



TREE ISLAND WIRE INCOME FUND

Q1 2012



**Report to Unitholders
for the period ended
March 31, 2012**



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, since 1964, 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, concrete reinforcing mesh, fencing and other fabricated wire products. The Company markets these products under the Tree Island, Halsteel, K-Lath, Industrial Alloys, TI Wire, Tough Strand and Select brand names. Tree Island also owns and operates a Hong Kong-based company that assists the international sourcing of products to Tree Island and its customers.

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TREE ISLAND WIRE INCOME FUND TO OUR UNITHOLDERS

President's Letter

The first quarter results demonstrated a degree of near-term stability in market demand and material costs. During the first quarter, we experienced an increase in sales volumes and selling prices. However, certain challenges including limited long-term market visibility, particularly rising input costs, create a climate of continued volatility. While we are encouraged with our ability to increase revenues on a year-over-year and consecutive quarter basis, we remain focused on managing costs and improving operational efficiencies.

For the quarter ended March 31, 2012, the Fund reported revenues of \$44.0 million, compared to \$38.9 million during the same period in 2011, and sales volumes of 30,618 tons, compared to 29,948 tons during the same period in 2011. Despite achieving higher revenues, gross profit was negatively impacted due to rising input costs and amounted to \$4.0 million compared to \$4.4 million during the first quarter in 2011. As a result, gross profit per ton also decreased to \$130 per ton from \$146 per ton and the Fund achieved EBITDA of \$1.7 million versus an EBITDA of \$2.0 million during the corresponding period last year.

On a consecutive quarter basis, revenues, gross profit and EBITDA, all increased across the board compared to the fourth quarter of 2011.

Our objectives and message to our stakeholders remains unchanged. Our priority is the profitable growth of the Fund's business through a targeted market focus, strict inventory and pricing discipline, and an emphasis on efficiency at all levels of our operations. These are things we can control and improve, which in turn will enable us to weather economic volatility and downturns, and take full advantage of any sign of a recovery and demonstrate growth in revenues and profit margins.

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

Sincerely,

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



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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 May 14, 2012 and should be read in conjunction with the unaudited interim condensed consolidated financial statements for the three months ended March 31, 2012. The Fund's unaudited 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 are reported in Canadian dollars. They do not include all of the information required for full annual financial statements.

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

1. FORWARD-LOOKING STATEMENTS AND RISK

This management's discussion and analysis ("MD&A") includes forward-looking information with respect to the Fund and Tree Island, including our business, operations and strategies, as well as financial performance and conditions. The use of forward-looking words such as, "may," "will," "expect" or similar variations generally identify such statements. Any statements that are contained herein that are not statements of historical fact may be deemed to be forward-looking statements. Although we believe that expectations reflected in forward-looking statements are reasonable, such statements involve risks and uncertainties, including the risks and uncertainties discussed under the heading "Risks Relating to the Company's Business" in the Fund's AIF for the year ended December 31, 2011 as well as Section 13 of this MD&A.

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

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

2. NON-IFRS MEASURES

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

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

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

3. THE FUND AND TREE ISLAND

3.1. About the Fund

The Fund holds a 100% ownership interest in Tree Island and is organized as a trust on a corporation structure. There were 22,049,071 Units of the Fund outstanding as of March 31, 2012 and 21,886,476 as of May 14, 2012.

There were 240,337 Phantom Units issued under the Fund's long-term incentive plan as at March 31, 2012 and 237,932 as of May 14, 2012. Each Phantom Unit is convertible, subject to vesting conditions, into one Unit.

As at May 14, 2012, the total number of convertible debentures remaining outstanding is 193,846. Each convertible debenture has a face value of \$100 and each \$100 convertible debenture is convertible into 200 Fund Units at the option of the holder.

As at May 14, 2012, the total number of warrants remaining outstanding is 4,875,000. The warrants expire on November 26, 2014 and allow the holder to purchase one Unit at an exercise price of \$0.57. No warrants have been exercised since issuance.

3.2. About Tree Island

Organizational Structure

Our corporate structure has two primary entities: Tree Island Industries Ltd. which is our Canadian operating company as well as being the parent company to our operations in the United States under our subsidiary Tree Island Wire (USA) Inc.

Markets

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

Products

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

Premium Brands

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

Select Brand

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 wire products not manufactured by Tree Island and direct ship to our customers.

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

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

Seasonality

Our operations are impacted by the seasonal nature of the various industries we serve, primarily the Canadian 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.

4. DEVELOPMENTS AND FIRST QUARTER 2012 BUSINESS OVERVIEW

Business Overview

Market conditions remained challenging during the period with continued 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 29,300 in the first three months of 2012, the third lowest first quarter starts since 1959. However, despite these low levels in comparison to historic years, Western US region housing starts actually recovered 22.6% over the same period in 2011. In response to these challenges, we continue to manage our product mix, maintain price discipline and manage our costs closely as part of our business strategy.

For the three months ended March 31, 2012, the Fund reported revenues of \$44.0 million, compared to \$38.9 million during the same period in 2011. Sales volumes increased to 30,618 tons, compared to 29,948 tons during the same period in 2011. Gross profit decreased from \$4.4 million in 2011 to \$4.0 million in 2012 and gross profit per ton decreased to \$130 per ton (2011 – \$146 per ton). Consequently, EBITDA decreased from \$2.0 million in 2011 to \$1.7 million in 2012. These decreases in gross profit, gross profit per ton, and EBITDA were largely the result of increased raw material costs which were partially offset by improvements in selling, general and administrative expenses as a result of our continued focus on cost management.

Trade Action Reviews

During the fourth quarter of 2011 the US Department of Commerce ("DOC") announced, preliminary antidumping duties on certain galvanized wire imported from China and Mexico and on another trade action related to certain nails imported from the United Arab Emirates. The final determinations were released in the first quarter of 2012 and are not expected to have a material impact on operating results.

Unit Buy-Back

During the three months ended March 31, 2012 the Fund purchased 746,500 units at an average cost of \$0.27 per unit, net of commission under its normal course issuer bid. These units were cancelled by the Fund at the end of the month of purchase. Subsequent to March 31, 2012, the Fund purchased and cancelled an additional 165,000 units for \$51,185, net of commissions.

Remediation on Surplus Lands Sold in 2009

As described more fully in Note 21 of the Consolidated Financial Statements for the year ended December 31, 2011, the Fund completed the sale of 12.5 acres of surplus lands at its Richmond, BC manufacturing facility in 2009. The agreement contained a condition whereby \$1.5 million was held in trust to be released upon completion of the agreed upon remediation of the site.

In 2011, the Fund completed the remediation work based on the planned requirements and submitted the results for approval. During the three months ended March 31, 2012, the final Certificate of Compliance was issued and the remaining holdback of \$422 thousand was received.

The Fund has no further requirements or obligations under the purchase and sale agreement.

Outlook

Given the continued economic uncertainty globally and high level of unemployment in the US, meaningful improvements in demand fundamentals for our end markets are difficult to predict. As we enter 2012, our outlook remains cautious due to the lack of visibility from a macro-economic perspective. Going forward, our focus remains on price discipline and alignment of pricing against rising raw material costs to continue the improvement in our gross profit. However, 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 and closely manage our inventory levels. We will also carefully monitor and evaluate our other cost drivers including freight costs, the cost of other materials required to produce our products and our labour and staffing costs.

