under the GE credit facilities for the month of April 2009 and received written notice of default from its lenders on June 8, 2009. A violation of the covenant could cause the Fund's indebtedness to become immediately due and payable and to date the lenders have not exercised this right under the credit facilities. In the event of such a circumstance, the Fund anticipates it would need to raise additional capital in the form of equity or debt to supplement or replace its existing credit facilities in order to have sufficient liquidity to meet its obligations over the next twelve months. Given the current credit market, there is uncertainty as to whether sufficient capital would be made available either from the Fund's current lenders or other parties.

The Fund will become subject to Canadian corporate income taxes beginning in 2011. This may result in changes to the capital structure of the Fund or the nature of the Fund itself.

## 9. LONG-TERM UNIT INCENTIVE PLAN

On May 11, 2007, unitholders approved the Tree Island Wire Income Fund Long-Term Unit Incentive Plan. This plan provides for the allotment of up to 500,000 Phantom Units to designated employees of Tree Island Industries Ltd. (each a "Member") at the discretion of the Board of Trustees. The value of the Phantom Units will appreciate or depreciate with increases or decreases in the market price of the Fund's units. Phantom Units granted are considered to be in respect of future services and are recognized in unit-based compensation costs over the vesting period. Compensation costs is measured based on the market price of the Fund's units on the date of the grant of the Phantom Units.

	Three Months Ended June 30				Six Months Ended June 30			
	2009		2008		2009		2008	
	Vested	Unvested	Vested	Unvested	Vested	Unvested	Vested	Unvested
Balance, beginning of period	76,131	194,584	16,558	215,417	90,694	194,584	53,643	91,667
Granted	-	-	-	12,500	-	-	-	136,250
Additional earned in respect of distributions	-	-	11,574	-	6,051	-	16,536	-
Vested	-	-	33,333	(33,333)	-	-	33,333	(33,333)
Forfeited	-	(2,334)	-	-	-	(2,334)	-	-
Converted	(19,969)	-	-	-	(40,583)	-	(42,047)	-
Balance, end of period	56,162	192,250	61,465	194,584	56,162	192,250	61,465	194,584

Compensation expense related to Phantom Units for the three month period ended June 30, 2009 was \$143 (2008 - \$137) and for the six month period ended June 30, 2009 was \$298 (2008 - \$226). The expense is included in selling, general and administrative expense.

Non-cash distributions related to Phantom Units for the three month and six month periods ended June 30, 2009 were \$nil and \$12 respectively (2008 - \$52 and \$75 for the three and six month periods).

In the second quarter, an additional 19,969 Phantom Units were converted to regular units for a total of 40,583 converted in the six month period ended June 30, 2009 resulting in a reclassification of \$227 from contributed surplus to unitholders' capital.

The Fund's obligation to issue units on the vesting of Phantom Units is an unfunded and unsecured obligation of the Fund.

## 10. INCOME TAXES

Income tax obligations relating to distributions from the Fund are the obligations of the unitholders and, accordingly, no provision for income taxes on the income of the Fund has been made. A provision for income taxes is recognized for TIL and its wholly-owned subsidiaries, as TIL and its wholly-owned subsidiaries are subject to tax. The provision for the period is divided between current and future taxes as follows:

	Three Months Ended June 30		Six Months Ended June 30	
	2009	2008	2009	2008
Current tax (expense) recovery	\$ -	\$ (1,135)	\$ (21)	\$ (335)
Future tax (expense) recovery	(378)	(531)	1,980	746
	\$ (378)	\$ (1,666)	\$ 1,959	\$ 411

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

	Three Months Ended June 30		Six Months Ended June 30	
	2009	2008	2009	2008
(Loss) income before provision for income taxes	\$ (20,545)	\$ 10,671	\$ (40,504)	\$ 9,128
Income of the Fund subject to tax in the hands of the recipient	258	(5,574)	(190)	(10,213)
Income (loss) of wholly-owned subsidiary companies before income taxes	(20,287)	5,097	(40,694)	(1,085)
Tax Rate	30.0%	31.0%	30.0%	31.0%
Expected (expense) recovery of income taxes	\$ 6,086	\$ (1,580)	\$ 12,208	\$ 336
Increased (Reduced) by:				
Revisions of prior period estimates	-	(95)	-	(98)
Items not deductible for tax	(13)	(28)	(20)	(16)
Differential tax rates on U.S. and Chinese subsidiaries	1,600	(76)	2,138	55
Reduction in statutory future income tax rate	26	68	59	141
Future income tax valuation allowance	(7,415)	-	(11,675)	-
Other	(661)	45	(751)	(7)
Income tax (expense) recovery	\$ (377)	\$ (1,666)	\$ 1,959	\$ 411

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

## 11. POST-RETIREMENT BENEFITS

The Fund has three defined contribution pension plans. Contributions made by the Fund amounted to \$356 and \$705 for the three and six month periods ended June 30, 2009 respectively (2008 - \$442 and \$864 for the three and six month periods). Funding obligations are satisfied upon making contributions.

