

**TREE ISLAND WIRE INCOME FUND**

**Q3 2011**



Report to Unitholders  
for the period ended  
September 30, 2011



## TREE ISLAND WIRE INCOME FUND FUND PROFILE

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

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

### **Tree Island Profile**

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

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## TREE ISLAND WIRE INCOME FUND TO OUR UNITHOLDERS

Despite the ongoing macro-economic environment challenges that our industry has been faced with, I am encouraged with our progress on a year-over-year basis. The Fund's third quarter results are indicative of our ongoing efforts to solidify our position as a fundamentally sound and responsible business partner to our customers and suppliers, while paving the road for a promising future for our unitholders in less volatile times. During the third quarter, customers in our key end markets remained tentative given the overall continued weakness of the US economy.

During the third quarter of 2011, revenues increased by 21 percent on a year-over-year basis to \$38.0 million, primarily driven by strong sales volumes, responsible price increases which were implemented to address rising raw material costs, and increased revenues from our tolling and international operations. As a result, we realized higher gross profit and gross profit per ton amounting to \$1.4 million and \$51 per ton, respectively. This compares to a gross profit and gross loss per ton of \$0.4 million and \$21 per ton during the same period in 2010. As a result, we were successful in reducing the Fund's EBITDA loss to \$1.3 million, from \$2.2 million a year ago.

The impact of our focus on top line growth through higher selling prices and increased volumes, cost and production capacity management as well as the benefit of a stronger Canadian dollar, resulted not only in the strengthening of our gross profit line, but also our bottom line. During the third quarter, we were successful in reducing the Fund's net loss to \$4.6 million, or \$0.20 per share, versus a net loss of \$5.3 million, or \$0.23 per share during the third quarter of 2010.

While third quarter results remained under pressure due to tightness in demand for certain products, we continued to prioritize and align our resources to end markets where it made best sense to grow our business. Over the past number of quarters, the industry has maintained a very aggressive pricing posture, while at the same time, being confronted with slow demand and increasing raw material costs. Tree Island's continued approach to the market will be one that fosters long run sustainability. We will be diligent in the execution of our "Back to Basics" strategy

maintaining strong customer relationships, quality products, tight cost controls and adherence to a pricing policy discipline that is relative to raw material cost volatility and at levels which make economic sense to us and to our customers.

As many of you are aware, the fourth quarter is a seasonally slow period for our business. The combination of this seasonality pattern and uncertain market conditions will not change our business strategy. We will continue to closely monitor our markets, inventories and cost base.

While we are encouraged with our progress, our outlook remains cautious due to continuing weakness in the US residential construction market. However, demand from other sales channels, including commercial construction (primarily mining) and industrial/OEM, is showing signs of improvement. Our objective is to heighten our concentration on strong operational execution and rigorous cost controls on an ongoing basis and to be selective in our alignment to key markets that enable us to maintain profitability and cash generation. This is in keeping with a determined strategy that has allowed us to realize steady improvements in the past number of quarters. We are confident that this same plan will position the Fund to be capable of favorably responding to any relevant improvement in the current economic environment.

In closing, I would like to thank our unit holders, employees, customers and suppliers for your ongoing confidence and support and dedication to the success of Tree Island. I believe we are moving forward with competitive advantages that enhance our prospects of success.

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



## MANAGEMENT'S DISCUSSION AND ANALYSIS

September 30, 2011 and 2010

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The following is a discussion of the financial condition and results of operations of Tree Island Wire Income Fund (the "Fund") and its wholly owned operating subsidiary Tree Island Industries Limited ("Tree Island" or the "Company"). This discussion is current to November 8, 2011 and should be read in conjunction with the unaudited interim condensed consolidated financial statements for the three and nine months ended September 30, 2011. The Fund's interim condensed consolidated financial statements are prepared in accordance with International Financial Reporting Standards ("IFRS") applicable to the preparation of interim financial statements including IAS 34 Interim Financial Reporting and IFRS 1 First Time Adoption of International Financial Reporting Standards and are reported in Canadian dollars. They do not include all of the information required for full annual financial statements. The 2010 prior period comparative financial information throughout this report has been restated in accordance with IFRS; however, 2009 information is presented in accordance with Canadian GAAP and has not been restated.

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

## 1. FORWARD-LOOKING STATEMENTS AND RISK

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

Forward-looking statements, by their nature, necessarily involve risks and uncertainties that could cause actual results to differ materially from those contemplated by the statements. Such risks and uncertainties include, but are not limited to: general economic conditions and markets and, in particular, the impact of the current economic uncertainties, impact of recent trade cases, risks associated with operations such as competition, dependence on the construction industry, market conditions for our products, supplies of and costs for our raw materials, dependence on key personnel, labour relations, regulatory matters, environmental risks, the successful execution of acquisition and integration strategies and other strategic initiatives, foreign exchange fluctuations, the effect of leverage and restrictive covenants in financing arrangements, the cost and availability of capital, the possibility of deterioration in our working capital position, the impact on liquidity if we were to go offside of covenants in our debt facilities, the impact that changes in supplier payment terms or slow payment of accounts receivable could have on our liquidity, product liability, the ability to obtain insurance, energy cost increases, changes in tax legislation, other legislation and governmental regulation, changes in accounting policies and practices, operations in a foreign country, unit price volatility and interest rate risk related to the fair value of convertible instruments, and other risks and uncertainties set forth in our publicly filed materials.

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

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

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

### 3. THE FUND AND TREE ISLAND

#### 3.1. About the Fund

The Fund holds a 100% ownership interest in Tree Island and is organized as a trust on a corporation structure. There were 22,882,404 Units of the Fund outstanding as of September 30, 2011 and 22,837,904 as of November 8, 2011. There were 245,504 Phantom Units issued under the Fund's long-term incentive plan as at November 8, 2011. Each Phantom Unit is convertible, subject to vesting conditions, into one Unit.

During 2009 and the early part of 2010, the Fund completed a recapitalization of the business referred to in this MD&A as the Recapitalization Transaction. As part of the Recapitalization Transaction, on November 26, 2009 the Fund issued convertible debentures ("Debentures") by way of a private placement which was then followed by a public offering of Debentures with the same terms and conditions in January 2010. In total, 197,500 Debentures with a face value of \$100 each were issued. Each \$100 Debenture is convertible into 200 Fund Units at the option of the Debenture holder. As at November 8, 2011, the total number of Debentures remaining outstanding is 193,846.

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

#### 3.2. About Tree Island

##### Markets and Products

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

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

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

Markets	Products	Specific End Uses
Residential Construction	Collated, bulk and packaged nails, and stucco reinforcing mesh.	Construction and renovation for new and existing homes
Commercial Construction	Welded wire reinforcement mesh and concrete reinforcing products	Commercial construction, mining, infrastructure projects
Industrial/OEM	Low carbon wire (bright/galvanized/annealed), high carbon wire (bright/galvanized/annealed), hi-tensile baling wire	Wire fabricating, industrial applications, OEM manufacturing (i.e. mattresses, inner springs, tires), forestry, recycling
Agricultural	Hi-tensile game fence, farm fence, vineyard wire, barbed wire, bailing wire, vinyl coated wire	Agriculture, farming
Specialty	Spring wire, cold heading wire, shaped wire, stainless specialty alloy bar, rod and wire	Consumer products, industrial applications, telecommunications, aerospace, automotive, oil industry

##### Seasonality

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

## Product Strategy

Tree Island is a manufacturer and supplier of premium quality wire products for a broad range of applications. Our goal is to match the appropriate wire product, level of quality and price point for our customers needs. We achieve this by manufacturing most of our products at our own manufacturing facilities, while outsourcing others from qualified manufacturers.

## Premium Brands

We manufacture our premium, branded products internally in our North American facilities, targeting them to customers that seek value and reliable high performance. Our Premium brands offer:

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

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

## Select Brand

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

## Direct Ship

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

## Organizational Structure

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

## 4. DEVELOPMENTS AND THIRD QUARTER BUSINESS OVERVIEW

### Market Overview

The steel industry tends to be highly cyclical and as a result, the price we pay for our raw materials can be affected significantly by general economic conditions, such as worldwide production capacity, regional economic factors including the price of scrap steel and fluctuations in steel imports/exports and tariffs.

Demand for products in the residential construction in North America remains below levels prevailing before the recession began in 2009. In our other key markets, the demand has been steady although all of our markets are sensitive to the continuing volatility of economic factors and consumer and business confidence.

In contrast, our steel costs increased sharply in 2011 compared to 2010 with the prices stabilizing in the latter part of the third quarter. Since the start of the year, North American steel suppliers have increased steel prices by as much as 25% in some cases driven by increased raw material costs and managed supply. As part of our strategy to manage rising steel costs, we source our raw materials from a variety of suppliers either domestically or from overseas, always looking for the best pricing available for shipment to our plants. We also strive for quick turnover of our inventories. To the extent that we cannot mitigate increases in steel costs through these measures, we, along with our competitors, attempt to recover the higher costs through price increases. We implemented a series of product price increases in throughout 2011, and we will continue working to align product prices with raw material costs through the remainder of the year. We cannot give any assurances that we will be successful realizing prices sufficient to recover increased wire rod costs.

### **Summary of Results**

Although the third quarter experienced some seasonal impact, this was not as pronounced as in the prior year, and overall the Fund's performance in the third quarter of 2011 and for the year-to-date 2011 compare favorably with the same periods in 2010. Market conditions were challenging during the quarter with uncertainty and volatility in global economic factors. As well, the ongoing depressed housing situation in the United States is continuing to impact our traditional markets in the residential construction industry. According to the US Census Bureau, housing starts in the key Western US region were approximately 40,500 the third lowest third quarter since 1959. However, despite these low levels in comparison to historic third quarters, Western US region housing starts actually recovered 10.4% over the second quarter of this year and 15.7% over the same period in 2010. In response to these challenges, we continue to target key end-markets, maintain price discipline and manage our costs closely as part of our "Back-to Basics" strategy.

For the three months ended September 30, 2011, the Fund reported revenues of \$38.0 million, compared to \$31.4 million during the same period in 2010. Sales volumes increased to 27,408 tons, compared to 23,192 tons in 2010. Gross profit and EBITDA also improved in comparison to the prior year, with gross profit increasing from a negative gross profit of \$0.5 million in 2010 to a positive gross profit of \$1.4 million in 2011 and EBITDA increasing from a negative EBITDA of \$2.2 million in 2010 to a negative EBITDA of \$1.3 million in 2011. Gross profit per ton increased to \$51 per ton (2010 – negative \$21 per ton).

### **Foreign Exchange**

The strengthening of the US dollar during the quarter had several impacts on our results including the recognition of a foreign exchange loss in the quarter of \$1.8 million on the translation of our US dollar financial assets and liabilities, a positive impact on translation of our US dollar denominated sales offset by the negative impact on US dollar denominated costs primarily in our raw materials.

### **Unit Buy-Back**

On September 2, 2011, the Fund announced that it had received approval from the Toronto Stock Exchange to commence a normal course issuer bid (the "Bid"). The Fund commenced the Bid on September 7, 2011 and, subject to renewal, will terminate the Bid on the earlier of September 6, 2012 and the date on which the fund has acquired the maximum number of units permitted under the Bid. The Fund may acquire up to 1,825,000 units under the Bid, such number representing approximately 10% of the public float of the Fund's issued and outstanding units at the date hereof. The Fund has no obligation to purchase any units under the Bid. Subject to certain exemptions for block purchases, the maximum number of units that the Fund may purchase on any one trading day is 3,305 units up to and including September 6, 2012, representing 25% of the average daily trading volume for the previous six months. During the three months ended September 30, 2011 the Fund purchased 18,000 units at an average cost of \$0.24 per unit, net of commission. These units were cancelled upon being purchased by the Fund.

### **Remediation on Surplus Lands Sold in 2009**

As described more fully in Note 17 of the Interim Condensed Consolidated Financial Statements for the period ended September 30, 2011, the Fund completed the sale of 12.5 acres of surplus lands at its Richmond, BC manufacturing facility in 2009. The agreement contains a condition whereby \$1.5 million was held in trust to be released upon certain conditions.

The Fund has completed the remediation work based on the planned requirements and has submitted the results for approval and issuance of Certificate of Completion. The Fund is expecting to obtain the Certificate of Compliance by the end of 2011.

The Fund has incurred \$1.1 million in remediation costs up to September 30, 2011 and as agreed with the purchaser of the property, the Fund has been able to draw down and receive the full amount incurred to date from the funds held in trust. The remaining monies held in trust will be refunded to the Fund once the Certificate of Completion is issued from the regulatory body and accepted by the purchaser. It is expected that the \$1.5 million holdback is sufficient to cover the costs of the remediation activities.



## **Trade Action Reviews**

Subsequent to the third quarter the US Department of Commerce (“DOC”) announced, preliminary antidumping duties on certain galvanized wire imported from China and Mexico and another trade action related to certain nails imported from the United Arab Emirates. The final determinations are expected in first quarter 2012.

With regard to nails, the preliminary antidumping duties on all imports of certain steel nails from the United Arab Emirates range from 19.23 percent to 61.54 percent. The steel nails covered by the petition can have a variety of finishes, heads, shanks, points and sizes, and may be sold in bulk or collated into strips or coils using materials such as plastic, paper or wire

With regards to galvanized wire, the DOC preliminarily determined that Chinese and Mexican exporters sold galvanized wire in the US at margins ranging from 76.34 to 235 percent and 37.87 to 61.54 percent, respectively and countervailable subsidies ranging from 21.59 to 253.07 percent.

We are monitoring both cases closely and are in the process of evaluating the potential impacts and opportunities that result from both cases.