5. RESULTS FROM OPERATIONS

	Three Months Ended March 31	
	2012	2011
Summary of Results (\$000's except for tonnage and per unit amounts)		
Sales Volumes – Tons ⁽¹⁾	30,618	29,948
Sales	\$ 43,997	\$ 38,944
Cost of sales	39,237	33,887
Depreciation	768	677
Gross profit	3,992	4,380
Selling, general and administrative expenses	3,032	3,085
Operating income	960	1,295
Foreign exchange gain	309	418
Gain on sale of property, plant and equipment	426	-
Changes in financial liabilities recognized at fair value	-	(892)
Loss on renegotiated debt	-	(3,234)
Financing Expenses	(2,261)	(2,066)
Loss before income taxes	(566)	(4,479)
Income tax recovery	148	440
Net loss	(418)	(4,039)
Operating income	960	1,295
Add back depreciation	768	677
EBITDA ⁽²⁾	1,728	1,972
Foreign exchange gain	309	418
EBITDA including foreign exchange gain	2,037	2,390
Net loss	(418)	(4,039)
Add back significant non-cash items		
Non-cash financing expenses	1,404	1,326
Non-cash loss on renegotiated debt	-	3,234
Changes in financial liabilities recognized at fair value	-	892
Adjusted net income ⁽²⁾	986	1,413
Per unit		
Net loss per unit - basic and fully diluted	(0.02)	(0.18)
Adjusted Distributable Cash per Unit - basic and fully diluted ⁽²⁾	0.03	0.03
Per ton		
Gross profit per ton	130	146
EBITDA per ton	56	66
Financial position		
	As at March 31, 2012	As at December 31, 2011
Total assets	97,519	91,005
Total non-current financial liabilities	41,028	42,789

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

(2) See definition of EBITDA, Adjusted Net Income and Adjusted Distributable Cash in footnote 3 to the press release

6. COMPARISON OF RESULTS FOR THE THREE MONTHS ENDED MARCH 31, 2012 AND 2011

Revenue

During the three months ended March 31, 2012, we generated revenues of \$44.0 million, an increase of \$5.1 million, or 13.0%, from the same period in 2011. The improvement in revenue primarily reflects higher sales volumes and higher selling prices.

The gains in revenue partially benefitted from the positive impact of a weaker Canadian dollar on our US dollar-denominated revenues. The average exchange rate for the Canadian to US dollar was 1.5% weaker than the same period in 2011. Holding all other factors constant, had exchange rates for the Canadian to US dollar remained consistent with that of 2011, our first quarter 2012 revenues would have been approximately \$0.4 million lower.

Industrial/OEM market sales volumes improved by 630 tons or 5.7% reflecting increased sales of low carbon galvanized wire, nail wire, cotton tie wire and volumes to the recycling (high carbon galvanized wire) and upholstery industries (high carbon wire) representing 38.5% of our total sales portfolio, compared to 37.2% in 2011. Despite the weakness in the housing market, our volumes to the residential construction market grew 592 tons or 7.0% compared to the same period last year, primarily due to higher fastener sales. Sales to the residential construction market represented 29.5% of Q1 2012 total sales, compared to 28.2% in 2011. Our sales volume growth was partially offset by declines in the commercial construction, agricultural and specialty sectors. Sales to the commercial construction sector, representing 17.8% of our sales portfolio (18.6% in 2011), declined 109 tons or 2.0% compared to the same period in 2011. The decline was driven by less welded wire fabric sales but was partially offset by the growth in concrete reinforcing wire sales. Sales volumes to the agricultural sector declined by 328 tons or 9.4% driven by less barbed wire sales as a result of high inventories in the market place. Specialty products sales for Q1 2012 decreased slightly by 16 tons or 1.5% year-over-year. International trading sales decreased by 99 tons year-over-year, reflecting the discontinuation of certain projects in our Asian subsidiaries.

Sales volumes by market were as follows:

Market	Three Months Ended March 31, 2012		Three Months Ended March 31, 2011	
	Tons	% of Sales Volumes ⁽²⁾	Tons	% of Sales Volumes ⁽²⁾
Industrial/OEM	11,774	38.5%	11,144	37.2%
Residential Construction	9,042	29.5%	8,450	28.2%
Commercial Construction	5,455	17.8%	5,564	18.6%
Agricultural	3,154	10.3%	3,482	11.6%
Specialty	1,026	3.4%	1,042	3.5%
International Trading ⁽¹⁾	167	0.5%	266	0.9%
Total	30,618	100.0%	29,948	100.0%

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

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

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

	Three Months Ended March 31, 2012		Three Months Ended March 31, 2011	
	Tons	% of Sales Volumes	Tons	% of Sales Volumes
North American Manufactured	28,900	94.4%	28,139	94.0%
Imported & Trading	1,718	5.6%	1,809	6.0%
Total	30,618	100.0%	29,948	100.0%

During the quarter ended March 31, 2012, sales volumes of our North American manufactured products increased both in total tons and as a percentage of total sales volumes. The increase in manufactured product volumes relative to import and trading product volumes reflects our increased emphasis on manufacturing as a core competency as well as our efforts to increase throughput at our North American manufacturing operations. By contrast, combined import and trading sales declined to 1,718 tons in the first quarter of 2012 from 1,809 tons in the same period in 2011, and represented a smaller percentage of total sales at 5.6% in 2012 compared to 6.0% in 2011. Going forward, we will continue to review and optimize the mix of manufactured versus imported products as we work to enhance profitability and provide our customers with value and the specific products they need.

Cost of Sales

For the three months ended March 31, 2012, cost of sales increased by \$5.4 million or 15.7% from the same period last year due to higher production volumes, to accommodate the increase in sales volumes, and higher cost of carbon rod. Our average cost of carbon rod (representing 54.4% of total cost of sales) increased by 17.1% when compared to the same period in 2011. Because carbon rod is usually transacted in US dollars, the cost of carbon rod for our Canadian operations was negatively impacted by the weaker Canadian dollar in Q1 of 2012. Stainless steel costs (representing 7.6% of total cost of sales) decreased 1.9% on a per-ton basis, compared to 2011 and the cost of zinc (representing 3.5% of total cost of sales) decreased 8.5%.

Gross Profit

During the three months ended March 31, 2012, gross profit decreased to \$4.0 million, while gross profit per ton decreased by \$16 per ton to \$130 per ton, compared to \$146 per ton in the same period in 2011. The decrease in gross profit and gross profit per ton primarily reflects the increase in cost of sales as noted above which were partially offset by the increase in sales volumes. Although throughput at the manufacturing facilities has been increasing, gross profit in both 2012 and 2011 continued to be negatively impacted by the suboptimal utilization of our manufacturing facilities.

Expenses

SG&A expenses decreased to \$3.0 million in 2012 from \$3.1 million in 2011, a decrease of \$0.1 million, or 2.8%. The decrease in SG&A expense is primarily the result of our continued focus on cost management and a reduction in professional service charges in the first quarter of 2012 as the 2011 expense included certain costs related to consulting on the transition to IFRS.

EBITDA

EBITDA for the three months ended March 31, 2012 decreased to \$1.7 million from \$2.0 million in 2011. The \$0.3 million decrease reflects the impact of increased material costs on gross profit however this impact was reduced by profitability gains made through our focus on pricing and price discipline, management of costs and increased volume through our manufacturing facilities.

