



# **ANNUAL REPORT**

**2010**

# MESSAGE FROM THE CHAIRMAN AND CEO

**Dear Investors,**

2010 was a year of renewed business strength and optimism. During the year we overcame the lingering effects of the recession and returned to positive growth in our businesses.

During the first half of 2010, our British Columbia operations continued to deal with the economic slowdown. Although the Vancouver 2010 Winter Olympic Games gave rise to heightened economic activity, they also caused the postponement of many non-Olympics projects in sectors ranging from commercial construction to film production.

We saw resurgence in business activity in early summer, when strong growth in building permits earlier in the year gave rise to a busy construction season that continued well into the fall and winter. Domestic and US film productions also rebounded, resulting in strong demand for our products and services in this very strategic market that we serve.

In Alberta, the economy continued to build on the recovery that started in the latter half of 2009, with strength in the construction industry across residential, commercial and infrastructure sectors. The positive economic environment prompted us to leverage further growth in the region by acquiring OnSite Equipment, an aerial equipment rental specialist with over 450 pieces of equipment and operations covering Northern and Southern Alberta. Since its acquisition we have successfully integrated OnSite into our network of operations, and it has proven to be a very accretive investment for our Unitholders.

We made good progress in our strategy to expand our market in Southern Alberta from the single-home construction sector to commercial construction. We secured several major contracts, including the exclusive supply of construction heat equipment for Encana Corporation's new headquarters, the 1.7 million square foot Bow project, and the supply of heating fuel and equipment for the West Light Rail Transit project. These major projects have firmly established our reputation as the leading supplier of complete construction heat solutions in Alberta. Our fuel distribution team in Northern Alberta also continued to be the dominant provider of propane for construction heat in that market.

During the year we appointed Geoff Shorten as our Chief Operating Officer. Geoff, formerly president of Deerfoot Rentals Inc. which we acquired in 2008, joined the team with strong experience in business operations and strategy implementation. We are excited about the added depth to our senior executive team for the years to come.

In October we rebranded Onsite and our former franchise operation in Southern Alberta to "WesternOne Rentals & Sales". The rebranding was part of our ongoing marketing integration strategy to leverage the success from the initial launch of the "WesternOne Rentals & Sales" brand in the BC equipment rental marketplace in July 2008. We believe the rebranding will foster a unified presence for our equipment rental operation across BC and Alberta, thereby strengthening our customers' recognition of the brand and the associated quality products and services that we offer.

Going forward in 2011, we see our businesses benefiting from the continuing strength in the construction sector and the resource-based economy in Western Canada, along with favourable government policies in areas such as film production tax credits and infrastructure project roll-outs.

With the changes to the tax legislation effective January 1, 2011 on Specified Investment Flow-Through Trusts ("SIFT") such as WesternOne, we remain confident that the existing trust structure will continue to yield the optimal return to our Unitholders. The WesternOne SIFT structure will provide us with flexibility in respect of utilizing existing tax pools that will yield distributions that are highly tax-efficient to our Unitholders.

In closing, we are pleased with the timely economic recovery in 2010 and the ability of our management team to grab the bull by the horn and deliver strong organic growth. We sincerely thank our fellow employees, management team, and the board members for the stellar results in 2010. We look forward to another successful year in 2011.

**"Robert W. King"**

Robert W. King

Chairman of Board of Trustees

**"Darren T. Latoski"**

Darren T. Latoski

Trustee and Chief Executive Officer

# MANAGEMENT'S DISCUSSION AND ANALYSIS

## MARCH 14, 2011

*The following management's discussion and analysis ("MD&A") should be read in conjunction with the consolidated financial statements and accompanying notes ("Financial Statements") of WesternOne Equity Income Fund and its direct and indirect subsidiaries (collectively known as the "Fund" below, unless the context otherwise requires) for the year ended December 31, 2010. Results have been prepared in accordance with Canadian generally accepted accounting principles ("GAAP") and reported in Canadian dollars unless otherwise indicated.*