## **Outlook**

Given the continued economic uncertainty in the US and high level of unemployment in the US, overall volatility in global markets, meaningful improvements in demand fundamentals for our end markets are difficult to predict. As we enter the fourth quarter, which is seasonally our slowest quarter of the year, our outlook remains cautious due to the lack of visibility from a macro-economic perspective. We expect lower demand in residential construction and agricultural markets during the fourth quarter due to a seasonal slowdown of activity in the winter months. However, going forward, we will continue to focus on cost management and keep selling prices aligned with costs, although there can be no certainty that our price increases will be fully realized. To help minimize our exposure to raw material price volatility, we will continue to balance our inventory sourcing between international and domestic suppliers.

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

## 5. RESULTS FROM OPERATIONS

Summary of Results (\$'000's except for tonnage and per unit amounts)	Three Months Ended September 30		Nine Months Ended September 30	
	2011	2010	2011	2010
<b>Sales Volumes – Tons <sup>(1)</sup></b>	<b>27,408</b>	<b>23,192</b>	<b>85,032</b>	<b>78,810</b>
Revenue	\$ 38,005	\$ 31,391	\$ 114,949	\$ 104,665
Cost of Goods Sold	(35,774)	(30,465)	(103,135)	(94,662)
Depreciation	(820)	(1,412)	(2,459)	(4,246)
Gross Profit	\$ 1,411	\$ (486)	\$ 9,355	\$ 5,757
Selling, General and Administrative Expenses	(3,507)	(3,100)	(9,393)	(9,634)
Operating Loss	\$ (2,096)	\$ (3,586)	\$ (38)	\$ (3,877)
Foreign Exchange Gain (Loss)	(1,817)	709	(1,239)	(606)
Financing Expenses	(2,153)	(2,576)	(6,259)	(8,862)
Changes in fair value on convertible instruments	1,414	(156)	2,301	3,594
Gain on sale of property, plant and equipment	11	80	11	80
Loss on renegotiated debt	-	-	(3,234)	-
Loss before income taxes	(4,641)	(5,529)	(8,458)	(9,671)
Income Tax (Expense) Recovery	47	256	(146)	1,671
<b>Net Loss</b>	<b>\$ (4,594)</b>	<b>\$ (5,273)</b>	<b>\$ (8,604)</b>	<b>\$ (8,000)</b>
<b>EBITDA <sup>(2)</sup></b>				
Operating Loss	(2,096)	(3,586)	(38)	(3,877)
Add back Depreciation	820	1,412	2,459	4,246
<b>EBITDA</b>	<b>(1,276)</b>	<b>(2,174)</b>	<b>2,421</b>	<b>369</b>
Foreign Exchange Gain (loss)	(1,817)	709	(1,239)	(606)
<b>Adjusted EBITDA</b>	<b>(3,093)</b>	<b>(1,465)</b>	<b>1,182</b>	<b>(237)</b>
<b>Net Loss</b>	<b>(4,594)</b>	<b>(5,273)</b>	<b>(8,604)</b>	<b>(8,000)</b>
Adjustment for significant non-cash items				
Non-cash financing expenses	1,339	1,783	3,962	5,506
Non-cash loss on renegotiated debt	-	-	3,234	-
Changes in fair value of convertible instruments	(1,414)	156	(2,301)	(3,594)
<b>Adjusted Net Loss <sup>(2)</sup></b>	<b>(4,669)</b>	<b>(3,334)</b>	<b>(3,709)</b>	<b>(6,088)</b>
<b>Per Unit</b>				
Net income (loss) per unit - basic and fully diluted	\$ (0.20)	\$ (0.23)	\$ (0.38)	\$ (0.35)
Standardized Distributable Cash per Unit - Basic and Fully Diluted <sup>(2)</sup>	\$ (0.12)	\$ 0.13	\$ (0.49)	\$ (0.38)
Adjusted Distributable Cash per Unit - Basic and Fully Diluted <sup>(2)</sup>	\$ (0.05)	\$ (0.13)	\$ 0.03	\$ (0.06)
<b>Per Ton</b>				
Gross Profit per Ton	\$ 51	\$ (21)	\$ 110	\$ 73
EBITDA per Ton <sup>(2)</sup>	\$ (47)	\$ (94)	\$ 28	\$ 5
Adjusted EBITDA per Ton <sup>(2)</sup>	\$ (113)	\$ (63)	\$ 14	\$ (3)
<b>Financial Position</b>			<b>As at September 30 2011</b>	<b>As at December 31 2010</b>
Total Assets			\$ 99,174	\$ 87,450
Total non-current financial liabilities			\$ 43,586	\$ 36,321

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

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

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

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

### Revenue

For the three months ended September 30, 2011, we generated revenues of \$38.0 million, an increase of \$6.6 million, or 21.1%, from the same period in 2010. The increase in revenue primarily reflects increased sales volumes, price increases implemented to address rising raw material costs, and increased revenues from our tolling and international operations. Revenues from tolled baling wire for the pulp industry increased by \$0.5 million in the third quarter of 2011, compared to the same period in 2010.

During the third quarter of 2011, the average exchange rate for the Canadian dollar was 5.6% stronger than in Q3 2010. Holding all other factors constant, had exchange rates for the Canadian dollar remained consistent with the third quarter of 2010, our Q3 2011 revenues would have been approximately \$1.3 million higher.

Sales volumes for the third quarter of 2011 increased by 18.2% to 27,408 tons, from 23,192 tons during the same period in 2010. Domestic sales increased 3,909 tons or 17.1%. The increase in volumes reflects an overall improved demand in our end markets compared to the prior year as well as our strategy for targeted growth. This has helped us maintain third quarter sales in a highly competitive environment and through challenging market conditions.

Sales volumes to the residential construction market represented 30.7% of our total sales (29.7% in 2010). Driven by improved fastener sales, residential construction sales volumes increased by 1,518 tons or 21.7% year-over-year. This is indicative of our strategy for targeted growth in this market as well as the 15.7% improvement in the US Western housing starts over the same period in 2010. Our volumes to the commercial construction sector, which accounts for 20.4% of our sales portfolio in Q3 2011, increased 739 tons or 14.3%, primarily driven by increased sales of products to the mining industry and of concrete reinforcing wire. Industrial/OEM market sales volume representing 38.3% of our total sales volumes in the quarter grew 1,077 tons or 11.7% compared to prior year. The increase was due to higher volumes of low carbon galvanized. The agricultural sector, making up 4.4% of our sales (4.8% in 2010) improved by 60 tons when compared to Q3 2010. Third quarter 2011 sales of specialty products increased by 516 tons year-over-year as US demand for stainless steel products increased. International trading sales increased by 307 tons year-over-year due to new sales of galvanized wire.

Sales volumes by market were as follows:

Market	Three Months Ended Sept 30, 2011		Three Months Ended Sept 30, 2010	
	Tons (000's) <sup>(2)</sup>	% of Sales Volumes	Tons (000's) <sup>(2)</sup>	% of Sales Volumes
Residential Construction	8.4	30.7%	6.9	29.7%
Commercial Construction	5.6	20.4%	4.9	21.1%
Industrial/OEM	10.5	38.3%	9.4	40.5%
Agricultural	1.2	4.4%	1.1	4.8%
Specialty	1.1	4.0%	0.6	2.6%
International Trading (1)	0.6	2.2%	0.3	1.3%
<b>Total</b>	<b>27.4</b>	<b>100.0%</b>	<b>23.2</b>	<b>100.0%</b>

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

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

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

	Three Months Ended Sept 30, 2011		Three Months Ended Sept 30, 2010	
	Tons (000's)	% of Sales Volumes	Tons (000's)	% of Sales Volumes
North American Manufactured	25.2	92.0%	21.3	91.8%
Imported & Trading	2.2	8.0%	1.9	8.2%
<b>Total</b>	<b>27.4</b>	<b>100.0%</b>	<b>23.2</b>	<b>100.0%</b>

During the third quarter, sales volumes of our North American manufactured products increased in total volume by 3,924 or 18.4% and remained a high percentage of total sales volumes at 92.0%. Combined import and trading sales grew by 292 tons or 15.2% and represented a smaller percentage of the total sales at 8.0%. The high ratio of manufactured product volumes relative to import and trading product volumes reflects our increased emphasis on manufacturing as a core competency and our efforts to increase throughput at our North American manufacturing operations. Going forward, we will continue to review and optimize the mix of manufactured versus imported products as we work to enhance profitability and provide our customers with value and the specific products they need.

### Cost of Goods Sold

Cost of goods sold for the third quarter of 2011 increased \$5.3 million or 17.4% from the same period in 2010 as a result of higher volumes through our facilities as well as higher costs of raw materials. Our average cost of carbon rod (representing 53.3% of total cost of goods sold) increased by 9.5% when compared to the same period in 2010. Because carbon rod is usually transacted in US dollar, the cost of carbon rod for our Canadian operations was positively impacted by the stronger Canadian dollar. Stainless steel costs (representing 7.6% of total cost of goods sold) increased 12.9% on a per-ton basis, compared to 2010 and the cost of zinc (representing 3.1% of total cost of goods sold) increased 7.7%.

### Gross Profit

Third quarter gross profit increased by \$1.9 million, to \$1.4 million, while gross profit per ton increased to \$51 per ton compared to negative \$21 per ton in the same period in 2010. The increase in gross profit and gross profit per ton primarily reflects increased volumes through our facilities, increased selling prices and the net benefit of a stronger Canadian dollar on US dollar-denominated costs incurred by our Canadian operations. Our Q3 2011 gross profit was impacted positively by a decrease in depreciation expense of \$0.6 million as a result of a comprehensive review of our property, plant and equipment in the first quarter and resulting extension of the remaining useful lives of certain of our manufacturing equipment and buildings.

### Expenses

Selling, general and administrative (“SG&A”) expenses was \$3.5 million in third quarter of 2011, an increase of \$0.4 million, or 13.1%, compared to the same period in 2010. The increase in SG&A expense includes restructuring charges of \$0.2 million and employee retention bonuses of \$0.2 million.

### EBITDA

EBITDA for the third quarter of 2011 was a loss of \$1.3 million, compared to a loss of \$2.2 million in Q3 2010. The year-over-year change in EBITDA reflects the improved volumes and an increase in gross profit, partially offset by the lower depreciation charge of \$0.6 million in 2011 due to the comprehensive review of asset useful lives.

Adjusted EBITDA, which includes foreign exchange gains and losses in the period, was a loss of \$3.1 million compared to \$1.5 million in the equivalent period in 2010 resulting from a foreign exchange loss of \$1.8 million in Q3 2011 versus a foreign exchange gain of \$0.7 million in Q3 2010.

### Financing Expenses

For the three month ended September 30, 2011, financing expenses decreased by \$0.4 million to \$2.2 million. The components of financing expense are below:

	<b>Three months ended September 30</b>	
	<b>2011</b>	<b>2010</b>
Non-cash accretion of debt discount and interest on long term debt and Convertible Debentures	\$ 1,339	\$ 1,783
Cash interest on debentures	483	483
Interest on Senior Credit Facility	169	101
Other interest and financing costs	76	152
Financing transaction costs and amortization of deferred financing costs	86	57
	<b>\$ 2,153</b>	<b>\$ 2,576</b>

The decrease is primarily due to a decrease in the non-cash accretion of debt discount and interest on long term debt and convertible debentures of \$0.4 million, primarily due to a reduction in the discount rate on the Forbearance Agreements as a result of the renegotiation of payment terms in the first quarter of 2011. For further information on the change of accounting on the Forbearance Agreements, see the discussion regarding the Loss on Renegotiated Debt below and Note 9 of the September 30, 2011 interim condensed consolidated financial statements.

### **Changes in Fair Value on convertible instruments**

Under IFRS, certain of our financial instruments are recorded at fair market value and are re-measured each period. These instruments are the conversion feature on the Debentures, change of control option and warrants issued as part of the Recapitalization Transaction. The change in fair value for the three months ended September 30, 2011 was a gain of \$1.4 million versus a loss of \$0.2 million in the prior period.

The fair market value of these financial liabilities incorporates the market value of the Fund's units and as such the fair value of these instruments will fluctuate inversely with the changes in the Fund's unit price or in the risk free rate. Fair market value is determined using an option pricing model with a volatility assumption of 17% and a risk free rate of 1.02%. The sensitivity of the change in fair value on convertible instruments is discussed in section 12 of this MD&A.

### **Foreign Exchange**

We reported a loss on foreign exchange of \$1.8 million in the third quarter of 2011, compared to a gain of \$0.7 million in Q3 2010. This loss resulted from the strengthening of the US dollar against the Canadian dollar at the end of the quarter. Because a substantial portion of the Fund's assets, liabilities, sales and earnings are denominated in currencies other than the Canadian dollar, its reporting currency, the Fund 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**

We recorded a Q3 2011 income tax recovery of \$47 thousand, compared to an income tax recovery of \$256 thousand in Q3 2010. The income tax recovery represents a deferred income tax expense of \$41 thousand (Q3 2010 - \$284 thousand recovery) and a current income tax recovery of \$88 thousand (Q3 2010 - \$28 thousand expense). The income tax expense was based on the statutory tax rate of 26.5% (2010 – 28.5%) applied to the income of subsidiaries before taxes, with adjustments for permanent differences between accounting and taxable income.

### **Net Loss**

We reported a net loss of \$4.6 million in the third quarter of 2011 (2010 - net loss of \$5.3 million), or a loss of \$0.20 per unit basic and diluted (2010 - net loss of \$0.23 per unit basic and diluted). The decrease in net loss reflects a reduction in the operating loss to \$2.1 million (2010 – loss of \$3.6 million), a decrease in financing expenses to \$2.2 million (2010 - \$2.6 million), and an increase in the gain recognized for the change in fair value of convertible instruments to \$1.4 million (2010 – loss of \$0.2 million). This was offset by a foreign exchange loss of \$1.8 million (2010 - gain of \$0.7 million) and a tax recovery of \$47 thousand (2010 - income tax recovery of \$256 thousand).