Financing Expenses

For the three months ended March 31, 2012, financing expenses increased by \$0.2 million to \$2.3 million. The components of financing expense are below:

	Three months ended March 31	
	2012	2011
Non-cash accretion of debt discount and interest on long term debt and Convertible Debentures	\$ 1,404	\$ 1,326
Cash interest on Convertible Debentures	489	489
Interest on Senior Credit Facility	201	90
Other interest and financing costs	98	99
Financing transaction costs and amortization of deferred financing costs	69	62
	<u>\$ 2,261</u>	<u>\$ 2,066</u>

The increase is primarily due to the increase in interest on Senior Credit Facility of \$0.1 million due to the increase in the average Senior Credit Facility balance outstanding during the 3 months ended March 31, 2012 compared to the same period in the prior year.

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 change in control option and conversion feature on the Debentures and the warrants. The change in fair value for the three months ended March 31, 2012 was \$nil versus a loss of \$0.9 million in 2011.

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.

Loss on renegotiated debt

The accounting treatment for the amendment to the Forbearance Agreements in January 2011 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

During the three months ended March 31, 2012 the Canadian dollar weakened relative to the US dollar in comparison to the three months ended March 31, 2011, and as a result the Fund reported a gain on foreign exchange of \$0.3 million, compared to a gain of \$0.4 million in 2011. As a portion of Tree Island's assets, liabilities, sales and expenses are denominated in currencies other than the Canadian dollar, its functional currency, Tree Island has exposure to fluctuations in the values of these currencies, in particular the US dollar, relative to the Canadian dollar. Foreign exchange gains and losses are unpredictable in nature and therefore can be expected to vary significantly from period-to-period and over time.

Income Taxes

For the period ended March 31, 2012, we recorded an income tax recovery of \$0.1 million, compared to an income tax recovery of \$0.4 million in 2011. The income tax recovery represents a deferred income tax recovery of \$157 thousand (2011 - \$583 thousand recovery) and a current income tax expense of \$9 thousand (2011 - \$143 thousand expense). The income tax expense was based on the statutory tax rate of 25.0% (2011 - 26.5%) applied to the income of subsidiaries before taxes, with adjustments for permanent differences between accounting and taxable income.

Net Loss

We reported a net loss of \$0.4 million in the period ended March 31, 2012 (2011 - net loss of \$4.0 million), or a loss of \$0.02 per unit basic and diluted (2011 - net loss of \$0.18 per unit basic and diluted). The decrease in the net loss primarily reflects a decrease in non-cash loss on renegotiation of debt to \$nil (2011 - \$3.2 million), a decrease in the loss on fair value of convertible instruments to \$nil (2011 - \$0.9 million), and a gain on sale of property, plant and equipment of \$0.4 million (2011 - \$nil). These amounts were offset by a decrease in the operating income to \$1.0 million (2011 - \$1.3 million), increase in financing expense to \$2.3 million (2011 - \$2.1 million), a reduced foreign exchange gain of \$0.3 million (2011 - gain of \$0.4 million), and a reduced income tax recovery of \$0.1 million (2011 - income tax recovery of \$0.4 million).

Adjusted Net Income

Adjusted for the impact of certain non-cash items recognized in net loss, Adjusted Net Income for the period ended March 31, 2012 decreased to \$1.0 million, from income of \$1.4 million during the same period in 2011. The \$0.4 million decrease in Adjusted Net Income is primarily due to a decrease in operating income of \$0.3 million, decrease in the gain on foreign exchange of \$0.1 million, decrease in income tax recovery of \$0.3 million and an increase in interest paid on the Senior Credit Facility of \$0.1 million. These were offset by a \$0.4 million gain on the sales of property, plant and equipment.

7. FINANCIAL CONDITION AND LIQUIDITY

7.1. Working Capital

Our business requires an ongoing investment in working capital, comprised primarily of accounts receivable and inventories, financed primarily by credit in the form of our Senior Credit Facility, accounts payable and accrued liabilities. Our largest investment in working capital is in our inventories. We rely on credit from our key suppliers to finance the purchase of the raw materials needed for our operations.

Our investment in working capital fluctuates from quarter-to-quarter based on factors such as seasonal sales demand, strategic purchasing decisions taken by management, and the timing of collections from customers and payments made to our suppliers. The commercial construction, residential construction, and agricultural markets are seasonal in nature. As a result, sales and working capital requirements may be higher in the first and second quarters when demand is historically highest.

A summary of the composition of our working capital during the periods ended March 31, 2012 and 2011 is provided below (\$000's):

	March 31	December 31
	2012	2011
Investment in working capital assets		
Cash	\$ 3,268	\$ 3,852
Accounts receivable	21,650	13,835
Inventories	37,519	36,123
Other current assets	1,258	2,533
	\$ 63,695	\$ 56,343
Less current liabilities		
Senior Credit Facility	(17,611)	(11,247)
Accounts payable and accrued liabilities	(14,600)	(13,745)
Other current liabilities	(2,636)	(2,573)
Current portion of long-term debt	(6,884)	(4,882)
	(41,731)	(32,447)
Net investment in working capital	\$ 21,964	\$ 23,896

During the period ended March 31, 2012 there were significant increases in accounts receivable and the Senior Credit Facility. The increase in accounts receivable resulted from stronger sales during the first quarter of 2012 as compared to the fourth quarter of 2011. Offsetting the increases in accounts receivable was an increase in the Senior Credit Facility to fund the inventory build and operating expenses until cash is collected on our accounts receivable.

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 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.

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.

7.2. Liquidity and Capital

Cash Flow

Following is a summary of our cash flow for the three months ended March 31, 2012 and 2011 (\$000's – bracketed figures indicate use of cash):

	Three Months Ended March 31	
	2012	2011
Net cash provided by operating activities	\$ 1,452	\$ 1,654
Working capital adjustments	\$ (7,160)	\$ (4,771)
Net cash provided by (used in) investing activities	\$ 341	\$ (109)
Repayment of long-term debt	(598)	(729)
Interest paid	(754)	(659)
Normal Course Issuer Bid	(205)	-
Advance on Senior Credit Facility	6,354	2,148
Net cash provided by financing activities	\$ 4,797	\$ 760
Exchange rate changes on foreign cash balances	(14)	(56)
Decrease in cash balances	\$ (584)	\$ (2,522)

During the three months ended March 31, 2012, the cash flow from operating activities decreased over the same period in the prior year due to a \$0.3 million reduction in EBITDA resulting primarily from an increase in cost of sales due to increasing raw materials costs. The change in non-cash operating assets and liabilities increased by \$2.5 million primarily as a result of a decrease in accounts payable and accrued liabilities offset by an increase in inventory of when comparing the 3 month period ended March 31, 2012 to the same period in 2011 (see Note 21 to the interim condensed consolidated financial statements). Investing activities provided \$0.3 million in cash which was comprised of \$0.5 million (2011 - \$nil) in cash received from the sale of property, plant and equipment which was primarily the result of the receipt of the holdback from the sale of surplus land and was offset by \$0.1 million in capital expenditures during the three months ended March 31, 2012 (2011 - \$0.1 million).