*This MD&A contains forward-looking information. Please see "Forward-Looking Information" and "Risks and Uncertainties" for a discussion of the risks, uncertainties and assumptions relating to such information. This MD&A also makes reference to certain non-GAAP measures to assist in assessing the Fund's financial performance. Non-GAAP measures do not have any standard meaning prescribed by GAAP and are therefore unlikely to be comparable to similar measures presented by other issuers. See "Non-GAAP Measures" and "Distributable Cash and Distributions – Reconciliation of cash provided by operating activities to distributable cash".*

### FORWARD-LOOKING INFORMATION

Forward-looking information is included in this MD&A, which involves known and unknown risks, uncertainties and other factors that may cause actual results, performance, achievements or industry results, to be materially different from any future results, performance, achievements or industry results expressed or implied by such forward-looking information. Forward-looking information is identified by the use of terms and phrases such as "anticipate", "believe", "could", "estimate", "expect", "intend", "may", "plan", "predict", "project", "will", "would", and similar terms and phrases, including references to assumptions. Such information may involve, but is not limited to, comments with respect to strategies, expectations, planned operations or future actions. Forward-looking information included in this MD&A

includes, but is not limited to, statements with respect to: the intention of the Fund to continue to make monthly cash distributions, the outlook of the Fund's business and the Western Canadian economy, the performance characteristics of the Fund's assets, the supply and demand for products and services and the related impact on rental pricing, the Fund's ability to fund debt maturities, the ability to meet current and future obligations, the impact of the federal income tax changes on the Fund, critical accounting estimates, management's assessment of future plans and operations, and discussion of the Fund's adoption of the International Financial Reporting Standards.

Forward-looking information reflects current expectations of management regarding future events and operating performance as of the date of this MD&A. Such information involves significant risks and uncertainties, should not be read as guarantees of future performance or results, and will not necessarily be accurate indications of whether or not such results will be achieved. A number of factors could cause actual results to differ materially from the results discussed in the forward-looking information, including, but not limited to, the following factors: current economic conditions, failure to access financing, credit facilities risk, financial health of the Fund's limited partnerships and cash flows, failure to realize anticipated benefits of acquisitions, reliance on key personnel, competition for acquisition targets, interest rates, regulation, sensitivity to general economic conditions and levels of economic activity, financing constraints, supply disruptions, adverse weather condition, seasonality and fluctuations in results, growth initiatives, competition, discontinuation of tax incentives, labour shortages, employee relations, expansion, impact on demand due to interest rate changes, foreign exchange, resale of rental equipment, equipment availability, environmental regulation and health and safety matters, import product restrictions and foreign trade risks, insurance coverage, dependence on existing sites, dependence on information systems and technology, dependence upon WesternOne Equity LP to fund cash

distributions, cash distributions are not guaranteed and will fluctuate with business performance, distributions are discretionary, nature of the Units (as defined under note 1 of the Financial Statements), leverage and restrictive covenants, limitations on future growth and cash flow, limited liability, unpredictability and volatility of Unit prices, attributes of securities distributed on redemption of Units of termination of the Fund, prior ranking indebtedness, conversion following certain transactions, dilution, investment eligibility, income tax matters, restrictions on the ownership of Units by non-residents of Canada, indemnities under acquisition agreements and Unitholders are not afforded certain statutory rights. A description of these factors can be found under "Risks and Uncertainties" below.

Although the forward-looking information contained in this MD&A is based upon what the Fund's management believes to be reasonable assumptions, the Fund cannot assure investors that actual results will be consistent with such information. Forward-looking information reflects management's current beliefs and is based on information currently available to the Fund. Such information reflects current assumptions regarding future events and operating performance including, without limitation, stability in the economy in Western Canada, interest rates and the equipment rental and sales and fuel wholesale markets in which the Fund operates, and speaks only as of the date of this discussion. The forward-looking information is made as of the date of this MD&A and the Fund assumes no obligation to update or revise such information to reflect new events or circumstances, except as may be required by applicable law.

## **OVERVIEW OF THE FUND**

The Fund is based in Vancouver, British Columbia, and has been established to seek opportunities to acquire businesses in the sector of construction and infrastructure services located primarily in the western Canadian provinces of British Columbia, Alberta and Saskatchewan, in order to generate stable and growing distributions for its Unitholders as well as to achieve overall capital appreciation.

The Fund is an unincorporated, open-ended, limited purpose trust created on June 14, 2006 and governed

by its declaration of trust and the laws of British Columbia. The Fund is authorized to issue an unlimited number of units ("Units") and special voting units. Each holder of a Unit participates pro rata in any distribution of the Fund.