### **Adjusted Net Loss**

Adjusted for the impact of certain non-cash items recognized in net loss, the Adjusted Net Loss was a loss of \$4.7 million versus a loss of \$3.3 million in the prior period. The increase in Adjusted Net Loss is primarily due to incurring a foreign exchange loss of \$1.8 million versus a foreign exchange gain of \$0.7 million in 2010 offset by the increase in EBITDA of \$0.9 million over the same period in 2010.

## **7. COMPARISON OF RESULTS FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2011 AND 2010**

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

### **Revenue**

During the nine months ended September 30, 2011, we generated revenues of \$114.9 million, an increase of \$10.3 million, or 9.8%, from the same period in 2010. The improvement in revenue primarily reflects higher sales volumes, higher selling prices and increased tolling revenue. Revenues from tolled baling wire for the pulp industry increased by \$1.4 million in the first nine months of 2011, compared to the same period in 2010.

The gains in revenue were partially offset by the negative impact of a stronger Canadian dollar on our US dollar denominated revenues. During the first nine months in 2011, the average exchange rate for the Canadian dollar was 5.6% stronger than the same period in 2010. Holding all other factors constant, had exchange rates for the Canadian dollar remained consistent with the first nine months of 2010, our nine-month 2011 revenues would have been approximately \$4.1 million higher.

Sales volumes for the nine months ended September 30, 2011 increased by 7.9% to 85,032 tons, from 78,810 tons during the same period in 2010. These gains reflect our continued efforts towards targeted growth in key end-markets, increasing throughput in our facilities and were achieved despite continuing economic challenges in our end markets in particular residential construction. According to the US Census Bureau, housing starts for the key Western US region were just 101,100 for the first nine months of 2011, a very low level by historical standards (the third lowest level of housing starts in a nine month period since 1959).

Despite the weakness in the housing market, our volumes to the residential construction market grew 469 tons or 1.8% compared to the same period last year, primarily due to higher fastener sales. Sales to the residential construction market represented 29.6% of the first nine months of 2011 total sales, compared to 31.3% in the same period in 2010. By comparison, primarily driven by increased sales of welded wire mesh products to the Canadian mining industry and increased sales of concrete reinforcing products, our volumes to the commercial construction sector grew by 4,465 tons or 34.5% year-over-year and represented 20.5% of our total sales portfolio, compared to 16.4% in 2010. Industrial/OEM market volumes improved by 2,228 tons or 7.5% reflecting increased volumes to the recycling (high carbon galvanized wire) and the upholstery industries (high carbon wire). Sales volumes to the agricultural sector decreased by 350 tons or 5.4%, due to weather-related delays in the growing season. Specialty products sales for the first nine months of 2011 increased by 1,261 tons year-over-year as US demand for stainless steel products increased. International trading sales decreased by 1,851 tons year-over-year, reflecting the discontinuation of certain projects in our Asian subsidiaries.

Sales volumes by market were as follows:

Market	Nine Months Ended Sept 30, 2011		Nine Months Ended Sept 30, 2010	
	Tons (000's) <sup>(2)</sup>	% of Sales Volumes	Tons (000's) <sup>(2)</sup>	% of Sales Volumes
Residential Construction	25.2	29.6%	24.7	31.3%
Commercial Construction	17.4	20.5%	12.9	16.4%
Industrial/OEM	31.8	37.4%	29.6	37.6%
Agricultural	6.1	7.2%	6.5	8.2%
Specialty	3.1	3.7%	1.9	2.4%
International <sup>(1)</sup>	1.4	1.6%	3.2	4.1%
<b>Total</b>	<b>85.0</b>	<b>100.0%</b>	<b>78.8</b>	<b>100.0%</b>

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

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

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

	Nine Months Ended Sept 30, 2011		Nine Months Ended Sept 30, 2010	
	Tons (000's)	% of Sales Volumes	Tons (000's)	% of Sales Volumes
North American Manufactured	78.8	92.7%	67.9	86.2%
Imported & Trading	6.2	7.3%	10.9	13.8%
<b>Total</b>	<b>85.0</b>	<b>100.0%</b>	<b>78.8</b>	<b>100.0%</b>

During the nine months ended September 30, 2011, sales volumes of our North American manufactured products increased both in total tons and as a percentage of total sales volumes. As mentioned above, the increase in manufactured product volumes relative to import and trading product volumes reflects our increased emphasis on manufacturing as a core competency as well as our efforts to increase throughput at our North American manufacturing operations. By contrast, combined import and trading sales declined to 6,262 tons in 2011 from 10,902 tons in the same period in 2010, and represented a smaller percentage of total sales at 7.3% in 2011 compared to 13.8% in 2010. Going forward, we will continue to review and optimize the mix of manufactured versus imported products as we work to enhance profitability and provide our customers with value and the specific products they need.

### Cost of Goods Sold

For the nine months ended September 30, 2011, cost of goods sold increased by \$8.5 million or 9.0% from the same period last year due to higher raw material costs and higher volumes. Our average cost of carbon rod (representing 54.6% of total cost of goods sold) increased by 5.7% when compared to the same period in 2010. Because carbon rod is usually transacted in US dollar, the cost of carbon rod for our Canadian operations was positively impacted by the stronger Canadian dollar. Stainless steel costs (representing 7.8% of total cost of goods sold) increased 19.8% on a per-ton basis, compared to 2010 and the cost of zinc (representing 3.7% of total cost of goods sold) increased 19.1%.

## Gross Profit

During the nine months ended September 30, 2011, gross profit improved to \$9.4 million, while gross profit per ton increased by \$37 per ton to \$110 per ton, compared to \$73 per ton in the same period in 2010. The increase in gross profit and gross profit per ton primarily reflects higher sales and tolling volumes, increased selling prices together with the net benefit of a stronger Canadian dollar on US dollar-denominated costs incurred by our Canadian operations. Gross profit also benefited from a decrease in depreciation expense resulting from a comprehensive review of our property, plant and equipment in the first quarter. This review resulted in an extension of the remaining useful lives of certain of our manufacturing equipment and buildings. Although throughput at the manufacturing facilities has been increasing, gross profit in both 2011 and 2010 continued to be negatively impacted by the suboptimal utilization of our manufacturing facilities.

## Expenses

SG&A expenses decreased to \$9.4 million in 2011 from \$9.6 million in 2010, a reduction of \$0.2 million, or 2.5%. The reduction in SG&A expense reflects reductions in staffing levels, partially offset restructuring charges in the third quarter and expenses related to the transition to IFRS.

## EBITDA

EBITDA for the nine months ended September 30, 2011 increased to \$2.4 million from \$0.4 million in 2010. The \$2.0 million improvement reflects profitability gains made through our focus on profitable markets and products, tight management of costs and increased volume through our manufacturing facilities.

Adjusted EBITDA, which includes foreign exchange gains and losses in the period, increased to \$1.2 million from a loss of \$0.2 million in the equivalent period in 2010.

## Financing Expenses

For the nine months ended September 30, 2011, financing expenses decreased by \$2.6 million to \$6.3 million. The components of financing expense are below:

	Nine months ended September 30	
	2011	2010
Non-cash accretion of debt discount and interest on long term debt and Convertible Debentures	\$ 3,962	\$ 5,506
Cash interest on debentures	1,450	990
Interest on Senior Credit Facility	382	453
Other interest and financing costs	256	315
Financing transaction costs and amortization of deferred financing costs	209	1,598
	\$ 6,259	\$ 8,862

The reduction is primarily due to a decrease in financing transaction costs and amortization of deferred financing fees and reduction in non-cash accretion of debt discounts. Financing transaction costs decreased by \$1.4 million primarily due to expensing in 2010 of \$0.3 million of transaction costs relating to the issuance of Debentures in the quarter and the remaining amortization of \$0.9 million of deferred financing fees associated with our previous senior credit facilities whose term ended in March 2010. The decrease from the prior year in the non-cash accretion on our long term debt and Debentures of \$1.5 million is due to amendments to our Forbearance Agreements which resulted in a change of accounting and consequent reduction in discount rate from approximately 22% to 13%. For further information on the change of accounting on the Forbearance Agreements, see the discussion regarding the Loss on Renegotiated Debt below and Note 9 of the September 30, 2011 interim condensed consolidated financial statements. The \$0.1 million reduction in interest cost on our Senior Credit Facility was the result of a lower outstanding loan balance during the period.

The overall decrease was offset by a \$0.5 million increase in the cash interest on the Debentures. This reflects the fact that Debentures issued under the rights offering in the first quarter of 2010 were only outstanding for a portion of that quarter.

## Changes in Fair Value on convertible instruments

Under IFRS, certain of our financial instruments are recorded at fair market value and are re-measured each period. These instruments are the conversion feature on the Debentures, change of control option and warrants issued as part of the Recapitalization Transaction. The change in fair value for the nine months ended September 30, 2011 was a gain of \$2.3 million versus a gain of \$3.6 million in the prior-year period.

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

### **Loss on renegotiated debt**

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

### **Foreign Exchange**

We reported a loss on foreign exchange of \$1.2 million for the nine months ended September 30, 2011, compared to a loss of \$0.6 million in 2010. As mentioned above, because a substantial portion of the Fund's assets, liabilities, sales and earnings are denominated in currencies other than the Canadian dollar, its reporting currency, the Fund 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**

In the nine months ended September 30, 2011, we recorded an income tax expense of \$0.1 million, compared to an income tax recovery of \$1.7 million in 2010. The income tax expense represents a deferred income tax expense of \$86 thousand (2010 - \$0.6 million recovery) and a current income tax expense of \$60 thousand (2010 - \$1.1 million recovery). The income tax expense was based on the statutory tax rate of 26.5% (2010 - 28.5%) applied to the income of subsidiaries before taxes, with adjustments for permanent differences between accounting and taxable income.

### **Net Loss**

We reported a net loss of \$8.6 million in the nine months ended September 30, 2011 (2010 - net loss of \$8.0 million), or a loss of \$0.38 per unit basic and diluted (2010 - net loss of \$0.35 per unit basic and diluted). The increase in the net loss primarily reflects the loss on renegotiation of debt of \$3.2 million, a foreign exchange loss of \$1.2 million (2010 - loss of \$0.6 million) and a tax expense of \$0.1 million (2010 - income tax recovery of \$1.7 million). These were offset by a gain recognized for the change in fair value of convertible instruments of \$2.3 million (2010 - gain of \$3.6 million), decrease in operating loss to \$0.1 million (2010 - \$3.9 million), decrease in financing expense to \$6.3 million (2010 - \$8.9 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, 2011 decreased to \$3.7 million, from a loss of \$6.1 million during the same period in 2010. The \$2.4 million decrease in Adjusted Net Loss is primarily due to the decrease in operating loss of \$3.9 million and a decrease in cash related financing costs of \$1.1 million offset by an increase in foreign exchange loss of \$0.6 million and a decrease in income tax recovery of \$1.8 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, offset by credit in the form of accounts payable, interest payable, income taxes payable and accrued liabilities. Our largest investment in working capital is in our inventories. We rely on credit from our key suppliers to finance the purchase of the raw materials needed for our operations.

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



	September 30	December 31
	2011	2010
<b>Investment in working capital assets</b>		
Cash	\$ 3,140	\$ 5,634
Accounts Receivable	15,304	9,698
Inventories	41,278	30,878
Other current assets	3,045	2,917
	\$ 62,767	\$ 49,127
<b>Less current liabilities</b>		
Senior Credit Facility	(11,283)	-
Accounts Payable & Accrued Liabilities	(16,976)	(13,329)
Other current liabilities	(2,359)	(2,242)
Current portion of long-term debt	(4,519)	(5,271)
	(35,137)	(20,842)
<b>Net investment in working capital</b>	<b>\$ 27,630</b>	<b>\$ 28,285</b>

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

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

## 8.2. Liquidity and Capital

### Cash Flow

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

	Three Months Ended September 30		Nine Months Ended September 30	
	2011	2010	2011	2010
Net cash used in operating activities	\$ (883)	\$ (2,974)	\$ 1,055	\$ (1,328)
Change in non-cash operating assets and liabilities	\$ (1,676)	\$ 5,977	\$ (12,009)	\$ (7,057)
Net cash used for investing activities	\$ (112)	\$ 47	\$ (270)	\$ 1
Net cash provided by (used for) financing activities				
Amounts drawn from the Senior Credit Facility	3,890	(2,009)	11,341	1,356
Repayment of long-term debt	(1,200)	(675)	(2,598)	(2,213)
Issuance of Convertible Debentures, net of transaction costs	-	-	-	9,519
Financing transaction costs incurred	-	(565)	-	(961)
Normal course issuer bid (Note 12)	(5)	-	(5)	-
	\$ 2,685	\$ (3,249)	\$ 8,738	\$ 7,701
Exchange rate changes on foreign cash balances	53	(32)	(8)	3
Increase (decrease) in cash balances	\$ 67	\$ (231)	\$ (2,494)	\$ (680)

During the three and nine months ended September 30, 2011, the cash flow from operating activities increased over the same periods in the prior year due to improvements in gross profit. However, during Q3 2011, non-cash operating assets and liabilities increased by \$1.7 million primarily as a result of an increase in inventories of \$3.1 million offset in part by an increase in accounts payable of \$1.4 million in part due to the additional inventories needed to support higher volumes of sales. In comparison, in Q3 2010, cash of \$5.9 million was provided primarily from reduction in inventories in that period. For the nine month period ended September 30, 2011, the change in non-cash operating assets and liabilities of \$12.0 million was primarily due to an increase in inventories of \$9.7 million and an increase in accounts receivable of \$5.4 million both in relation to higher volumes of sales and higher steel costs. In comparison, during the same period in the prior year, the change in non-cash operating assets and liabilities was \$7.1 million predominantly arising from an increase in accounts receivable.

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

During the third quarter of 2011, we drew advances of \$3.9 million on the Senior Credit Facility, increasing the amount outstanding from \$7.4 million as at June 30, 2011 to \$11.3 million as at September 30, 2011. This was primarily due to the increase in inventories during the third quarter of 2011.