In regards to the long-term debt, the Fund made payments of \$0.6 million during the three months ended March 31, 2012 (2011 - \$0.7 million). During the three months ended March 31, 2012, we drew advances of \$6.4 million on the Senior Credit Facility (2011 - \$2.1 million in advances), increasing the amount outstanding from \$11.2 million as at December 31, 2011 to \$17.6 million as at March 31, 2012. This was primarily due to an increase in accounts receivable from a stronger first quarter in 2012 as compared to the fourth quarter in 2011.

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 current daily operating needs. The credit available at any given time under the Senior Credit Facility is limited to the amount of the calculated borrowing base, less a minimum availability of \$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 a certain threshold ("Availability Test"). In addition, there are other restrictive covenants that limit the discretion of our management with respect to certain business matters.

As at March 31, 2012 the Fund's availability was in excess of the Availability Test and the Fund was in compliance with its covenants on the Senior Credit Facility. For more details on the Senior Credit Facility please refer to Note 8 of the Fund's interim condensed consolidated financial statements for March 31, 2012.

7.3. Distributable Cash

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

provided in CICA's publication Standardized Distributable Cash in Income Trusts and Other Flow-Through Entities: Guidance on Preparation and Disclosure.

We believe that the calculation of Standardized Distributable Cash distorts the Fund's quarter-to-quarter distributable cash and payout ratios, given that our non-cash operating working capital fluctuates significantly as a result of the seasonality of our business. As a result, we believe that our historical measure of Adjusted Distributable Cash, which excludes the impact of changes in non-cash working capital, is a better measure for determining our operating performance. Adjusted Distributable Cash for the three months ended March 31, 2012 and 2011 were calculated as follows (\$000's except for unit, per unit and % amounts):

	Three Months Ended March 31	
	2012	2011
Standardized Distributable Cash	\$ (6,591)	\$ (3,885)
Change in Non-cash Operating Assets & Liabilities	7,160	4,660
Non-maintenance Capital Expenditures	-	1
Adjusted Distributable Cash	\$ 569	\$ 776
Distributions Paid or Payable	\$ -	\$ -
Weighted Average Units Issued and Outstanding		
Basic	22,337,889	22,863,913
Fully Diluted	22,337,889	22,863,913
Adjusted Distributable Cash per Unit		
Basic	0.0255	0.0339
Fully Diluted	0.0255	0.0339
Distributions Paid or Payable per Unit - Basic & Fully Diluted	\$ -	\$ -
Adjusted Distribution Payout Percentage⁽¹⁾	0%	0%

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

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

	Since Inception
Adjusted Distributable Cash Generated Since Inception ⁽¹⁾	135,909
Distributions Paid or Payable Since Inception	158,997
Adjusted Distribution Payout Percentage Since Inception⁽¹⁾	117%

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

Historically, our policy was to make equal monthly distributions to unitholders based on our estimate of the annual Adjusted Distributable Cash available for distribution. The amount of Adjusted Distributable Cash available for distribution was based on the Adjusted Distributable Cash generated, after allowances for cash redemption of units, payment of debt service obligations, and any reserve deemed prudent by the Trustees of the Fund. Due to the impact of the global economic crisis, limited credit availability and cash constraints, the Fund reduced distributions in November 2008 and subsequently suspended them in January 2009.

8. CAPITAL EXPENDITURES AND CAPACITY

For the three months ended March 31, 2012, we made capital expenditures of \$0.1 million (2011 - \$0.1 million) made up primarily of maintenance capital. We have planned capital expenditures for the remainder of the 2012 fiscal year to a level which we believe will be sufficient to maintain the existing productive capacity of our manufacturing operations. Non-maintenance capital is funded out of our Senior Credit Facility and maintenance capital is funded from cash generated by operations. We anticipate that we will continue to have sufficient capacity to meet projected future demand.

9. CONTRACTUAL OBLIGATIONS AND COMMITMENTS

As of March 31, 2012, we were committed to the contracts, operating leases and debt repayments (including scheduled interest payments on interest bearing debt) set out below, which will be financed through working capital and our Senior Credit Facility.

	2012	2013	2014	2015	2016	Thereafter	Total
Commitments							
Wire Rod Purchases	\$ 24,024	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 24,024
Finished Goods	468	-	-	-	-	-	468
Operating Lease Agreements	1,443	1,048	779	752	694	-	4,716
	25,935	1,048	779	752	694	-	29,208
Financial Liabilities							
Revolving Credit	17,611	-	-	-	-	-	17,611
Accounts Payable and accrued liabilities	14,600	-	-	-	-	-	14,600
Long-term debt	3,597	13,158	25,629	-	-	-	42,384
Debentures	1,450	1,938	20,642	-	-	-	24,031
Total	\$ 63,193	\$ 16,144	\$ 47,050	\$ 752	\$ 694	\$ -	\$ 127,833

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 first half 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.

10. SUMMARY OF QUARTERLY FINANCIAL INFORMATION

The table below provides selected quarterly financial information for the eight most recent fiscal quarters to March 31, 2012. This information reflects all adjustments of a normal, recurring nature which are, in our opinion, necessary to present fairly the results of operations for the periods presented (\$000's, except tons and per unit amounts). Fourth quarter sales volumes are traditionally higher than the other quarters due to the seasonality of our business. Quarter-over-quarter results may also be impacted by unusual or infrequently occurring items.

These financial results are not necessarily indicative of results for any future period and should not be relied upon to predict future performance.

	Mar 31 2012	Dec-31 2011	Sep-30 2011	Jun-30 2011	Mar 31 2011	Dec 31 2010 ⁽¹⁾	Sep 30 2010	Jun 30 2010 ⁽¹⁾
<i>Sales Volumes – Tons⁽²⁾</i>	30,618	25,282	27,408	27,676	29,948	20,565	23,192	27,733
Revenue	\$ 43,997	\$ 35,081	\$ 38,005	\$ 38,000	\$ 38,944	\$ 27,746	\$ 31,392	\$ 38,741
Gross Profit	\$ 3,992	\$ 1,103	\$ 1,411	\$ 3,564	\$ 4,380	\$ 510	\$ (488)	\$ 3,841
EBITDA	\$ 1,728	\$ (1,133)	\$ (1,276)	\$ 1,725	\$ 1,972	\$ (319)	\$ (2,173)	\$ 2,281
Foreign exchange gain (loss)	\$ 309	\$ 517	\$ (1,817)	\$ 160	\$ 418	\$ 763	\$ 710	\$ (759)
EBITDA including foreign exchange	\$ 2,037	\$ (616)	\$ (3,093)	\$ 1,885	\$ 2,390	\$ 444	\$ (1,463)	\$ 1,522
Net Income (Loss)	\$ (418)	\$ (4,257)	\$ (4,594)	\$ 29	\$ (4,039)	\$ (3,210)	\$ (5,459)	\$ (190)
Net Income (Loss) per Unit – Basic	\$ (0.02)	\$ (0.19)	\$ (0.20)	\$ 0.00	\$ (0.17)	\$ (0.14)	\$ (0.24)	\$ (0.01)
<i>Gross Profit per Ton</i>	\$ 130	\$ 40	\$ 51	\$ 119	\$ 146	\$ 25	\$ (21)	\$ 138
<i>EBITDA per Ton</i>	\$ 56	\$ (41)	\$ (46)	\$ 58	\$ 66	\$ (16)	\$ (94)	\$ 78
Distributions Paid or Payable	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -

(1) Reclassified for comparative purposes

(2) 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.
- Q3 2011: Growth in our key markets resulted in higher volumes and as a result a better recovery of overhead costs contributing to an improved gross profit when compared to the same quarter in the prior year. However, when compared to the first and second quarters, rising raw material costs resulted in margin compression and consequently in lower gross profit as compared to the first and second quarters of 2011.
- Q4 2011: Although the fourth quarter experienced some seasonal impact, this was not as pronounced as in the prior year, and overall the Fund's performance in the fourth quarter of 2011 and for the full year 2011 compare favorably with the same periods in 2010. However, we continued to observe weakness in our end markets.