The Fund was initially established to acquire indirectly the assets of Production Equipment Rentals Company and such other investments as the trustees of the Fund (the "Trustees") may determine.

The Fund holds a 100% indirect interest in WEQ Production Equipment LP ("PER"), a limited partnership established under the laws of Manitoba on June 15, 2006. The Fund commenced operations on August 15, 2006, when PER acquired the assets and the business of Production Equipment Rentals Company. PER specializes in renting, selling and servicing quality high reach and material-handling equipment and providing logistical support to its customers, located primarily in Metro Vancouver.

The Fund holds a 100% indirect interest in WEQ Old Country Rentals LP ("OCR"), a limited partnership established under the laws of Manitoba on April 20, 2007. OCR's operation commenced on June 1, 2007 when it acquired the assets and the business of Old Country Rentals Ltd. This business has been operating for more than 45 years, and is one of the largest and most diversified equipment rentals, sales and repair businesses on Vancouver Island, British Columbia.

The Fund holds a 100% indirect interest in WEQ C&N Rentals LP ("C&N"), a limited partnership established under the laws of Manitoba on August 27, 2007. C&N's operation commenced on January 2, 2008, when it acquired the assets and the business of C&N Motors Ltd. This business has been operating for more than 25 years, and is a major equipment rentals, sales and repair business on central Vancouver Island, British Columbia.

The Fund holds a controlling indirect interest in WEQ Deerfoot Rentals LP ("Deerfoot"), a limited partnership established under the laws of Manitoba on January 25, 2008. Deerfoot's operation commenced on February 15, 2008, when it acquired the assets and the business of Deerfoot Equipment Rental Inc. Deerfoot is a major provider of rented heaters, generators and compact construction

equipment to homebuilders and commercial builders in Calgary and Lethbridge, Alberta. On April 1, 2010, Deerfoot acquired the assets and the business of On\*Site Equipment ("OnSite"). OnSite has a rental fleet of over 450 aerial and material-handling machines, and has operating locations in Edmonton, Red Deer, Calgary and Lethbridge.

The Fund holds a 100% indirect interest in WEQ Heat & Propane LP ("H&P"), a limited partnership established under the laws of Manitoba on August 26, 2008. H&P's operation commenced on October 1, 2008, when it acquired the assets and the businesses of Davis Heater Service Ltd. and Sure-Fire Propane Ltd. (collectively, "Davis SureFire") These businesses have been market leaders in the Northern Alberta equipment rental, construction heat, and propane wholesale and distribution industry for over 30 years.

To ensure operational efficiency within the businesses acquired (PER, OCR, C&N, Deerfoot and H&P, or collectively known as "Business LPs" below), the Fund structures its platform businesses based on market and geographic boundaries. Currently, the Fund's businesses consist of two geographic regions within the equipment rental, sales and service, and fuel wholesale and distribution industries – one based in British Columbia (the "BC Region") and one in Alberta (the "Alberta Region").

The BC Region began formally operating under a unified brand name, "WesternOne Rentals and Sales", on July 3, 2008. The businesses in the Alberta Region were also integrated into the unified branding strategy in 2010, following the acquisition of OnSite in April 2010 and the ending of the franchise agreement with Volvo Rents in October 2010.

The Units and the Fund's senior secured convertible debentures – Series A ("Series A Debentures") and unsecured convertible subordinated debentures ("2010 Debentures") trade on the Toronto Stock Exchange (the "Exchange") under the respective symbols WEQ.UN, WEQ.DB and WEQ.DB.B.

## SUMMARY FINANCIAL REVIEW

Following a third quarter which saw significant year-over-year growth in its operating results, the Fund continued to record strong growth for the three months ended December 31, 2010. Revenue, gross profit and EBITDA grew by 43.5%, 55.0% and 81.7%, respectively, compared to the fourth quarter in 2009. The increase was attributable to strong organic growth from the Fund's existing businesses, which recorded increases of 20.5% and 54.7% in revenue and EBITDA, respectively, due to continued strength in the construction sector in Alberta, along with a robust filming sector in Metro Vancouver and an early arrival of winter in Northern Alberta which led to strong demand for heating fuel and related rentals. Incremental contributions from OnSite (acquired in April 2010) also generated \$2.38 million of revenue and \$0.72 million of EBITDA in the fourth quarter.