In regards to the long-term debt, the Fund made payments of \$1.2 million during the third quarter of 2011 (2010 - \$0.7 million) and payments of \$2.6 million during the nine months ended September 30, 2011 (2010 - \$2.2 million), in accordance with the terms of the debt agreements.

### **Senior Credit Facility**

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

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

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

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

### **Debentures**

As part of the Recapitalization Transaction, between Q4 2009 and the early part of 2010, \$19.75 million (less transaction costs of \$2.2 million) was raised through the issuance of Debentures offered through a private placement and rights offering. The Debentures are issued in \$100 increments and pay interest quarterly, 30 days in arrears, at a stated rate of 10%. They mature on November 26, 2014 and are convertible into units at \$0.50.

No Debentures were converted during the three or nine months ended September 30, 2011 (in 2010 a total of \$365,400 Debentures were converted to 730,800 units in the nine-month period).

### **Long-term Incentive Plan**

Subject to vesting conditions determined by the Board of Trustees, the Phantom Units can be exchanged by holders at any time for Units of the Fund to be issued from treasury for no further consideration. When the Fund pays distributions, distributions on vested and unvested Phantom Units are paid in additional Phantom Units.

During the three months ended September 30, 2011, 200,000 Phantom units were granted to employees under the plan. The maximum number of Units reserved for issuance pursuant to awards of Phantom Units is 500,000.

### **8.3. Standardized Distributable Cash**

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

Standardized Distributable Cash for the three and nine month periods ended September 30, 2011 and 2010 was calculated as follows (\$000's except for unit, per unit and % amounts):

	<u>Three Months Ended September 30</u>		<u>Nine Months Ended September 30</u>	
	2011	2010	2011	2010
Net Cash Used in Operating Activities	\$ (2,559)	\$ 3,003	\$ (10,954)	\$ (8,385)
Capital Expenditures	(161)	(33)	(319)	(79)
<b>Standardized Distributable Cash</b>	<b>\$ (2,720)</b>	<b>\$ 2,970</b>	<b>\$ (11,273)</b>	<b>\$ (8,464)</b>
Distributions Paid or Payable	\$ -	\$ -	\$ -	\$ -
Weighted Average Units Issued and Outstanding				
Basic	22,900,703	22,861,661	22,867,849	22,567,497
Fully Diluted	22,900,703	22,861,661	22,867,849	22,567,497
Standardized Distributable Cash per Unit <sup>(1)</sup>				
Basic	(0.1188)	0.1299	(0.4930)	(0.3750)
Fully Diluted	(0.1188)	0.1299	(0.4930)	(0.3750)
Distributions Paid or Payable per Unit - Basic and Fully Diluted	\$ -	\$ -	\$ -	\$ -
Standardized Distribution Payout %	0%	0%	0%	0%

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

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 cash operating working capital fluctuates significantly as a result of the seasonality of our business. As a result, we believe that our historical measure of Adjusted Distributable Cash, which excludes the impact of changes in non-cash working capital, is a better measure for determining our operating performance. Accordingly, a calculation and discussion of Adjusted Distributable Cash is provided in the following section.

#### 8.4. Adjusted Distributable Cash and Distributions

Historically, our policy was to make equal monthly distributions to unitholders based on our estimate of the annual Adjusted Distributable Cash available for distribution. The amount of Adjusted Distributable Cash available for distribution was based on the Adjusted Distributable Cash generated, after allowances for cash redemption of units and any reserve deemed prudent by the Trustees of the Fund. Distributions were declared to unitholders of record on the last business day of each month. Distributions were payable on the 15th day (or closest business day following) of the month following the declaration. Due to the impact of the global economic crisis, limited credit availability and cash constraints, the Fund reduced distributions in November 2008 and subsequently suspended them in January 2009. Adjusted Distributable Cash for the three and nine months ended September 30, 2011 and 2010 was calculated as follows (\$000's except for unit, per unit and % amounts):

	<u>Three Months Ended September 30</u>		<u>Nine Months Ended September 30</u>	
	2011	2010	2010	2009
Standardized Distributable Cash	\$ (2,720)	\$ 2,970	\$ (11,273)	\$ (8,464)
Change in Non-cash Operating Assets & Liabilities	1,676	(5,977)	12,009	7,057
Non-maintenance Capital Expenditures	-	-	6	-
<b>Adjusted Distributable Cash <sup>(1)</sup></b>	<b>\$ (1,044)</b>	<b>\$ (3,007)</b>	<b>\$ 742</b>	<b>\$ (1,407)</b>
Distributions Paid or Payable	\$ -	\$ -	\$ -	\$ -
Weighted Average Units Issued and Outstanding				
Basic	22,900,703	22,861,661	22,641,642	22,035,040
Fully Diluted	22,900,703	22,861,661	22,641,642	22,035,040
Adjusted Distributable Cash per Unit				
Basic	(0.0456)	(0.1315)	0.0328	(0.0639)
Fully Diluted	(0.0456)	(0.1315)	0.0328	(0.0639)
Distributions Paid or Payable per Unit - Basic & Fully Diluted	\$ -	\$ -	\$ -	\$ -
Adjusted Distribution Payout %	0%	0%	0%	0%

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

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

	<b>Since Inception</b>
Adjusted Distributable Cash Generated Since Inception <sup>(1)</sup>	134,977
Distributions Paid or Payable Since Inception	158,997
<b>Adjusted Distribution Payout % Since Inception<sup>(1)</sup></b>	<b>118%</b>

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

### 8.5. Utilization of Distributable Cash

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

## 9. CAPITAL EXPENDITURES AND CAPACITY

For the three and nine month periods ended September 30, 2011, we made capital expenditures of \$0.2 million and \$0.3 million respectively (2010 - \$0.1 million in the nine month period), made up primarily of maintenance capital. We have planned capital expenditures for the 2011 fiscal year to a level which we believe will be sufficient to maintain the existing productive capacity of our manufacturing operations. Non-maintenance Capital is funded out of our Senior Credit Facility and maintenance capital is funded from cash generated by operations. We anticipate that we will continue to have sufficient capacity to meet projected future demand.

## 10. CONTRACTUAL OBLIGATIONS AND COMMITMENTS

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

	Remainder of							
	2011	2012	2013	2014	2015	Thereafter	Total	
<b>Commitments</b>								
Wire Rod Purchases	\$ 21,290	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 21,290	
Finished Goods	342	-	-	-	-	-	342	
Operating Lease Agreements	684	1,729	947	835	799	722	5,716	
	22,316	1,729	947	835	799	722	27,348	
<b>Financial Liabilities</b>								
Revolving Credit	11,283	-	-	-	-	-	11,283	
Accounts Payable	16,976	-	-	-	-	-	16,976	
Long-term debt	623	4,987	13,678	25,818	-	-	45,106	
Debentures	488	1,938	1,938	21,626	-	-	25,990	
<b>Total</b>	<b>\$ 51,686</b>	<b>\$ 8,654</b>	<b>\$ 16,563</b>	<b>\$ 48,279</b>	<b>\$ 799</b>	<b>\$ 722</b>	<b>\$ 126,703</b>	

The wire rod purchases are for raw materials to be used in the day-to-day operations of our manufacturing facilities and are expected to be delivered within the fourth quarter of 2011 and first quarter 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. We do not have any leases that would be considered finance leases.

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

## 11. SUMMARY OF QUARTERLY FINANCIAL INFORMATION

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

upon to predict future performance.

	Sep-30	Jun-30	Mar 31	Dec 31	Sep 30	Jun 30	Mar 31	Dec 31
	2011	2011	2011	2010 (1)	2010	2010 (1)	2010	2009 (2)
<i>Sales Volumes – Tons</i> <sup>(3)</sup>	27,408	27,676	29,948	20,565	23,192	27,732	27,886	21,171
Revenue	\$ 38,005	\$ 38,000	\$ 38,944	\$ 27,746	\$ 31,392	\$ 38,742	\$ 34,532	\$ 26,740
Gross Profit	\$ 1,411	\$ 3,564	\$ 4,380	\$ 509	\$ (488)	\$ 3,839	\$ 2,404	\$ (3,378)
EBITDA	\$ (1,276)	\$ 1,725	\$ 1,972	\$ (320)	\$ (2,173)	\$ 2,282	\$ 261	\$ (5,514)
Foreign exchange gain (loss)	\$ (1,817)	\$ 160	\$ 418	\$ 763	\$ 710	\$ (758)	\$ (557)	\$ 150
Adjusted EBITDA	\$ (3,093)	\$ 1,885	\$ 2,390	\$ 443	\$ (1,463)	\$ 1,524	\$ (296)	\$ (5,364)
Net Income (Loss)	\$ (4,594)	\$ 29	\$ (4,039)	\$ (3,211)	\$ (5,459)	\$ (190)	\$ (2,537)	\$ 13,294
Net Income (Loss) per Unit – Basic	\$ (0.20)	\$ 0.00	\$ (0.18)	\$ (0.14)	\$ (0.24)	\$ (0.01)	\$ (0.12)	\$ 0.60
<i>Gross Profit per Ton</i>	\$ 51	\$ 119	\$ 146	\$ 25	\$ (21)	\$ 138	\$ 86	\$ (160)
<i>EBITDA per Ton</i>	\$ (46)	\$ 58	\$ 66	\$ (16)	\$ (94)	\$ 78	\$ 9	\$ (260)
Distributions Paid or Payable	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -

(1) Balances have been reclassified for comparative purposes.

(2) Information for 2009 is presented in accordance with Canadian GAAP.

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

- Q2 2010: Our “Back to Basics” strategy, the focus on profitability and cost control continued to result in improved profitability and EBITDA for the quarter despite reduced volumes.
- Q3 2010: Continued weakness in the economy and in particular many of our key markets, impacted our Q3 sales compounded by our decision to focus working capital on higher-margin product lines rather than higher volume product lines, and by customers in certain markets took action to reduce inventories in line with low demand.
- Q4 2010: Continuing weakness in our key markets resulted in lower volumes compared to the same quarter in the prior year. However, the focus on profitability and cost control helped mitigate the negative impact.
- Q1 2011: Significant increases in steel prices required us to announce a series of price increases to mitigate the impact on our margins. A strong Canadian dollar also negatively impacted our US dollar denominated sales but contributed to reductions in costs of sales and expenses relating to our US dollar denominated costs.
- 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

## 12. ACCOUNTING POLICIES AND ESTIMATES

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

### Critical Accounting Estimates

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

### Property, plant and equipment

During the first quarter of 2011, the Fund conducted a comprehensive review of the remaining useful life of its property, plant and equipment. As a result of this review, the estimated useful lives of certain equipment and property were extended for between 3 to 17 years. This change in estimate has been accounted for prospectively from January 1, 2011 and resulted in a

\$0.6 million reduction in depreciation for the third quarter and \$1.8 million reduction for the nine months ended September 30, 2011.

### Price Risk on Convertible Instruments

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

	Warrants	Conversion Feature
Increase (decrease) to net income of a \$0.01 increase in the Fund's unit price	-	(13)
Increase (decrease) to net income of a 1% increase in the risk free rate	-	(10)

### Adoption of International Financial Reporting Standards ("IFRS")

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

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

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

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

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

#### Fund units and instruments convertible into Fund units

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

#### Convertible Debentures

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

Under IFRS, the Convertible Debentures continue to be considered compound instruments and the original determination of fair values at issuance are consistent between Canadian GAAP and IFRS. The accounting and classification of the Convertible Debentures and of the change of control premium have not changed on conversion to IFRS. However, the conversion feature and warrants under IFRS are classified as financial liabilities and fair value is re-measured at each reporting period with changes in fair value being recorded in the statement of operations. Under Canadian GAAP, the conversion feature and warrants were recorded in unitholders' equity net of allocated transaction costs. Under IFRS, as a result of being classified as financial liabilities, the associated transactions costs have been expensed when incurred. At the transition date, the transaction costs related to the conversion feature and warrants from the Convertible Debentures of \$0.3 million issued in 2009 have been adjusted to retained earnings and for the three and nine month periods ending September 30, 2010 the transaction costs of \$27 thousand and \$0.4 million relating to the conversion feature and warrants from the Convertible Debentures issued in January 2010 have been charged to financing expenses in the restated statement of operations.

This change in classification of the conversion feature and warrants and resulting recognition of fair value changes in the statement of operations will result in increased volatility of net income and earnings per share. This has resulted in a gain of \$1.4 million and \$2.3 million for the three and nine months ended September 30, 2011 (2010 – loss of \$0.2 million and \$3.6 million gain) on the revaluation of these instruments to fair value at each period end.

#### **Deferred gain on sale of option**

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

Under IAS 17, the Pomona option sale would have been accounted for as a gain at the time of the transaction. As such, retained earnings as at January 1, 2010 has been adjusted for the balance of the deferred gain of \$3.3 million under Canadian GAAP and for the three and nine months ended September 30, 2011, the amount of deferred gain recognized under Canadian GAAP in the statement of operations of \$0.1 million and \$0.4 million has been reversed.

### **13. RELATED PARTY TRANSACTIONS**

One of the investors in the Recapitalization Transaction, The Futura Corporation (“Futura”), is considered to be a related party to the Fund because of its ownership interest and the holding of two positions on the Board of Trustees. Futura has purchased \$5 million of Convertible Debentures and was issued 1,875,000 warrants as part of the Recapitalization Transaction. During the three and nine months ended September 30, 2011, Futura received interest settled in cash of \$0.1 million and \$0.4 million respectively (2010 - \$0.1 million and \$0.3 million) on the Convertible Debentures at the stated rate of interest.