11. ACCOUNTING POLICIES AND ESTIMATES

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.

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

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

12. RELATED PARTY TRANSACTIONS

Transactions with associated companies

One of the investors in the Recapitalization Transaction (as discussed in the Fund’s Annual Information Form for the year ended December 31, 2011 under the header “*General Development of the Business and Three Year History*”), The Futura Corporation (“Futura”), is considered to be a related party to the Fund because of its ownership interest and the fact that Mr. Doman, the sole shareholder and president of Futura, and Mr. Rosenfeld, the Executive Vice President of Futura, sit on the Board of 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 months ended March 31, 2012, Futura received interest settled in cash of \$125 (2011 - \$123) on the convertible debentures at the stated rate of interest.

As well, the Fund sells products to subsidiaries of a company controlled by Futura, CanWel Building Materials Group Ltd. (“CanWel”), which amounted to, net of rebates, \$1,775 (2011 - \$1,807) during the year and trade accounts receivable owing from CanWel is \$1,335 as at March 31, 2012 (\$647 – March 31, 2011). 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 months ended

March 31, 2012 were \$495 (2011 - \$343) 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.

13. 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 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 2011 Annual Information Form under the heading "Risk Factors" which can be found at www.sedar.com. During the three month period ended March 31, 2012 there were no changes in the risks and uncertainties from that disclosure.

14. 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 March 31, 2012. These executives also certified that they are responsible for the design of disclosure controls and procedures and internal control over financial reporting. There have been no changes in internal control over financial reporting during the quarter ended March 31, 2012 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 March 31, 2012 unaudited interim condensed consolidated financial statements and this MD&A prior to its release.



TREE ISLAND WIRE INCOME FUND

INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2012 and 2011

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.

May 14, 2012

Tree Island Wire Income Fund

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

(in thousands of Canadian dollars - unaudited)

	March 31	December 31
	2012	2011
Assets		
<i>Current</i>		
Cash	\$ 3,268	\$ 3,852
Accounts receivable (Note 5)	21,650	13,835
Inventories (Note 6)	37,519	36,123
Prepaid expenses	1,258	2,533
	63,695	56,343
<i>Property, plant and equipment (Note 7)</i>	33,515	34,303
<i>Other non-current assets</i>	309	359
	\$ 97,519	\$ 91,005
Liabilities		
<i>Current</i>		
Senior Credit Facility (Note 8)	\$ 17,611	\$ 11,247
Accounts payable and accrued liabilities	14,600	13,745
Income taxes payable	2,102	2,093
Other current liabilities	212	158
Fair value of convertible instruments (Note 9)	322	322
Current portion of long-term debt (Note 10)	6,884	4,882
	41,731	32,447
<i>Convertible Debentures (Note 9)</i>	14,637	14,298
<i>Long-term debt (Note 10)</i>	26,391	28,491
<i>Other non-current liabilities</i>	347	364
<i>Deferred income taxes</i>	609	766
	83,715	76,366
Unitholders' Equity	13,804	14,639
	\$ 97,519	\$ 91,005

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**INTERIM CONDENSED CONSOLIDATED STATEMENT OF OPERATIONS***(in thousands of Canadian dollars, except units and per-unit amounts - unaudited)*

	Three Months Ended March 31	
	2012	2011
Sales	\$ 43,997	\$ 38,944
Cost of goods sold (Note 6)	39,237	33,887
Depreciation	768	677
Gross profit	3,992	4,380
Selling, general and administrative expenses	3,032	3,085
Operating income	960	1,295
Foreign exchange gain	309	418
Gain on sale of property, plant and equipment	426	-
Changes in financial liabilities recognized at fair value	-	(892)
Loss on renegotiated debt (Note 10)	-	(3,234)
Financing expenses (Note 11)	(2,261)	(2,066)
Loss before income taxes	(566)	(4,479)
Income tax recovery (Note 15)	148	440
Net loss for the period	\$ (418)	\$ (4,039)
Net loss per unit		
Basic	\$ (0.02)	\$ (0.18)
Diluted	\$ (0.02)	\$ (0.18)
Weighted-average number of units (Note 18)		
Basic	22,337,889	22,863,913
Diluted	22,337,889	22,863,913

See accompanying Notes to the Interim Condensed Consolidated Financial Statements

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

	Three Months Ended March 31	
	2012	2011
Net loss for the period	(418)	(4,039)
Other comprehensive loss		
Unrealized loss on translating financial statements of subsidiary operations	(214)	(414)
Comprehensive loss for the period	\$ (632)	\$ (4,453)

See accompanying Notes to the Interim Condensed Consolidated Financial Statements

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

	Unitholders' Capital (Note 13)	Accumulated Deficit	Distributions	Accumulated Other Comprehensive Income	Total
Balance as at December 31, 2011	\$ 211,450	\$ (37,899)	\$ (159,248)	\$ 336	\$ 14,639
Conversion of phantom units (Note 13)	2	-	-	-	2
Normal course issuer bid (Note 13)	(205)	-	-	-	(205)
Net loss	-	(418)	-	-	(418)
Other comprehensive loss	-	-	-	(214)	(214)
Balance as at March 31, 2012	\$ 211,247	\$ (38,317)	\$ (159,248)	\$ 122	\$ 13,804

See accompanying Notes to the Interim Condensed Consolidated Financial Statements

Tree Island Wire Income Fund

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

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

	Three Months Ended March 31	
	2012	2011
Cash flows from operating activities		
Net loss for the period	\$ (418)	\$ (4,039)
Items not involving cash		
Depreciation	768	677
Fair value changes on convertible instruments	-	892
Gain on disposal of property, plant and equipment	(426)	-
Amortization of deferred financing	70	70
Loss on renegotiated debt	-	3,234
Non cash accretion of debt discount	1,404	1,326
Deferred income tax recovery	(157)	(583)
Fair value change on Phatom Units	22	8
Exchange revaluation on foreign denominated debt	(565)	(590)
Working capital adjustments (Note 21)	(7,160)	(4,771)
	(6,462)	(3,776)
Add back interest paid for financing activities	754	659
Net cash used in operating activities	(5,708)	(3,117)
Cash flows from investing activities		
Proceeds on disposal of property, plant and equipment	470	-
Purchase of property, plant and equipment	(129)	(109)
Net cash provided by (used in) investing activities	341	(109)
Cash flows from financing activities		
Repayment of long-term debt	(598)	(729)
Interest paid	(754)	(659)
Normal course issuer bid (Note 13)	(205)	-
Advance on Senior Credit Facility	6,354	2,148
Net cash provided by financing activities	4,797	760
Effect of exchange rate changes on cash	(14)	(56)
Decrease in cash	(584)	(2,522)
Cash, beginning of period	3,852	5,634
Cash, end of period	\$ 3,268	\$ 3,112

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 Months Ended March 31, 2012 and 2011

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

1. NATURE OF BUSINESS

These interim condensed consolidated financial statements of the Fund for the three months ended March 31, 2012 were authorized for issue in accordance with a resolution of the Trustees on May 14, 2012.