The strong operating results in the fourth quarter gave rise to a payout percentage of 58.5% for the quarter. For the year ended December 31, 2010, the payout percentage was 99.4%, which improved significantly from the trailing twelve months ratio of 124.4% as at September 30, 2010.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Summary Financial Overview	Three months ended			Year ended		
	December 31			December 31		
(\$000's, except per Unit amounts and percentages)	2010	2009	2008	2010	2009	2008
<b>Revenue</b>	<b>\$ 14,827</b>	<b>\$ 10,333</b>	<b>\$ 13,448</b>	<b>\$ 50,252</b>	<b>\$ 41,660</b>	<b>\$ 37,580</b>
Cost of sales	(4,003)	(3,348)	(4,532)	(15,380)	(13,595)	(11,521)
Gross profit	10,824	6,985	8,916	34,872	28,065	26,059
<i>Gross margin</i>	73.0%	67.6%	66.3%	69.4%	67.4%	69.3%
Operating expenses <sup>(1)</sup>	(5,974)	(4,317)	(4,862)	(21,399)	(16,216)	(14,463)
<b>EBITDA</b> <sup>(2)</sup>	<b>4,850</b>	<b>2,668</b>	<b>4,054</b>	<b>13,473</b>	<b>11,849</b>	<b>11,596</b>
Interest expense <sup>(3)</sup>	(1,279)	(622)	(902)	(4,528)	(2,556)	(2,262)
Amortization, accretion and others <sup>(4)</sup>	(3,731)	(3,059)	(2,395)	(13,493)	(11,292)	(6,039)
Franchise termination fees <sup>(5)</sup>	-	-	-	(816)	-	-
Impairment of intangible assets <sup>(5)</sup>	-	-	(3,515)	(910)	-	(3,566)
Loss before future income taxes	(160)	(1,013)	(2,758)	(6,274)	(1,999)	(271)
Future income tax recoveries	2	1,986	2,220	798	3,130	1,750
<b>Net income/(loss)</b>	<b>\$ (158)</b>	<b>\$ 973</b>	<b>\$ (538)</b>	<b>\$ (5,476)</b>	<b>\$ 1,131</b>	<b>\$ 1,479</b>
Adjustments:						
Franchise termination fees <sup>(5)</sup>	-	-	-	816	-	-
Impairment of intangible assets <sup>(5)</sup>	-	-	3,515	910	-	3,566
<b>Adjusted net income/(loss)</b> <sup>(2)</sup>	<b>\$ (158)</b>	<b>\$ 973</b>	<b>\$ 2,977</b>	<b>\$ (3,750)</b>	<b>\$ 1,131</b>	<b>\$ 5,045</b>
Basic and diluted weighted avg income/(loss) per Unit	\$ (0.01)	\$ 0.07	\$ (0.04)	\$ (0.39)	\$ 0.08	\$ 0.12
Basic weighted avg income/(loss) per Unit - adjusted	(0.01)	0.07	0.25	(0.27)	0.08	0.42
Diluted weighted avg income/(loss) per Unit - adjusted	(0.01)	0.07	0.22	(0.27)	0.08	0.42
Total assets	\$ 91,162	\$ 78,829	\$ 87,655	\$ 91,162	\$ 78,829	\$ 87,655
Total long-term liabilities	24,615	9,698	9,385	24,615	9,698	9,385
Maintenance capital expenditure <sup>(2)</sup>	104	203	297	865	563	563
Distributable cash generated <sup>(2)</sup>	\$ 3,593	\$ 1,893	\$ 2,799	\$ 8,446	\$ 8,903	\$ 8,778
Distributable cash per Unit <sup>(6)</sup>	0.2564	0.1356	0.2314	0.6035	0.6428	0.7361
Distributions declared	2,102	2,095	1,867	8,399	8,328	7,209
Distributions declared per Unit	0.1500	0.1500	0.1500	0.6000	0.6000	0.6000
<b>Payout percentage</b> <sup>(7)</sup>	<b>58.5%</b>	<b>110.6%</b>	<b>66.7%</b>	<b>99.4%</b>	<b>93.5%</b>	<b>82.1%</b>