As well, the Fund sells products to subsidiaries of a company controlled by Futura, Canwel Building Materials Group Ltd. (“Canwel”), which amounted to, net of rebates, for the three and nine months ended September 30, 2011 of \$1.0 million and \$3.9 million respectively (2010 - \$0.9 million and \$4.4 million) during the period and trade accounts receivable owing from Canwel is \$0.2 million as at September 30, 2011. These transactions are in the normal course and are recorded at terms equivalent to an arm’s length transaction. Outstanding trade accounts receivable from Canwel at period end are unsecured, interest free and settlement occurs in cash.

### **14. RISKS AND UNCERTAINTIES**

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

#### **Trade Actions**

As discussed above in Section 4, the US government announced preliminary determinations in two trade action reviews: one related to certain galvanized wire imported from China and Mexico and another related to certain nails imported from the United Arab Emirates. These actions could have a material negative impact on our financial results as it relates to our ability to import into the United States the named products in these trade actions at commercially competitive prices. We are monitoring both cases closely and are in the process of evaluating the potential impact on our business.

#### **Price Risk on Convertible Instruments**

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

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

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

Our management is also responsible for designing, establishing and maintaining an adequate system of internal control over financial reporting. Our internal control system was designed based on the Internal Control – Integrated Framework (“COSO

Framework”) published by The Committee of Sponsoring Organizations of the Treadway Commission to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes, in accordance with IFRS.

Our Chief Executive Officer and Chief Financial Officer certified the appropriateness of the financial disclosures in the interim financial report together with the other financial information included in the interim filings for the period ended September 30, 2011. These executives also certified that they are responsible for the design of disclosure controls and procedures and internal control over financial reporting. There have been no changes in internal control over financial reporting during the quarter ended September 30, 2011 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

The Fund’s Board of Trustees and Audit Committee reviewed and approved the September 30, 2011 unaudited interim condensed consolidated financial statements and this MD&A prior to its release.

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## **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, 2011



**Tree Island Wire Income Fund**  
**CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION**

(in thousands of Canadian dollars - unaudited)

	September 30 2011	December 31 2010	January 1 2010
<b>Assets</b>			
<i>Current</i>			
Cash	\$ 3,140	\$ 5,634	\$ 4,153
Accounts receivable (Note 4)	15,304	9,698	9,064
Income and other taxes receivable	-	56	6,121
Inventories (Note 5)	41,278	30,878	33,626
Prepaid expenses	3,045	2,861	3,113
	62,767	49,127	56,077
<i>Property, plant and equipment (Note 6)</i>	35,971	37,752	43,867
<i>Other non-current assets</i>	436	571	1,453
	\$ 99,174	\$ 87,450	\$ 101,397
<b>Liabilities</b>			
<i>Current</i>			
Senior credit facility (Note 7)	\$ 11,283	\$ -	\$ 3,730
Accounts payable and accrued liabilities	16,976	13,329	18,521
Income taxes payable	2,199	2,141	2,342
Other current liabilities	160	101	76
Fair value of convertible instruments (Note 8)	352	2,653	4,204
Current portion of long-term debt (Note 9)	4,519	5,271	3,030
	35,489	23,495	31,903
<i>Convertible Debentures (Note 8)</i>	13,979	13,108	5,716
<i>Long-term debt (Note 9)</i>	29,224	22,802	23,435
<i>Other non-current liabilities</i>	383	411	203
<i>Deferred income taxes</i>	866	779	2,091
	79,941	60,595	63,348
<b>Unitholders' Equity</b>	19,233	26,855	38,049
	\$ 99,174	\$ 87,450	\$ 101,397

Approved on behalf of Tree Island Wire Income Fund

[Signed]

"Amar Doman"

Trustee

[Signed]

"Dale R. MacLean"

Trustee

See accompanying Notes to the Interim Condensed Consolidated Financial Statements

**Tree Island Wire Income Fund**  
**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	
	2011	2010	2011	2010
Sales	\$ 38,005	\$ 31,391	\$ 114,949	\$ 104,665
Cost of goods sold (Note 5)	35,774	30,465	103,135	94,662
Depreciation	820	1,412	2,459	4,246
Gross profit	1,411	(486)	9,355	5,757
Selling, general and administrative expenses	3,507	3,100	9,393	9,634
Operating loss	(2,096)	(3,586)	(38)	(3,877)
Foreign exchange gain (loss)	(1,817)	709	(1,239)	(606)
Gain on sale of property, plant and equipment	11	80	11	80
Changes in financial liabilities recognized at fair value	1,414	(156)	2,301	3,594
Loss on renegotiated debt (Note 9)	-	-	(3,234)	-
Financing expenses (Note 10)	(2,153)	(2,576)	(6,259)	(8,862)
Loss before income taxes	(4,641)	(5,529)	(8,458)	(9,671)
Income tax recovery (expense) (Note 14)	47	256	(146)	1,671
<b>Net loss for the period</b>	<b>\$ (4,594)</b>	<b>\$ (5,273)</b>	<b>\$ (8,604)</b>	<b>\$ (8,000)</b>
<b>Net loss per unit</b>				
Basic	\$ (0.20)	\$ (0.23)	\$ (0.38)	\$ (0.35)
Diluted	\$ (0.20)	\$ (0.23)	\$ (0.38)	\$ (0.35)
<b>Weighted-average number of units (Note 16)</b>				
Basic	22,900,703	22,861,661	22,867,849	22,567,497
Diluted	22,900,703	22,861,661	22,867,849	22,567,497

*See accompanying Notes to the Interim Condensed Consolidated Financial Statements*

**Tree Island Wire Income Fund****CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME***(in thousands of Canadian dollars - unaudited)*

	Three Months Ended September 30		Nine Months Ended September 30	
	2011	2010	2011	2010
<b>Net loss for the period</b>	\$ (4,594)	\$ (5,273)	\$ (8,604)	\$ (8,000)
Other comprehensive income (loss)				
Unrealized gain (loss) on translating financial statements of subsidiary operations	1,353	(739)	971	216
<b>Comprehensive loss for the period</b>	\$ (3,241)	\$ (6,012)	\$ (7,633)	\$ (7,784)

*See accompanying Notes to the Interim Condensed Consolidated Financial Statements*

## Tree Island Wire Income Fund

### CONDENSED CONSOLIDATED STATEMENT OF UNITHOLDERS' EQUITY

(in thousands of Canadian dollars - unaudited)

	Unitholders' Capital	Accumulated Deficit	Distributions	Accumulated Other Comprehensive Income (Loss)	Total
Balance as at December 31, 2010	\$ 211,460	\$ (25,038)	\$ (159,248)	\$ (319)	\$ 26,855
Conversion of phantom units (Note 12)	4	-	-	-	4
Net loss	-	(4,039)	-	-	(4,039)
Other comprehensive loss	-	-	-	(414)	(414)
<b>Balance as at March 31, 2011</b>	<b>\$ 211,464</b>	<b>\$ (29,077)</b>	<b>\$ (159,248)</b>	<b>\$ (733)</b>	<b>\$ 22,406</b>
Conversion of phantom units (Note 12)	12	-	-	-	12
Net income	-	29	-	-	29
Other comprehensive income	-	-	-	32	32
<b>Balance as at June 30, 2011</b>	<b>\$ 211,476</b>	<b>\$ (29,048)</b>	<b>\$ (159,248)</b>	<b>\$ (701)</b>	<b>\$ 22,479</b>
Normal course issuer bid (Note 12)	(5)	-	-	-	(5)
Net loss	-	(4,594)	-	-	(4,594)
Other comprehensive income	-	-	-	1,353	1,353
<b>Balance as at September 30, 2011</b>	<b>\$ 211,471</b>	<b>\$ (33,642)</b>	<b>\$ (159,248)</b>	<b>\$ 652</b>	<b>\$ 19,233</b>
Balance as at January 1, 2010	\$ 211,125	\$ (13,828)	\$ (159,248)	\$ -	\$ 38,049
Conversion of phantom units (Note 12)	3	-	-	-	3
Net loss	-	(2,537)	-	-	(2,537)
Other comprehensive loss	-	-	-	(73)	(73)
<b>Balance as at March 31, 2010</b>	<b>\$ 211,128</b>	<b>\$ (16,365)</b>	<b>\$ (159,248)</b>	<b>\$ (73)</b>	<b>\$ 35,442</b>
Conversion of phantom units (Note 12)	6	-	-	-	6
Conversion of debentures (Note 8)	326	-	-	-	326
Net loss	-	(190)	-	-	(190)
Other comprehensive income	-	-	-	1,028	1,028
<b>Balance as at June 30, 2010</b>	<b>\$ 211,460</b>	<b>\$ (16,555)</b>	<b>\$ (159,248)</b>	<b>\$ 955</b>	<b>\$ 36,612</b>
Net loss	-	(5,273)	-	-	(5,273)
Other comprehensive loss	-	-	-	(739)	(739)
<b>Balance as at September 30, 2010</b>	<b>\$ 211,460</b>	<b>\$ (21,828)</b>	<b>\$ (159,248)</b>	<b>\$ 216</b>	<b>\$ 30,600</b>

See accompanying Notes to the Interim Condensed Consolidated Financial Statements

**Tree Island Wire Income Fund**  
**CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS**

(in thousands of Canadian dollars - unaudited)

	Three Months Ended September 30		Nine Months Ended September 30	
	2011	2010	2011	2010
<b>Cash flows from operating activities</b>				
Net loss for the period	\$ (4,594)	\$ (5,273)	\$ (8,604)	\$ (8,000)
Items not involving cash				
Depreciation	820	1,412	2,459	4,246
Fair value changes on convertible instruments	(1,414)	156	(2,301)	(3,594)
Gain on disposal of property, plant and equipment	(11)	(80)	(11)	(80)
Amortization and write-off of deferred financing	86	57	209	1,302
Loss on renegotiated debt	-	-	3,234	-
Non cash accretion of debt discount	984	1,759	3,962	5,508
Deferred income tax (recoveries)	41	(284)	86	(614)
Unit-based compensation	53	6	48	6
Conversion of phantom units and debentures	-	-	15	335
Exchange revaluation on foreign denominated debt	3,152	(727)	1,958	(437)
	(883)	(2,974)	1,055	(1,328)
Change in non-cash operating assets and liabilities (Note 19)	(1,676)	5,977	(12,009)	(7,057)
<b>Net cash provided by (used in) operating activities</b>	<b>(2,559)</b>	<b>3,003</b>	<b>(10,954)</b>	<b>(8,385)</b>
<b>Cash flows from investing activities</b>				
Proceeds on disposal of property, plant and equipment	49	80	49	80
Purchase of property, plant and equipment	(161)	(33)	(319)	(79)
<b>Net cash provided by (used in) investing activities</b>	<b>(112)</b>	<b>47</b>	<b>(270)</b>	<b>1</b>
<b>Cash flows from financing activities</b>				
Issuance of Convertible Debentures, net of transaction costs	-	-	-	9,519
Repayment of long-term debt	(1,200)	(675)	(2,598)	(2,213)
Financing transaction costs incurred	-	(565)	-	(961)
Normal course issuer bid (Note 12)	(5)	-	(5)	-
Advance on (repayment of) revolving credit	3,890	(2,009)	11,341	1,356
<b>Net cash (used in) provided by financing activities</b>	<b>2,685</b>	<b>(3,249)</b>	<b>8,738</b>	<b>7,701</b>
<b>Effect of exchange rate changes on cash</b>	<b>53</b>	<b>(32)</b>	<b>(8)</b>	<b>3</b>
<b>Increase (decrease) in cash</b>	<b>67</b>	<b>(231)</b>	<b>(2,494)</b>	<b>(680)</b>
<b>Cash, beginning of period</b>	<b>3,073</b>	<b>3,704</b>	<b>5,634</b>	<b>4,153</b>
<b>Cash, end of period</b>	<b>\$ 3,140</b>	<b>\$ 3,473</b>	<b>\$ 3,140</b>	<b>\$ 3,473</b>
<b>Supplemental cash flow information:</b>				
Interest paid	\$ 694	\$ 703	\$ 2,053	\$ 1,569
Income taxes paid (refunded)	\$ (59)	\$ -	\$ (59)	\$ 302

See accompanying Notes to the Interim Condensed Consolidated Financial Statements

## **Tree Island Wire Income Fund**

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

*For the three and nine month periods ended September 30, 2011*

*(in thousands of Canadian dollars - unaudited)*

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## **1. NATURE OF BUSINESS**

### **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, 2011 were authorized for issue in accordance with a resolution of the Trustees on November 9, 2011.

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

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

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

### **Recapitalization and Liquidity**

Through the later half of 2009 and the first quarter of 2010, the Fund completed a recapitalization of the business (the "Recapitalization Transaction"). This included issuing 10% second lien convertible debentures ("Convertible Debentures") on November 26, 2009 by means of a private placement with three investors for \$9,750 ("Private Placement") followed subsequently on January 29, 2010, with a public rights offering for an additional \$10,000 (Note 8). The Fund, through its operating subsidiaries, also entered into forbearance and payment agreements ("Forbearance Agreements") with the Fund's significant trade creditors pursuant to which the Fund restructured \$40,435 of trade payables through deferred payment arrangements extending to December 31, 2014 (Note 9). The Fund has also entered into senior credit facilities for a maximum facility of \$35 million ("Senior Credit Facility") which are further described in Note 7.

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

With the Senior Credit Facility of \$35 million, working capital of \$27 million, amended Forbearance Agreements and cash flow forecasts projected through 2012, the Fund believes there is sufficient capital to continue as a going concern. The accompanying interim condensed consolidated financial statements have been prepared assuming the Fund will be able to maintain sufficient capital or obtain new sources of capital to continue as a going concern which contemplates the realization of assets and the satisfaction of liabilities in the normal course of business. These interim condensed consolidated financial statements do not include any adjustments relating to the amounts and classifications of recorded asset and liabilities that might be necessary should the Fund be unable to continue as a going concern.

## **2. BASIS OF PREPARATION AND ACCOUNTING POLICIES**

### **Basis of Preparation**

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

## **Basis of Consolidation**

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

## **Functional and Presentation Currency**

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

## **Accounting Policies**

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

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

These interim condensed 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 interim condensed consolidated financial statements have been prepared using the accrual basis of accounting, except for cash flow information.