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 at 3933 Boundary Road, 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 Toronto Stock Exchange ("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 Internationally.

The Funds operations are impacted by the seasonal nature of the various industries to which it sells products, primarily the construction and agricultural industries. Accordingly, revenues, sales volumes and operating results for the interim quarters are not necessarily indicative of the results that may be expected for the full fiscal year and fourth quarter results are traditionally lower than other quarters.

2. BASIS OF PREPARATION

Basis of presentation

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

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

Basis of consolidation

The consolidated financial statements include the accounts of the Fund and TII, and TII's wholly-owned subsidiaries, Tree Island Wire Holdings (USA) Inc. ("TIWH") and Tree Island Wire (USA) Inc. ("TIW"), Tree Island International Ltd. ("TI International") and its 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 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 is the Chinese Renminbi ("RMB").

3. SIGNIFICANT ACCOUNTING POLICIES, CRITICAL ACCOUNTING JUDGMENTS AND ESTIMATES

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

IFRS 7 Financial Instruments: Disclosure

The Fund adopted IFRS 7 *Financial Instruments: Disclosure* on January 1, 2012. The mandatory adoption of the accounting policy had no impact on the financial statements as at and for the three months ended March 31, 2012.

Tree Island Wire Income Fund

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the Three Months Ended March 31, 2012 and 2011

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

4. 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 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, 2015.

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

IFRS 12 Disclosure of Interests in Other Entities – in May 2011, the IASB issued IFRS 12, which aggregates and amends disclosure requirements included within other standards. The new standard requires the 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 are not. This new standard is required to be adopted for annual periods beginning on or after July 1, 2012.

5. ACCOUNTS RECEIVABLE

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

	March 31	December 31
	2012	2011
Accounts Receivable		
Up to date	\$ 17,907	\$ 10,508
Under 30 days past due	3,095	2,823
30-60 days past due	552	607
61-90 days past due	187	109
Over 91 days past due	228	89
	21,969	14,136
Allowance for doubtful accounts	(319)	(301)
Balance, end of period	\$ 21,650	\$ 13,835

The maximum credit risk that the Fund is exposed to by way of its accounts receivable is equal to the carrying amount of \$21,650 as at March 31, 2012.

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

	March 31	December 31
	2012	2011
Opening Balance	\$ 301	\$ 974
Additions during the period	30	63
Reversals during the period	(11)	(70)
Write-offs during the period	-	(676)
Foreign exchange revaluation	(1)	10
Balance, end of period	\$ 319	\$ 301

See Note 16 on credit risk of trade receivables to understand how the Fund manages and measures credit quality of accounts receivable that are neither past due nor impaired.

6. INVENTORIES

The Fund had the following categories of inventory as at:

	March 31	December 31
	2012	2011
Raw materials	\$ 10,992	\$ 8,598
Finished and semi finished products	18,870	19,889
Consumable supplies and spare parts	7,657	7,636
	\$ 37,519	\$ 36,123

At each period end, the Fund reviews the ending inventories on hand to determine if a write down to net realizable value is required. The Fund has recognized a cumulative charge over the three months ended March 31, 2012 of \$nil (2011 - \$nil) in cost of sales to write down inventories to net realizable value. In the three months ended March 31, 2012 and 2011, the Fund has recognized, in income, inventory costs for the following:

	Three months ended March 31	
	2012	2011
Opening inventory	\$ 36,123	\$ 30,878
Raw material purchases	29,467	27,431
Finished goods purchased for resale	1,635	118
Conversion costs	9,531	9,532
Writedowns	-	-
Inventories, closing	(37,519)	(34,072)
Cost of goods sold	\$ 39,237	\$ 33,887

Tree Island Wire Income Fund

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7. PROPERTY, PLANT AND EQUIPMENT

	Land & Improvements	Building & Improvements	Machinery & Equipment	Construction in progress	Total
As at December 31, 2011	\$ 9,136	\$ 38,848	\$ 17,856	\$ 363	\$ 66,203
Additions	-	29	340	(217)	152
Disposals	-	-	(529)	-	(529)
Foreign currency translation	(25)	(94)	(137)	-	(256)
As at March 31, 2012	\$ 9,111	\$ 38,783	\$ 17,530	\$ 146	\$ 65,570
Accumulated depreciation and impairment					
As at December 31, 2011	\$ -	\$ 25,275	\$ 6,625	\$ -	\$ 31,900
Depreciation charge for the period	-	350	418	-	768
Disposals	-	-	(485)	-	(485)
Foreign currency translation	-	(23)	(105)	-	(128)
As at March 31, 2012	\$ -	\$ 25,602	\$ 6,453	\$ -	\$ 32,055
Net book values as at:					
December 31, 2011	\$ 9,136	\$ 13,573	\$ 11,231	\$ 363	\$ 34,303
March 31, 2012	\$ 9,111	\$ 13,181	\$ 11,077	\$ 146	\$ 33,515

8. SENIOR CREDIT FACILITY

As at March 31, 2012 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 Senior Credit Facility:

	March 31 2012	December 31 2011
Senior Credit Facility ⁽¹⁾	\$ 17,611	\$ 11,247
Deferred financing costs ⁽²⁾	(309)	(359)
	\$ 17,302	\$ 10,888

(1) The portion of the Senior Credit Facility denominated in US dollars is \$1,812 (Dec 31, 2011 - \$2,256).

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

9. CONVERTIBLE DEBENTURES

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

The conversion feature, change of control option and warrants are classified as financial liabilities under IAS 32 and are accounted for at fair value. Changes in fair value are recognized in the statement of operations at each period end. Fair value is determined using an option pricing model with a volatility assumption of 12% (March 31, 2011 – 42%) and a risk free rate of 1.32% (March 31, 2011 – 2.95%). The expected volatility reflects the assumption that the historical volatility is indicative of future trends, which may not be the actual outcome.

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

	March 31		December 31	
	2012		2011	
December 31, 2011	\$	14,298	\$	13,108
Accretion of debt discount for the period		828		3,128
Payment of interest in cash		(489)		(1,938)
March 31, 2012	\$	14,637	\$	14,298

The fair values and change for the other elements are:

	Conversion Feature		Warrants		Change of Control		Total	
December 31, 2011	\$	2	\$	-	\$	320	\$	322
Change in fair value		-		-		-		-
March 31, 2012	\$	2	\$	-	\$	320	\$	322

10. LONG-TERM DEBT

	Year of Maturity	March 31 2012		December 31 2011	
Forbearance Agreements, beginning of period	2014	\$	33,373	\$	27,538
Renegotiation of debt			-		3,234
Payments			(598)		(2,375)
Foreign exchange revaluation			(565)		817
Accretion of debt discount			1,065		4,159
Forbearance Agreements, end of period			33,275		33,373
Less current portion			(6,884)		(4,882)
		\$	26,391	\$	28,491

Approximately \$31.5 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. As at March 31, 2012 these conditions were not met and therefore no provision has been accrued or factored into the present value calculations. At this point, management cannot reasonably estimate the probability of the provisions for early payment occurring past 2012 and as a result it has not been factored in to the present value calculations.