## 12. CONTINGENT LIABILITIES AND COMMITMENTS

### (a) *Litigation and claims*

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

### (b) *Commitments*

The Fund and its wholly-owned subsidiaries have committed to rod purchases totaling \$7,670 (US\$5,665 and RMB6,585), zinc purchases totaling \$1,115 (US\$959) and gas purchases totaling \$483 (US\$415) at June 30, 2009.

The Fund has an exclusive Supply, Production and Distributorship Agreements where the Fund has committed to pay \$310 (RMB 2,000) for purchase of raw material and processing fee and a refundable deposit of \$108 (RMB 700). The agreement runs over a two year period from April 22, 2008 to April 21, 2010. Of the amount committed, \$134 (RMB754) has been paid in the six months ended June 30, 2009.

The Fund and its subsidiaries also have various operating lease agreements with remaining terms of up to ten years with varying renewal options. Annual lease rental payments due under non-cancelable operating leases are as follows:

July - December 2009	\$	2,015
2010		3,051
2011		2,687
2012		1,653
2013		857
Thereafter		2,488
	\$	<u>12,751</u>

### 13. SEGMENTED INFORMATION

#### (a) General information

The Fund operates primarily within one industry, the steel wire and fabricated wire products industry with no separately reportable business segments. The products are sold primarily to customers in the United States, Canada and China.

#### (b) Geographic information

	Three Months Ended June 30		Six Months Ended June 30	
	2009	2008	2009	2008
Sales (i)				
Canada	\$ 16,667	\$ 28,258	\$ 35,416	\$ 51,177
United States	27,048	62,546	57,516	112,645
China	2,375	2,609	4,778	4,374
Other	1,340	1,575	2,675	3,213
	<u>\$ 47,430</u>	<u>\$ 94,988</u>	<u>\$ 100,385</u>	<u>\$ 171,409</u>

	As at June 30 2009	As at December 31 2008
Property, plant and equipment (ii)		
Canada (Note 15)	\$ 37,195	\$ 42,542
United States	10,070	11,940
China	463	498
	<u>\$ 47,728</u>	<u>\$ 54,980</u>

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

### 14. RESTRUCTURING COSTS

#### *September 2007 Restructuring*

In September 2007 the Fund announced that it would consolidate operations at its US plants and offices in order to realize efficiencies resulting from its acquisition of USA Wire and Baoan International. In November 2007 the Fund announced additional restructuring measures by reducing the number of employees in order to reduce costs. The portion of the costs incurred that related to restructuring an acquired company were allocated to the purchase price of Baoan International.

The following table provides a summary of the costs included in the consolidated statements of operations and cash payments made:

Employee termination benefits	\$	250
Costs of relocation of equipment		890
Lease costs		672
Foreign exchange effect		475
<b>Total costs expensed</b>	<b>\$</b>	<b>2,287</b>

	<b>2009</b>	<b>2008</b>	<b>2007</b>	<b>Cumulative Total 2007-2009</b>
Opening	\$ 296	\$ 581	\$ -	\$ -
Expensed (Reversal)	(296)	1,425	1,158	2,287
Paid	-	(1,710)	(577)	(2,287)
<b>Remaining to be incurred</b>	<b>\$ -</b>	<b>\$ 296</b>	<b>\$ 581</b>	<b>\$ -</b>

### ***January 2009 Restructuring***

On January 20, 2009 the Fund announced another restructuring plan including restrictions on salaries across the company, lay-offs of salaried and hourly staff and the closure of certain US manufacturing facilities. The costs for the January 2009 restructuring activities are summarized below:

	<b>2009</b>
Expenses	
Employee termination benefits	\$ 2,445
Costs of relocation of equipment	920
Lease costs	-
Foreign exchange effect	-
<b>Total costs expensed</b>	<b>3,365</b>
<b>Paid</b>	<b>(1,671)</b>
<b>Balance end of period</b>	<b>\$ 1,694</b>

## **15. SUBSEQUENT EVENTS**

### ***Surplus Land Sale***

On July 2, 2009 the Fund completed the sale of 12.5 acres of surplus lands at its Richmond, B.C. manufacturing facility for net proceeds of \$8.6 million. The agreement contains a condition whereby a \$1.5 million holdback will be held in trust and will be released upon providing to the Purchaser a Certificate of Compliance for the environmental remediation. The environmental remediation is required to be completed within one year from the closing of the sale.

The available proceeds of \$8.6 million from the sale have been used to reduce debt under the GE credit facility.

The carrying value of the surplus land has been classified as assets held for sale on the balance sheet as at June 30, 2009.

For further information:

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