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

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

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

*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 Fund's accounting for its financial assets. The Standard is required to be adopted for annual periods beginning on or after January 1, 2013.

*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 Fund 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 do not. This new standard is required to be adopted for annual periods beginning on or after July 1, 2012.

#### 4. ACCOUNTS RECEIVABLE

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

	September 30	December 31	January 1
	2011	2010	2010
Accounts Receivable			
Up to date	\$ 12,358	\$ 7,158	\$ 6,906
Under 30 days past due	2,430	2,296	1,893
30-60 days past due	644	358	349
61-90 days past due	47	151	62
Over 91 days past due	682	709	1,160
	16,161	10,672	10,370
Allowance for doubtful accounts	(857)	(974)	(1,306)
Balance, end of period	\$ 15,304	\$ 9,698	\$ 9,064

The maximum credit risk that the Fund is exposed to by way of its accounts receivable is equal to the carrying amount of \$15,304 as at September 30, 2011. The Fund has concentrations of credit risk relating to receivables derived from the Western United States. As at September 30, 2011, this exposure was \$6.5 million in accounts receivables for which \$0.6 million has been provided for in the allowance for doubtful accounts.

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

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

	September 30	December 31
	2011	2010
Opening Balance	\$ 974	\$ 1,306
Additions during the period	29	405
Reversals during the period	(92)	(568)
Write-offs during the period	(75)	(133)
Foreign exchange revaluation	21	(36)
Balance, end of period	\$ 857	\$ 974



## 5. INVENTORIES

The Fund had the following categories of inventory as at:

	September 30 2011	December 31 2010	January 1 2010
Raw materials	\$ 10,705	\$ 7,458	\$ 6,686
Finished and semi finished products	22,613	15,763	19,128
Consumable supplies and spare parts	7,960	7,657	7,812
	<u>\$ 41,278</u>	<u>\$ 30,878</u>	<u>\$ 33,626</u>

At each period end, the Fund reviews the ending inventories on hand to determine if a writedown to net realizable value is required. The Fund has recognized a cumulative charge over the three and nine month periods ended September 30, 2011 of \$64 and \$nil (2010 - \$193 and \$261) in cost of goods sold to writedown inventories to net realizable value.

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

	Three months ended September 30		Nine months ended September 30	
	2011	2010	2011	2010
Opening inventory	\$ 37,524	\$ 42,378	\$ 30,878	\$ 33,626
Raw material purchases	29,962	14,317	84,157	61,063
Finished goods purchased for resale	818	1,634	1,914	9,305
Conversion costs	8,812	7,717	27,657	26,510
Writedowns	(64)	-	(193)	(261)
Inventories, closing	<u>(41,278)</u>	<u>(35,581)</u>	<u>(41,278)</u>	<u>(35,581)</u>
Cost of goods sold	<u>\$ 35,774</u>	<u>\$ 30,465</u>	<u>\$ 103,135</u>	<u>\$ 94,662</u>

## 6. PROPERTY PLANT AND EQUIPMENT

	Land & Improvements	Building & Improvements	Machinery & Equipment	Construction in progress	Total
<b>Cost</b>					
As at January 1, 2010	\$ 9,177	\$ 38,959	\$ 17,609	\$ 195	\$ 65,940
Additions	-	-	115	(158)	(43)
Foreign currency translation	(72)	(275)	(165)	-	(512)
As at December 31, 2010	\$ 9,105	\$ 38,684	\$ 17,559	\$ 37	\$ 65,385
Additions	-	-	87	232	319
Disposals	-	-	(44)	-	(44)
Foreign currency translation	62	234	390	-	686
As at September 30, 2011	<u>\$ 9,167</u>	<u>\$ 38,918</u>	<u>\$ 17,992</u>	<u>\$ 269</u>	<u>\$ 66,346</u>
<b>Accumulated depreciation</b>					
As at January 1, 2010	\$ -	\$ 20,993	\$ 1,080	\$ -	\$ 22,073
Additions	-	2,982	2,801	-	5,783
Foreign currency translation	-	(223)	-	-	(223)
As at December 31, 2010	\$ -	\$ 23,752	\$ 3,881	\$ -	\$ 27,633
Additions	-	1,060	1,439	-	2,499
Foreign currency translation	-	214	29	-	243
As at September 30, 2011	<u>\$ -</u>	<u>\$ 25,026</u>	<u>\$ 5,349</u>	<u>\$ -</u>	<u>\$ 30,375</u>
<b>Net book values as at:</b>					
January 1, 2010	\$ 9,177	\$ 17,966	\$ 16,529	\$ 195	\$ 43,867
December 31, 2010	\$ 9,105	\$ 14,932	\$ 13,678	\$ 37	\$ 37,752
September 30, 2011	<u>\$ 9,167</u>	<u>\$ 13,892</u>	<u>\$ 12,643</u>	<u>\$ 269</u>	<u>\$ 35,971</u>

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

## 7. SENIOR CREDIT FACILITY

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

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

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

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

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

	September 30 2011	December 31 2010	January 1 2010
Senior Credit Facility <sup>(1)</sup>	\$ 11,283	\$ -	\$ 3,730
Deferred financing costs <sup>(2)</sup>	(430)	(571)	(884)
	\$ 10,853	\$ (571)	\$ 2,846

(1) The portion of the Senior Credit Facility denominated in US dollars is \$6,343 (Dec 31, 2010 - \$nil; Jan 1, 2010 - \$2,314).

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

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

## 8. CONVERTIBLE DEBENTURES

As part of the Recapitalization Transaction, on November 26, 2009, the Fund completed a private placement with certain investors to issue an aggregate of \$9,750 principal amount of Convertible Debentures along with 4,875,000 warrants (see Note 12). In the first quarter of 2010, an additional \$10,000 in Convertible Debentures were issued through a rights offering to unitholders. All Convertible Debentures have the same rights and terms governed by those described in the trust indenture regardless of when they were issued.

The Convertible Debentures mature on November 26, 2014 and are convertible into units at \$0.50. The conversion price is subject to change based on certain events described in the trust indenture. The Convertible Debentures are subordinated debt until all outstanding commitments on the Senior Credit Facility have been fully settled. If a change of control event occurs, as defined in the trust indenture, the Fund is required to offer to purchase the outstanding Convertible Debentures for 110% of the principal owing. The Fund has the option to redeem the Convertible Debentures at par after November 26, 2012 and up to the day prior to maturity so long as the weighted average trading price per unit for the 30 consecutive days prior to redemption is not greater than 150% of the conversion price and no event of default has occurred.

The Convertible Debentures pay interest quarterly, 30 days in arrears, at a stated rate of 10%. Interest is payable in cash unless the Fund is restricted from doing so under certain circumstances (an "Interest Block Condition"). An Interest Block Condition can be triggered by certain events including the Fund being in default under its Senior Credit Facility or the aggregate borrowing

availability under the Senior Credit Facility on the date interest is payable and for a period of 30 days prior is below \$5,500. If the quarterly interest cannot be paid in cash then the interest payable, subject to regulatory approval, can be settled by issuing additional Convertible Debentures equal to the amount of the interest owed; or, defer payment of interest. Deferred interest will accrue additional interest at 10% per annum until paid in full.

The Convertible Debentures are classified as a liability, less fair values allocated to the conversion feature, to the change of control premium and to the warrants issued. As a result, the recorded liability for the Convertible Debentures is lower than its face value which is characterized as the debt discount. Using the effective interest rate method and the 21.9% rate implicit in the calculation at the time of issuance, the debt discount, together with the stated interest and associated transaction costs, are amortized as interest expense over the life of the Convertible Debentures.

The conversion feature, change of control option and warrants are classified as financial liabilities under IAS 32 and are accounted for at fair value. Changes in fair value are recognized in the statement of operations at each period end. Fair value is determined using an option pricing model with a volatility assumption of 17% (2010 - 42%) and a risk free rate of 1.02% (2010 - 2.65%). The expected volatility reflects the assumption that the historical volatility is indicative of future trends, which may not be the actual outcome.

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

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

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

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

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

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

<b>Convertible Debentures</b>	<b>September 30 2011</b>	<b>December 31 2010</b>	<b>January 1 2010</b>
Opening carrying value	\$ 13,108	\$ 5,716	\$ -
Net debt component issued in the period	-	6,332	5,599
Accretion of debt discount for the period	2,321	2,769	117
Payment of interest in cash	(1,450)	(1,478)	-
Conversion of debentures to Fund units <sup>(1)</sup>	-	(231)	-
Carrying value at period end	\$ 13,979	\$ 13,108	\$ 5,716

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

The fair values and change for the other elements are:

Fair Value	Conversion		Change of Control		Total
	Feature	Warrants	Option		
January 1, 2010	\$ 3,055	\$ 991	\$ 158	\$	4,204
Addition on Rights Offering	\$ 2,739	\$ -	\$ 162	\$	2,901
Change in fair value	(3,743)	(709)	-		(4,452)
December 31, 2010	2,051	282	320		2,653
Change in fair value	(2,021)	(280)	-		(2,301)
September 30, 2011	\$ 30	\$ 2	\$ 320	\$	352

## 9. LONG TERM DEBT

	Year of Maturity <sup>(1)</sup>	September 30 2011	December 31 2010	January 1 2010
Forbearance Agreements - beginning of period	2014	\$ 27,538	\$ 25,324	\$ 25,143
Renegotiation of debt		3,234	-	-
Payments		(2,234)	(2,483)	(209)
Foreign exchange revaluation		1,958	(1,300)	(82)
Accretion of debt discount		3,091	5,997	472
Forbearance Agreements - end of period		33,587	27,538	25,324
Other long-term debt	2011	156	535	1,141
		33,743	28,073	26,465
Less current portion <sup>(1)</sup>		(4,519)	(5,271)	(3,030)
		\$ 29,224	\$ 22,802	\$ 23,435

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

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

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

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

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

Approximately \$32.7 million of the principal under the Forbearance Agreements is denominated in US dollars.

The Forbearance Agreements include a provision for early payment of a portion of the principal outstanding if certain conditions are met. The provisions would not become effective until year-end 2011 and if the conditions are met, payable the following

year. At this point, management cannot reasonably estimate the probability of the provisions for early payment occurring and as a result it has not been factored in to the present value calculations.

## 10. FINANCING EXPENSES

	<u>Three months ended September 30</u>		<u>Nine months ended September 30</u>	
	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>
Non-cash accretion of debt discount and interest on long term debt and Convertible Debentures	\$ 1,339	\$ 1,783	\$ 3,962	\$ 5,506
Cash interest on Convertible Debentures	483	483	1,450	990
Interest on Senior Credit Facility	169	101	382	453
Other interest and financing costs	76	152	256	315
Financing transaction costs and amortization of deferred financing costs	86	57	209	1,598
	<u>\$ 2,153</u>	<u>\$ 2,576</u>	<u>\$ 6,259</u>	<u>\$ 8,862</u>

## 11. PHANTOM UNITS

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

The change in fair value related to Phantom Units for three and nine months ended September 30, 2011 were \$53 and \$48 (2010 - \$6 and \$6). The expense is included in selling, general and administrative expense. A summary of the Fund's Phantom Units changes during the periods ended is as follows:

	<u>Three months ended September 30</u>				<u>Nine months ended September 30</u>			
	<u>2011</u>		<u>2010</u>		<u>2011</u>		<u>2010</u>	
	<u>Vested</u>	<u>Unvested</u>	<u>Vested</u>	<u>Unvested</u>	<u>Vested</u>	<u>Unvested</u>	<u>Vested</u>	<u>Unvested</u>
Balance, beginning of period	45,504	-	37,106	95,832	63,999	54,081	42,787	45,832
Granted <sup>(1)</sup>	200,000	-	-	-	200,000	-	-	50,000
Vested	-	-	-	-	20,748	(20,748)	-	-
Forfeited	-	-	-	-	-	(33,333)	-	-
Converted	-	-	(12,691)	-	(39,243)	-	(18,372)	-
Balance, end of period	<u>245,504</u>	<u>-</u>	<u>24,415</u>	<u>95,832</u>	<u>245,504</u>	<u>-</u>	<u>24,415</u>	<u>95,832</u>

<sup>(1)</sup> On September 7, 2011 the Fund granted 200,000 phantom units. The phantom units have a grant price of \$0.30 and vested immediately.

## 12. UNITHOLDERS' CAPITAL

### Fund Units

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

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

	Units	Gross	Issuance Costs	Net
Unitholders' capital - December 31, 2010	22,861,661	\$ 222,860	\$ 11,400	\$ 211,460
Conversion of Phantom Units	39,243	16	-	16
Normal course issuer bid	(18,500)	(5)	-	(5)
Unitholders' capital - September 30, 2011	22,882,404	\$ 222,871	\$ 11,400	\$ 211,471

#### Normal Course Issuer Bid

On September 2, 2011, the Fund announced that it had received approval from the Toronto Stock Exchange to commence a normal course issuer bid (the "Bid"). The Fund commenced the Bid on September 7, 2011 and, subject to renewal, will terminate the Bid on the earlier of September 6, 2012 and the date on which the fund has acquired the maximum number of units permitted under the Bid. The Fund may acquire up to 1,825,000 units under the Bid, such number representing approximately 10% of the public float of the Fund's issued and outstanding units at the date hereof. The Fund has no obligation to purchase any units under the Bid. Subject to certain exemptions for block purchases, the maximum number of units that the Fund may purchase on any one trading day is 3,305 units up to and including September 6, 2012, representing 25% of the average daily trading volume for the previous six months. During the three months ended September 30, 2012 the Fund purchased 18,000 units at an average market price of \$0.24 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, with an expiry of November 26, 2014, to certain investors. The warrants have an exercise price of \$0.57 and expire November 26, 2014. No warrants have been exercised since issuance. As discussed in Note 8, the warrants are measured at fair value at each period end.