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11. FINANCING EXPENSES

	Three months ended March 31	
	2012	2011
Non-cash accretion of debt discount and interest on long term debt and Convertible Debentures	\$ 1,404	\$ 1,326
Cash interest on Convertible Debentures	489	489
Interest on Senior Credit Facility	201	90
Other interest and financing costs	98	99
Amortization of deferred financing costs	69	62
	\$ 2,261	\$ 2,066

12. PHANTOM UNITS

As at March 31, 2012, the liability for the Phantom Units was \$72 (2011 - \$37) and the change in fair value related to Phantom Units for period was \$22 (2011 - \$8). The liability is included in other current liabilities and the expense is included in selling, general and administrative expense. A summary of the Fund's Phantom Units changes are as follows:

	Three months ended March 31			
	2012		2011	
	Vested	Unvested	Vested	Unvested
Balance, beginning of period	245,504	-	63,999	54,081
Granted	-	-	-	-
Vested	-	-	16,581	(16,581)
Forfeited	-	-	-	-
Converted	(5,167)	-	(10,548)	-
Balance, end of period	240,337	-	70,032	37,500

13. UNITHOLDERS' CAPITAL

Fund units

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

	Units	Gross	Costs	Net
Unitholders' capital - December 31, 2011	22,790,404	\$ 222,850	\$ 11,400	\$ 211,450
Conversion of Phantom Units	5,167	2	-	2
Normal course issuer bid	(746,500)	(205)	-	(205)
Unitholders' capital - March 31, 2012	22,049,071	\$ 222,647	\$ 11,400	\$ 211,247

Normal Course Issuer Bid

During the three months ended March 31, 2012 the Fund purchased 746,500 units at an average market price of \$0.27 per unit, net of commission. These units were cancelled upon being purchased by the Fund.

Warrants

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

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14. RELATED PARTY TRANSACTIONS

Transactions with associated companies

During the three months ended March 31, 2012, The Futura Corporation ("Futura") received interest settled in cash of \$125 (2011 - \$123) on the convertible debentures at the stated rate of interest.

As well, the Fund sells products to subsidiaries of a company controlled by Futura, CanWel Building Materials Group Ltd. ("CanWel"), which amounted to, net of rebates, \$1,775 (2011 - \$1,807) during the three months ended March 31, 2012 and trade accounts receivable owing from CanWel as at March 31, 2012 was \$1,335 (2011 - \$647). 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 months ended March 31, 2012 were \$495 (2011 - \$343) 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.

15. INCOME TAXES

For the three months ended March 31, 2012 and 2011, income tax obligations relating to distributions from the Fund are the obligations of the unitholders and, accordingly, no provision for current income taxes on the income of the Fund has been made. A provision for income taxes is recognized for TII and its wholly owned subsidiaries, as TII and its wholly owned subsidiaries are subject to tax.

Income tax recovery

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

	For Three Months Ended March 31	
	2012	2011
<i>Recorded in the statement of operations</i>		
Current tax expense	\$ (9)	\$ (143)
Deferred tax recovery	157	583
	<u>\$ 148</u>	<u>\$ 440</u>

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:

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	For Three Months Ended March 31	
	2012	2011
Loss before provision for income taxes	\$ (566)	\$ (4,479)
Loss of the Fund subject to tax in the hands of the recipient	365	1,295
Loss of wholly-owned subsidiary companies before income taxes	(201)	(3,184)
Tax Rate	25.0%	26.5%
Expected recovery of income taxes	\$ 50	\$ 844
Increased (reduced) by:		
Revisions of prior period estimates	-	(123)
Items not taxable	(6)	(7)
Non-taxable foreign exchange gain included in other comprehensive loss	265	-
Differential tax rates on U.S. and Chinese subsidiaries	48	60
Increase in statutory future income tax rate	-	(54)
Deferred tax benefits not recognized	(344)	(1,103)
Non-taxable items of the Fund	157	583
Other	(22)	240
Income tax recovery	\$ 148	\$ 440

Taxation of the trust

In 2009, rules were enacted to facilitate the conversion of trusts, such as the Fund, into corporations without undue income tax consequences (generally effective for conversions that occur after July 13, 2008 and before January 1, 2013). The Fund is evaluating the merits and costs of conversion into a corporation to take advantage of the transitional rules. In the event that the Fund does not convert to a corporation prior to January 1, 2013, the Fund 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.

16. 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 and option pricing models, using, to the extent possible, observable market-based inputs.

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

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	March 31, 2012		December 31, 2011	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial assets				
Cash	\$ 3,268	\$ 3,268	\$ 3,852	\$ 3,852
Accounts receivable	21,650	21,650	13,835	13,835
Total financial assets	\$ 24,918	\$ 24,918	\$ 17,687	\$ 17,687
Financial liabilities				
Senior Credit Facility	\$ 17,611	\$ 17,611	\$ 11,247	\$ 11,247
Accounts payable and accrued liabilities	14,600	14,600	13,745	13,745
Long-term debt	33,275	32,225	33,373	32,329
Convertible debentures	14,637	16,155	14,298	14,410
Change of control premium	320	320	320	320
Conversion feature	2	2	2	2
Warrants	-	-	-	-
Total financial liabilities	\$ 80,445	\$ 80,913	\$ 72,985	\$ 72,053

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

- Cash, accounts receivable, Senior Credit Facility, and accounts payable and accrued liabilities approximate their carrying amounts largely due to the short-term nature of these instruments.
- Fair value on the Company's long-term debt is based on estimated market interest rate on similar borrowings. A 1% change in the market interest rate could change the fair value by \$593.
- 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 change of control premium, conversion feature, and warrants.
- Fair value of change in control premium, conversion feature, and warrants is estimated using the Black-Scholes Option Pricing Model.

Fair value hierarchy

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

The three levels of fair value estimation are:

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

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

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

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

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	Classification ⁽¹⁾	March 31 2012	Level 1	Level 2	Level 3
Change of control premium	HFT	\$ 320	\$ -	\$ -	\$ 320
Conversion feature	HFT	2	-	-	2
Warrants	HFT	-	-	-	-
		\$ 322	\$ -	\$ -	\$ 322

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

(1) Held for Trading ("HFT")

Refer to Note 9 for a reconciliation of the opening and closing balances of the Level 3 financial instruments.

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.

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) as at March 31, 2012 and December 31, 2011:

March 31, 2012	Carrying Amount	Contractual Cash Flow			
		Less than 1 Year	1 - 2 Years	3 Years	
Senior Credit Facilities (Note 8)	\$ 17,611	\$ 17,611	\$ -	\$ -	
Accounts payable and accrued liabilities	14,600	14,600	-	-	
Long-term debt (Note 10)	33,275	42,329	3,597	38,733	
Convertible debentures (Note 9)	14,637	24,519	1,938	22,581	
	\$ 62,512	\$ 81,449	\$ 20,135	\$ 61,313	

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December 31, 2011	Carrying		Contractual		
	Amount	Cash Flow	Less than 1 Year	1 - 2 Years	3 Years
Senior Credit Facilities (Note 8)	\$ 11,247	\$ 11,247	\$ 11,247	\$ -	\$ -
Accounts payable and accrued liabilities	13,745	13,745	13,745	-	-
Long-term debt (Note 10)	33,373	43,587	4,882	38,705	-
Convertible debentures (Note 9)	14,298	25,008	1,938	23,070	-
	\$ 72,663	\$ 93,587	\$ 31,812	\$ 61,775	\$ -

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

	March 31 2012
Increase (decrease) to net comprehensive loss of a \$0.01 increase in Cdn\$ to US\$ exchange rate	301
Increase (decrease) to net comprehensive loss of a \$0.01 increase in Cdn\$ to RMB exchange rate	86

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

Interest rate risk

The Fund is exposed to interest rate risk on its Senior Credit Facility, which is further discussed in Note 8. A 1% increase in the interest rates charged on the Senior Credit Facility would increase financing expenses by \$176. 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. A \$0.01 increase in the Fund's unit price or a 1% increase in the risk free rate would have an insignificant impact on the value of the convertible instruments.

17. MANAGEMENT OF CAPITAL

The Fund's objectives when managing its capital are:

- (i) To maintain a capital base so as to preserve and enhance investor, creditor, and market confidence and to sustain viability and future development of the business;
- (ii) To manage capital in a manner that will comply with its external financial covenants on its Senior Credit Facility, convertible debentures and Forbearance Agreements as described further in Notes 8, 9, and 10.

The Fund manages its capital structure in accordance with these objectives, as well as considerations given to changes in economic conditions and the risk characteristics of the underlying assets, in particular by close monitoring of cash flows, compliance with external debt covenants and successfully completing the Recapitalization Transaction. The Fund is subject to Canadian corporate income taxes in 2012. This may result in future changes to the capital structure of the Fund or the nature of the Fund itself.

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The capital structure of the Fund is as follows:

		March 31 2012		December 31 2011
Total unitholders' equity	\$	13,804	\$	14,639
Senior Credit Facility (Note 8)		17,611		11,247
Convertible debentures (Note 9)		14,637		14,298
Long-term debt (Note 10)		26,391		28,491
Total capital	\$	72,443	\$	68,675

18. WEIGHTED AVERAGE UNITS OUTSTANDING

		Three months ended March 31	
		2012	2011
Weighted average number of units outstanding during the period - basic		22,337,889	22,863,913
Dilutive effect of:			
Convertible Debentures ⁽¹⁾		-	-
Phantom units ⁽¹⁾		-	-
Warrants ⁽¹⁾		-	-
Weighted average number of units outstanding during the period - diluted		22,337,889	22,863,913

(1) As there was a loss for the three months ended March 31, 2012 and 2011, 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.

There have been no other transactions involving units or potential units between the reporting date and the date of completion of these consolidated financial statements.

19. 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, statement of operations or cash flows.

Environmental remediation on sale of surplus land

The Ministry of Environment determined that because the total property sold was assembled from four separate parcels, four separate Certificates of Compliance were required, three of which were received during 2011. The Fund received the final Certificate of Compliance in the first quarter of 2012 and a gain of \$422 was recognized for the difference between the \$1,500 holdback and the total costs incurred of the environmental remediation.

Closure of facilities

As part of prior restructuring activities, the Fund closed its Corona operating facilities in 2009 and relocated the operations to other existing plants in the vicinity. The facility was closed prior to the expiry of its non-cancellable lease. The Fund continues to have an unavoidable legal obligation to pay the lease payments until the end of the term. The Fund has offset the costs of this lease with sub-lease contracts where possible; however, the sub-lease revenue is not sufficient to offset the contractual lease obligations.

The full amount of the costs associated with the non-cancellable lease obligations are accrued as a provision for onerous contracts and a charge has been recorded to cost of goods sold in the period the facility was vacated. Because the remaining term exceeded one year, the liability was recorded at the discounted future cash flows using a discount rate of 13% and is being amortized with a charge to financing expense over the remaining term using the effective interest method. The Ontario warehousing facility's non-cancellable lease was also considered an onerous contract and was completed in January 2012.

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Below is a table summarizing the provisions:

	Corona	Ontario Warehousing Facility	Total
Balance at December 31, 2011	\$ 1,095	\$ 20	\$ 1,115
Provisions made during the period	31	-	31
Provisions used during the period	(285)	(20)	(305)
Foreign exchange effect	(19)	-	(19)
Balance at March 31, 2012	\$ 822	\$ -	\$ 822

Purchase commitments

The Fund's wholly owned subsidiaries have committed to rod purchases totaling \$24,024 (US\$24,046) at March 31, 2012 and imported finished goods purchases of \$468 (US\$468).

Operating lease commitments

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

Less than 1 year	\$ 1,443
1 to 5 years	3,273
More than 5 years	-
	<u>\$ 4,716</u>

During the three months ended March 31, 2012, the Fund recognized \$577 (2011 - \$742) in operating lease payments, net of sub-lease receipts, in cost of sales.

20. SEGMENTED INFORMATION

The Fund operates primarily within one industry, the steel wire and fabricated wire products industry, with no separately reportable operating segments. The Fund groups its products into the following: industrial / Original Equipment Manufacturer ("OEM"), residential construction, commercial construction, agricultural, and specialty. Revenues for each group for the three months ended March 31, 2012 and 2011 were as follows:

	Three months ended March 31	
	2012	2011
Industrial / OEM ⁽¹⁾	\$ 15,344	\$ 13,177
Residential construction	13,237	11,448
Commercial construction	6,813	5,920
Agricultural	4,493	4,437
Specialty	4,110	3,962
	<u>\$ 43,997</u>	<u>\$ 38,944</u>

⁽¹⁾ Includes revenues from tolling arrangements

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

Tree Island Wire Income Fund

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the Three Months Ended March 31, 2012 and 2011

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

Geographic information

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

	Three months ended March 31	
	2012	2011
Sales ⁽¹⁾		
Canada	\$ 19,037	\$ 17,472
United States	23,652	20,482
China	34	169
Other	1,274	821
	\$ 43,997	\$ 38,944

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

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

	March 31	December 31
	2012	2011
Non-current assets		
Canada	\$ 26,344	\$ 28,948
United States	7,155	9,214
China	16	161
	\$ 33,515	\$ 38,323

21. WORKING CAPITAL ADJUSTMENTS

	Three Months Ended March 31	
	2012	2011
Accounts receivable (Note 6)	(7,908)	(8,182)
Inventories (Note 7)	(1,645)	(3,194)
Accounts payable and accrued liabilities	916	6,097
Income and other taxes	9	143
Other	1,468	366
	(7,160)	(4,771)

UNITHOLDER INFORMATION TREE ISLAND WIRE INCOME FUND

Board of Trustees:

Amar Doman – Chair of
the Board

Dale R. MacLean

Harry Rosenfeld

Michael Fitch

Sam Fleiser

Theodore A. Leja



Leadership Team:

Dale R. MacLean
*President and Chief
Executive Officer*

Nancy Davies
*Chief Financial Officer
and Vice President,
Finance*

Ken Stuttaford
*Vice President, Sales and
Marketing*

Stephen Ogden
*Vice President,
Operations*

Mark Stock
*Vice President, Human
Resources and
Information Technology*

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

Corporate Head Office:

Tree Island Industries Ltd.
3933 Boundary Road
Richmond, B.C.
Canada, V6V 1T8

Website:

www.treeisland.com

Investor Relations:

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

Auditors:

Ernst & Young LLP
Vancouver, B.C.