### 13. RELATED PARTY TRANSACTIONS

#### Transactions with Associated Companies

One of the investors in the Recapitalization Transaction, The Futura Corporation ("Futura"), is considered to be a related party to the Fund because of their ownership interest and holding two positions on the Board of Trustees. Futura has purchased \$5,000 of Convertible Debentures and was issued 1,875,000 warrants as part of the Recapitalization Transaction. During the three and nine month periods ended September 30, 2011, Futura received interest settled in cash of \$126 and \$374 (2010 - \$125 and \$254) on the Convertible Debentures at the stated rate of interest.

As well, the Fund sells products to subsidiaries of a company controlled by Futura, Canwel Building Materials Group Ltd. ("Canwel"), which amounted to, net of rebates, \$963 and \$3,905 (2010 - \$890 and \$4,362) during the three and nine month periods ended September 30, 2011 and trade accounts receivable owing from Canwel as at September 30, 2011 is \$198 (December 31, 2010 - \$4). These transactions are in the normal course and are recorded at terms equivalent to an arm's length transaction. Outstanding trade accounts receivable from Canwel at period end are unsecured, interest free and settlement occurs in cash.

#### Transactions with Key Management Personnel

Included in the definition of key management for purposes of disclosure of related party transactions are members of Board of the Fund and officers of Tree Island. Short term employee benefits for key management personnel for the three and nine month periods ended September 30 31, 2011 were \$577 and \$1,456 (2010 - \$397 and \$1,329) which includes wages, salaries, unit-based compensation and social security contributions, paid annual and sick leave, vehicle costs and bonuses. It also includes Trustees fees for members of the Board.

#### Post Retirement Benefits

The Fund has three defined contribution pension plans for the benefit of all eligible personnel employed by the Fund's subsidiaries. Contributions made by the Fund's subsidiaries amounted to \$273 and \$851 for the three and nine month periods ended September 30, 2011 (2010 - \$280 and \$885). Funding obligations are satisfied upon making contributions.

## 14. INCOME TAXES

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

### Deferred Tax Assets

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

### Income Tax (Expense) Recovery

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

	Three months ended September 30		Nine months ended September 30	
	2011	2010	2011	2010
<i>Recorded in the income statement</i>				
Current tax recovery (expense)	\$ 88	\$ (28)	\$ (60)	\$ 1,057
Deferred tax recovery (expense)	(41)	284	(86)	614
	\$ 47	\$ 256	\$ (146)	\$ 1,671

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

	Three months ended September 30		Nine months ended September 30	
	2011	2010	2011	2010
Loss before provision for income taxes	\$ (4,641)	\$ (5,529)	\$ (8,458)	\$ (9,671)
Loss of the Fund subject to tax in the hands of the recipient	(945)	(2,969)	(1,069)	(4,117)
Loss of wholly-owned subsidiary companies before income taxes	(5,586)	(8,498)	(9,527)	(13,788)
Tax Rate	26.5%	28.5%	26.5%	28.5%
Expected recovery of income taxes	\$ 1,481	\$ 2,422	\$ 2,525	\$ 3,930
Increased (reduced) by:				
Revisions of prior period estimates	3	(7)	(120)	136
Items not taxable	(10)	(6)	(25)	(21)
Non-taxable foreign exchange gain (loss) included in other comprehensive loss	(1,172)	533	(696)	14
Differential tax rates on U.S. and Chinese subsidiaries	146	216	329	690
Reduction (increase) in statutory future income tax rate	7	(210)	(4)	(227)
Future income tax valuation allowance	(703)	(2,608)	(2,110)	(3,560)
Non-taxable items of the Fund	(41)	98	(86)	614
Other	336	(182)	41	95
Income tax recovery (expense)	\$ 47	\$ 256	\$ (146)	\$ 1,671

### Taxation of the Trust

In 2006 the Canadian federal government announced legislation to tax distributions made by income trusts. This legislation has received royal assent and as a result income trusts will be subject to tax at corporate rates on the taxable portion of their distributions and unitholders will be taxed as if they have received a dividend equal to the taxable portion of their distributions beginning in 2011. In 2009, rules were enacted to facilitate the conversion of trusts, such as the Fund, into corporations without undue income tax consequences (generally effective for conversions that occur after July 13, 2008 and before 2013). The Fund will be evaluating the merits and costs of conversion into a corporation to take advantage of the transitional rules.

## 15. FINANCIAL INSTRUMENTS

### Fair Value of Financial Instruments

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

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

The three levels of fair value estimation are:

- Level 1 – quoted prices in active markets for identical instruments.
- Level 2 – quoted prices for similar instruments in active markets; quoted prices for identical or similar instruments in markets that are not active; and model-derived valuations in which all significant inputs and significant and significant value drivers are observable in active markets.
- Level 3 – valuations derived from valuation techniques in which one or more significant inputs or significant value drivers are unobservable.

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

	Fair Value Category	Classification <sup>(3)</sup>	September 30, 2011		December 31, 2010		January 1, 2010	
			Fair Value	Carrying Value	Fair Value	Carrying Value	Fair Value	Carrying Value
<i>Financial Liabilities:</i>								
Change of control premium	Level 3	HFT	\$ 320	\$ 320	\$ 320	\$ 320	\$ 158	\$ 158
Long-term debt <sup>(1)</sup>	Level 2	OFL	30,322	33,743	30,360	28,073	26,465	26,465
Convertible Debentures <sup>(2)</sup>	Level 3	OFL	15,737	13,979	18,415	13,108	5,716	5,716
Conversion feature	Level 3	HFT	30	30	2,051	2,051	3,055	3,055
Warrants	Level 3	HFT	2	2	282	282	991	991
<b>Total Financial Liabilities</b>			<b>\$ 46,411</b>	<b>\$ 48,074</b>	<b>\$ 51,428</b>	<b>\$ 43,834</b>	<b>\$ 36,385</b>	<b>\$ 36,385</b>

(1) Fair value on the Company's long-term debt is based on estimated market interest rate on similar borrowings. A 1% change in the market interest rate would change the fair value by \$660.

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

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

### Risk Exposure and Management

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

#### Credit Risk

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



## Liquidity Risk

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

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

The table below summarizes the future undiscounted contractual cash flow requirements for financial liabilities (including scheduled interest payments on interest bearing liabilities) at September 30, 2011:

	<b>Carrying</b>	<b>Contractual</b>						
	<b>Amount</b>	<b>Cash Flow</b>	<b>Less than 1 Year</b>	<b>1 - 2 Years</b>	<b>3 Years</b>			
Senior Credit Facilities (Note 7)	\$ 11,283	\$ 11,283	\$ 11,283	\$ -	\$ -			
Accounts payable	16,976	16,976	16,976	-	-			
Long-term Debt (Note 9)	33,743	54,921	4,519	27,030	23,372			
Convertible Debentures (Note 8)	13,979	25,991	1,938	3,876	20,177			
	\$ 75,981	\$ 109,171	\$ 34,716	\$ 30,906	\$ 43,549			

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

## Market Risk

### Foreign Currency Risk

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

	<b>September 30</b>
	<b>2011</b>
Increase (decrease) to net earnings of a \$0.01 increase in Cdn\$ to US\$ exchange rate	(391)
Increase (decrease) to net earnings of a \$0.01 increase in Cdn\$ to RMB exchange rate	(83)

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

### Interest Rate Risk

The Fund is exposed to interest rate risk on its Senior Credit Facility which is further discussed in Note 7. A 1% increase in the interest rates charged on the Senior Credit Facility would increase financing expenses by \$113. The Fund does not use derivative instruments to manage the interest rate risk.

### Price Risk on Convertible Instruments

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

	<b>Warrants</b>	<b>Conversion</b>
		<b>Feature</b>
Increase (decrease) to net income of a \$0.01 increase in the Fund's unit price	-	(13)
Increase (decrease) to net income of a 1% increase in the risk free rate	-	(10)

## 15. WEIGHTED AVERAGE UNITS OUTSTANDING

	Three months ended September 30		Nine months ended September 30	
	2011	2010	2011	2010
Weighted average number of units outstanding during the period - basic	22,900,703	22,861,661	22,867,849	22,567,497
Dilutive effect of:				
Convertible Debentures <sup>(1)</sup>	-	-	-	-
Phantom units <sup>(1)</sup>	-	-	-	-
Warrants <sup>(1)</sup>	-	-	-	-

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

## 16. PROVISIONS AND COMMITMENTS

### Litigation and Claims

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

### Environmental Remediation on Sale of Surplus Land

On July 2, 2009 the Fund completed the sale of 12.5 acres of surplus lands at its Richmond, BC manufacturing facility for gross proceeds of \$10,500. The agreement contains a condition whereby \$1,500 will be held in trust and will be released upon providing to the purchaser a Certificate of Compliance for the environmental remediation. The Fund has the option of requesting to drawdown the holdback as approved by the purchaser, prior to the issuance of the Certificate of Compliance to a maximum of \$500. The environmental remediation was required to be completed within one year from the closing of the sale. If the Fund did not deliver the Certificate of Compliance within one year from the closing of the sale, the purchaser could use the holdback to obtain a Certificate of Compliance. As of the date of these financial statements, the purchaser has not elected to complete the remediation.

The Fund has incurred \$1,050 in remediation costs up to September 30, 2011 and as agreed with the purchaser of the property, the Fund has been able to draw down and receive the full amount incurred to date from the funds held in trust. The remaining monies held in trust will be refunded to the Fund once the Certificate of Completion is issued from the regulatory body and accepted by the purchaser. The costs incurred are deferred and included in prepaid expenses.

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

### Restructuring

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

	September 30 2011	December 31 2010	January 1 2010
Restructuring provision, opening balance	\$ 53	\$ 1,658	\$ -
Expenses			
Employee termination benefits <sup>(1)</sup>	-	115	1,658
Foreign exchange effect	-	(13)	-
Paid	(53)	(1,707)	-
<b>Restructuring provision, ending balance</b>	<b>\$ -</b>	<b>\$ 53</b>	<b>\$ 1,658</b>

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

## Closure of Facilities

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

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

Below is a table summarizing the provisions:

	Corona	Ontario Warehousing Facility	Total
Balance at January 1, 2010	\$ 1,154	\$ 32	\$ 1,186
Provisions made during the period	258	174	432
Provisions used during the period	(238)	(28)	(266)
Foreign exchange effect	(57)	(7)	(64)
Adjustments during the period	-	-	-
Balance at December 31, 2010	\$ 1,117	\$ 171	\$ 1,288
Provisions made during the period	183	19	202
Provisions used during the period	(178)	(108)	(286)
Foreign exchange effect	50	2	52
Adjustments during the period	-	-	-
<b>Balance at September 30, 2011</b>	<b>\$ 1,172</b>	<b>\$ 84</b>	<b>\$ 1,256</b>

## Purchase Commitments

As at September 30, 2011, the Fund's wholly-owned subsidiaries have committed to rod purchases totaling \$21,920 (US\$21,099) to be received during the fourth quarter of 2011 and first quarter of 2012 and imported finished goods purchases of \$342 (US\$329).

## Operating Lease Commitments

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

Less than 1 year	\$ 684
1 to 5 years	5,031
More than 5 years	-
	<b>\$ 5,715</b>

## 17. SEGMENTED INFORMATION

### General Information:

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

### Geographic Information:

	Three months ended September 30		Nine months ended September 30	
	2011	2010	2011	2010
SALES <sup>(1)</sup>				
Canada	\$ 14,975	\$ 12,236	\$ 46,923	\$ 41,455
United States	21,555	18,125	64,018	57,997
China	328	156	1,031	1,798
Other	1,147	874	2,977	3,415
	\$ 38,005	\$ 31,391	\$ 114,949	\$ 104,665

	September 30	December 31	January 1
	2011	2010	2010
PROPERTY, PLANT AND EQUIPMENT <sup>(2)</sup>			
Canada	\$ 27,184	\$ 28,696	\$ 33,609
United States	8,617	8,895	9,943
China	170	161	315
	\$ 35,971	\$ 37,752	\$ 43,867

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

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

## 18. CHANGE IN NON-CASH OPERATING ASSETS AND LIABILITIES

	Three months ended September 30		Nine Months Ended September 30	
	2011	2010	2011	2010
Accounts receivable (Note 4)	570	1,471	(5,364)	(4,964)
Inventories (Note 6)	(3,075)	6,797	(9,721)	(1,955)
Accounts payable and accrued liabilities	1,415	(1,193)	3,289	1,305
Income and other taxes	(32)	28	116	(1,113)
Other	(554)	(1,126)	(329)	(330)
	(1,676)	5,977	(12,009)	(7,057)

## 19. TRANSITION TO IFRS

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

## Initial Elections upon Adoption

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

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

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

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

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

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

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

## Reconciliations of Canadian GAAP to IFRS

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

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

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

**I. Reconciliation of consolidated statement of financial position as at September 30, 2010:**

<b>As at September 30, 2010</b>	<b>Note</b>	<b>Canadian GAAP</b>	<b>Effect of transition to</b>		<b>IFRS</b>
			<b>IFRS</b>		<b>IFRS</b>
<b>Assets</b>					
<i>Current</i>					
Cash	(h)	\$ 3,470	\$ 3	\$	3,473
Accounts receivable	(h)	13,905	72		13,977
Income and other taxes receivable		6,078	-		6,078
Inventories	(h)	35,579	2		35,581
Prepaid expenses	(h)	3,730	2		3,732
Deferred income taxes	(f)	-	-		-
		\$ 62,762	\$ 79	\$	62,841
<i>Property, plant and equipment</i>	(a), (h)	38,792	767		39,559
<i>Other non-current assets</i>		460	-		460
		\$ 102,014	\$ 846	\$	102,860
<b>Liabilities</b>					
<i>Current</i>					
Senior Credit Facility		\$ 5,058	\$ -	\$	5,058
Accounts payable and accrued liabilities	(b), (h)	18,971	789		19,760
Income taxes payable	(h)	308	1,455		1,763
Other current liabilities	(c)	83	31		114
Fair value of convertible instruments	(c)	320	3,096		3,416
Current portion of long-term debt		4,840	-		4,840
		\$ 29,580	\$ 5,371	\$	34,951
<i>Convertible Debentures</i>		12,855	-		12,855
<i>Long-term debt</i>	(d)	23,016	372		23,388
<i>Deferred gain on sale of option</i>	(e)	2,925	(2,925)		-
<i>Other non-current liabilities</i>		362	69		431
<i>Deferred income taxes</i>	(f)	1,516	(881)		635
		\$ 70,254	\$ 2,006	\$	72,260
<b>Unitholders' Equity</b>					
		31,760	(1,160)		30,600
		\$ 102,014	\$ 846	\$	102,860

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

<b>As at December 31, 2010</b>	<b>Note</b>	<b>Canadian GAAP</b>	<b>Effect of transition to IFRS</b>	<b>IFRS</b>
<b>Assets</b>				
<i>Current</i>				
Cash	(h)	5,623	11	5,634
Accounts receivable	(h)	9,695	3	9,698
Income and other taxes receivable		56	-	56
Inventories	(h)	30,873	5	30,878
Prepaid expenses	(h)	2,863	(2)	2,861
		49,110	17	49,127
<i>Property, plant and equipment</i>	(a), (h)	37,141	611	37,752
<i>Other non-current assets</i>		571	-	571
		86,822	628	87,450
<b>Liabilities</b>				
<i>Current</i>				
Senior Credit Facility		-	-	-
Accounts payable and accrued liabilities	(b), (h)	13,243	86	13,329
Income taxes payable		1,662	479	2,141
Other current liabilities	(c)	68	33	101
Fair value of convertible instruments	(c)	-	2,653	2,653
Current portion of long-term debt	(g)	2,884	2,387	5,271
		17,857	5,638	23,495
<i>Convertible Debentures</i>		13,108	-	13,108
<i>Long-term debt</i>	(g)	24,815	(2,013)	22,802
<i>Deferred gain on sale of option</i>	(e)	2,710	(2,710)	-
<i>Other non-current liabilities</i>		667	(256)	411
<i>Deferred income taxes</i>	(f)	-	779	779
		59,157	1,438	60,595
<b>Unitholders' Equity</b>		27,665	(810)	26,855
		86,822	628	87,450



**III. Reconciliation of consolidated statement of operations for the three months ended September 30, 2010:**

<b>Three months ended September 30, 2010</b>	<b>Note</b>	<b>Canadian GAAP</b>	<b>Effect of transition to</b>		<b>IFRS</b>
			<b>IFRS</b>		<b>IFRS</b>
Sales		\$ 31,391	\$ -	\$	31,391
Cost of goods sold	(b)	30,430	35		30,465
Depreciation	(a)	1,379	33		1,412
Gross profit		\$ (418)	\$ (68)	\$	(486)
Selling, general and administrative expenses	(a)	3,243	(143)		3,100
Operating loss		\$ (3,661)	\$ 75	\$	(3,586)
Foreign exchange gain	(h)	696	13		709
Gain on sale of property, plant and equipment		80	-		80
Amortization of deferred gain	(e)	120	(120)		-
Changes in fair value of convertible instruments	(c)	-	(156)		(156)
Financing expenses	(b), (c)	(2,514)	(62)		(2,576)
Loss before income taxes		\$ (5,279)	\$ (250)	\$	(5,529)
Income tax recovery	(f)	400	(144)		256
<b>Net loss for the period</b>		<b>\$ (4,879)</b>	<b>\$ (394)</b>	<b>\$</b>	<b>(5,273)</b>
<b>Net loss per unit</b>					
Basic		\$ (0.21)	\$ (0.02)	\$	(0.23)
Diluted		\$ (0.21)	\$ (0.02)	\$	(0.23)
<b>Weighted-average number of units</b>					
Basic		22,861,661	-		22,861,661
Diluted		22,861,661	-		22,861,661

**IV. Reconciliation of consolidated statement of operations for the nine months ended September 30, 2010:**

<b>Nine months ended September 30, 2010</b>	<b>Note</b>	<b>Effect of transition to</b>		
		<b>Canadian GAAP</b>	<b>IFRS</b>	<b>IFRS</b>
Sales		\$ 104,665	\$ -	\$ 104,665
Cost of goods sold	(b)	94,535	127	94,662
Depreciation	(a)	4,220	26	4,246
Gross profit		\$ 5,910	\$ (153)	\$ 5,757
Selling, general and administrative expenses	(a)	10,090	(456)	9,634
Operating loss		\$ (4,180)	\$ 303	\$ (3,877)
Foreign exchange loss	(h)	(601)	(5)	(606)
Gain on sale of property, plant and equipment		80	-	80
Amortization of deferred gain	(e)	360	(360)	-
Changes in fair value of convertible instruments	(c)	-	3,594	3,594
Financing expenses	(b), (c)	(8,377)	(485)	(8,862)
Loss before income taxes		\$ (12,718)	\$ 3,047	\$ (9,671)
Income tax recovery	(f)	1,462	209	1,671
<b>Net loss for the period</b>		<b>\$ (11,256)</b>	<b>\$ 3,256</b>	<b>\$ (8,000)</b>
<b>Net loss per unit</b>				
Basic		\$ (0.50)	\$ 0.14	\$ (0.35)
Diluted		\$ (0.50)	\$ 0.14	\$ (0.35)
<b>Weighted-average number of units</b>				
Basic		22,567,497	-	22,567,497
Diluted		22,567,497	-	22,567,497

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

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

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

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

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

	Notes	Unitholders' Capital	Contributed Surplus	Accumulated Earnings (Deficit)	Distributions	Accumulated Other Comprehensive Loss	Total
<b>Balance as at September 30, 2010 Canadian GAAP</b>		\$ 211,564	\$ 5,973	\$ (9,063)	\$ (159,248)	\$ (17,466)	\$ 31,760
<b>IFRS Adjustments</b>							
Reclass of CTA into retained earnings	IFRS 1	-	-	(18,060)	-	18,060	-
Reverse phantom unit compensation	(c)	-	(756)	429	-	-	(327)
Adjust conversion of phantom units to market value	(c)	(104)	113	-	-	-	9
Reclass to liability conversion feature on debentures	(c)	-	(5,355)	-	-	-	(5,355)
Expense cost of conversion of debentures	(c)	-	89	-	-	-	89
Reclass to liability rights equity element	(c)	-	(64)	-	-	-	(64)
Change in functional currency for TI International	(h)	-	-	(1)	-	-	(1)
Reverse compensation expense on phantom units	(c)	-	-	327	-	-	327
Expense financing cost on conversion feature and warrants	(c)	-	-	(626)	-	-	(626)
Adjust for changes in fair value on conversion feature and warrants	(c)	-	-	2,791	-	-	2,791
Depreciation adjustment due to PPE revaluation	(a)	-	-	(27)	-	-	(27)
Reversal of amortization gain on sale leaseback	(e)	-	-	2,925	-	-	2,925
Adjustment to CTA	(h)	-	-	-	-	(378)	(378)
Adjustment to the Corona lease accrual	(b)	-	-	(360)	-	-	(360)
Expense financing cost on forbearance	(d)	-	-	(372)	-	-	(372)
Adjustment to current income taxes	(f)	-	-	921	-	-	921
Adjustment to deferred income taxes	(f)	-	-	(712)	-	-	(712)
<b>Balance as at September 30, 2010</b>		<b>\$ 211,460</b>	<b>\$ -</b>	<b>\$ (21,828)</b>	<b>\$ (159,248)</b>	<b>\$ 216</b>	<b>\$ 30,600</b>

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

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

**X. Reconciliation of consolidated comprehensive income for the three months ended September 30, 2010:**

<i>Three months ended September 30, 2010</i>	Note	Canadian GAAP	Effect of transition to IFRS	IFRS
<b>Net loss for the period</b>		\$ (4,879)	\$ (394)	\$ (5,273)
Other comprehensive loss				
Unrealized gain (loss) on translating financial statements of subsidiary operations		(507)	(232)	(739)
Tax effect	(f)	243	(243)	-
<b>Other comprehensive income</b>		(264)	(475)	(739)
<b>Comprehensive loss for the period</b>		\$ (5,143)	\$ (869)	\$ (6,012)

**XI. Reconciliation of consolidated comprehensive loss for the nine months ended September 30, 2010:**

<i>Nine months ended September 30, 2010</i>	Note	Canadian GAAP	Effect of transition to IFRS	IFRS
<b>Net loss for the period</b>		\$ (11,256)	\$ 3,256	\$ (8,000)
Other comprehensive loss				
Unrealized gain (loss) on translating financial statements of subsidiary operations		588	(372)	216
Tax effect	(f)	6	(6)	-
<b>Other comprehensive income</b>		594	(378)	216
<b>Comprehensive loss for the period</b>		\$ (10,662)	\$ 2,878	\$ (7,784)

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

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

**Notes to the Reconciliations**

**(a) Property, plant and equipment (“PPE”)**

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

**(b) Accounts payable and accrued liabilities**

In accordance with IAS 37, the provision for the Corona onerous contract was re-evaluated to reduce the future expected sub-lease rental income to the contractual sub-lease receipts. Therefore, the present value of the provision increased as at the transition date by \$170. This difference increased the amount of accretion amortized using the effective interest method by \$35 and \$127 in the three and nine months ending September 30, 2010.

**(c) Fund units and instruments convertible into Fund units**

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

Convertible Debentures

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

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

As well, under Canadian GAAP, the conversion feature and warrants were recorded in unitholders’ equity net of allocated transaction costs. Under IFRS, as a result of being classified as financial liabilities, the associated transactions costs have been expensed when incurred. At the transition date, the transaction costs related to the conversion feature and warrants from the Convertible Debentures of \$330 issued in 2009 have been adjusted to retained earnings and for the three and nine months ending September 30, 2010 the transaction costs of \$27 and \$358 relating to the conversion feature and warrants from the Convertible Debentures issued in January 2010 have been charged to financing expenses in the restated statement of operations.

## Phantom Units

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

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

### **(d) Long-term debt**

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

### **(e) Deferred gain on sale of option**

In 2006 the Fund sold a purchase option on its leased property in Pomona, California. The net pre-tax cash proceeds received on the sale was \$5,264. The sale was treated as a sale and lease back under Canadian GAAP and the gain was deferred and amortized over the ten year life of the new lease. Under IAS 17, the Pomona option sale would have been accounted for as a gain at the time of the transaction. As such, retained earnings as at January 1, 2010 has been adjusted for the balance of the deferred gain of \$3,337 under Canadian GAAP and for the three months ended September 30, 2010, nine months ending September 30, 2010 and year-ended December 31, 2010, the amount of deferred gain recognized under Canadian GAAP in the statement of operations of \$120, \$360 and \$477 respectively has been reversed.

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

The current and deferred income tax adjustments reflect changes in the accounting of tax on various items including creation of temporary differences resulting from the effect of the IFRS adjustments described above. In particular, a deferred tax liability was recorded as at the transition date of \$837 and was charged to retained earnings. In addition, under IFRS, there is no longer income tax allocated to any exchange gains/losses relating to foreign denominated intercompany balances as a result, comprehensive income was reduced by \$243 and \$6 for the three and nine months ending September 30, 2010 and reduced by \$280 for the year ended December 31, 2010.

### **(g) Current portion of long-term debt**

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

### **(h) Foreign currency translation**

#### Cumulative foreign currency translation balances

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

### Functional currency

Under prior Canadian GAAP, Tree Island International, the Hong Kong parent company to the Fund's Chinese subsidiaries, was considered to be an integrated subsidiary and was translated into Canadian dollars using the temporal method. The concept of integrated subsidiaries does not exist under IFRS. It was determined that the functional currency of the Hong Kong company is US dollars. The Chinese subsidiaries of Tree Island International continue to have a functional currency of RMB. The change in functional currency of the Hong Kong Company resulted in various immaterial translation differences throughout the statement of financial position including the change in cash balance of \$3 as at September 30, 2010 and \$11 as at the December 31, 2010.





# UNITHOLDER INFORMATION

## TREE ISLAND WIRE INCOME FUND

### Board of Trustees:

#### ***Tree Island***

#### ***Wire Income Fund***

Amar Doman

Dale R. MacLean

Harry Rosenfeld

Michael Fitch

Sam Fleiser

Theodore A. Leja

### Officers:

#### ***Tree Island***

#### ***Wire Income Fund***

Amar Doman

*Chair of the Board*

Dale R. MacLean

*President and Chief*

*Executive Officer*

Nancy Davies

*Chief Financial Officer*

*and Vice President,*

*Finance*

Kelly Stark-Anderson

*Secretary*

### Units:

#### *Market Information*

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

#### *Registrar and Transfer Agent*

Computershare Investor  
Services Inc.

### Convertible Debentures:

#### *Market Information*

Convertible Debentures  
Listed:  
Toronto Stock Exchange  
Trading Symbol: TIL.DB

#### *Registrar and Transfer Agent*

Valiant Trust Company



### Leadership Team:

Dale R. MacLean

*President and Chief*

*Executive Officer*

Nancy Davies

*Chief Financial Officer*

*and Vice President,*

*Finance*

Ken Stuttaford

*Vice President, Sales and*

*Marketing*

Stephen Ogden

*Vice President,*

*Operations*

Mark Stock

*Vice President, Human*

*Resources and*

*Information Technology*

### Corporate Head Office:

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### Investor Relations:

Nancy Davies  
Chief Financial Officer and  
Vice President, Finance  
604-523-4587  
[ndavies@treeisland.com](mailto:ndavies@treeisland.com)

### Auditors:

Ernst & Young LLP  
Vancouver, B.C.