Notes:

- (1) Excludes items relating to interest, amortization, accretion, gain/loss on financial derivatives relating to changes in the fair market value of the fixed interest rate swap, foreign exchange gains/losses, impairment of assets and costs relating to the termination of the Volvo Rents franchise.
- (2) See definition of EBITDA, distributable cash, maintenance capital expenditures and adjusted net income/loss under "Non-GAAP Measures".
- (3) Net of interest income.
- (4) Includes amortization, accretion, gain/loss on financial derivatives relating to the changes in the fair market value of the fixed interest rate swap, and foreign exchange gains/losses.
- (5) Related to the termination of the Volvo Rents franchise effective October 1, 2010 and the write-off of the associated intangible assets. The one-time, non-recurring cost relating to the franchise termination was excluded from EBITDA.
- (6) Calculated based on basic weighted average number of Units.
- (7) Amounts calculated using distributable cash and distributions declared for the related period, not on per Unit amounts. Calculated as distribution declared divided by distributable cash generated.

More detailed discussions of the financial results for the three and twelve months ended December 31, 2010 are provided under "Operating Results" below.

The Fund's revenue increased by 43.5%, or \$4.49 million, for the three months ended December 31,

2010 and 20.6%, or \$8.59 million, for the twelve months ended December 31, 2010 compared to the same periods a year ago. The increase was primarily driven by organic growth from the Fund's equipment rental, sales, fuel distribution and related businesses due to: 1) continued strength in Alberta's

construction activity in the winter months, which led to strong demand for heating fuel and other heat-related products and services; and 2) a robust filming sector in Metro Vancouver, which increased demand for equipment rentals and related services. The revenue growth was also due to the addition of OnSite to the Fund's Alberta operation following its acquisition on April 1, 2010. OnSite contributed incremental revenue of \$2.38 million for the quarter and \$7.14 million since its acquisition.

Gross profit increased by 55.0%, or \$3.84 million, for the three months ended December 31, 2010 and 24.3% or \$6.81 million for the twelve months ended December 31, 2010, compared to the same periods a year ago. OnSite contributed \$2.05 million and \$5.94 million in the respective periods. Gross profit grew organically by 25.6% for the fourth quarter compared to a year ago.

Gross margin was 73.0% and 69.4% for the three and twelve months ended December 31, 2010, respectively, and improved from 67.6% and 67.4%, respectively, during the same periods a year ago.

Interest expense (net of interest income) was \$1.28 million or 8.6% of total revenue for the three months ended December 31, 2010 and \$4.53 million or 9.0% of total revenue for the twelve months ended December 31, 2010. This is compared to \$0.62 million (6.0% of total revenue) and \$2.56 million (6.1% of total revenue), respectively, for the same periods a year ago. The higher amount during 2010 was mainly due to additional interest payments for the 2010 Debentures, which were issued in February 2010. A portion of the net proceeds from the 2010 Debentures was used towards the acquisition of OnSite on April 1, 2010. The remainder of the 2010 Debentures was used towards repayment of debts and working capital requirements.

Amortization and accretion expenses were \$3.75 million or 25.5% of total revenue for the three months ended December 31, 2010 and \$13.48 million or 26.9% of total revenue for the twelve months ended December 31, 2010. This is compared to \$3.05 million (29.5% of total revenue) and \$11.27 million (27.0% of total revenue), respectively, for the same periods a year ago. The higher amount during 2010 was due to incremental amortization relating to the

rental fleet equipment from the OnSite acquisition and incremental capital expenditures during the year.

Net loss was \$0.16 million or \$0.01 per Unit for the three months ended December 31, 2010 and \$5.48 million or \$0.39 for the twelve months ended December 31, 2010. This is compared to a net income of \$0.97 million (\$0.07 per Unit) and \$1.13 million (\$0.08 per Unit), respectively, for the same periods a year ago. Included in this year's figures was a cost of \$0.82 million relating to the termination of the Volvo Rents franchise, which the Fund announced on October 1, 2010 and incurred as a non-recurring expense in the quarter ended September 30, 2010. The Fund also recorded a write-down of \$0.91 million from its intangible assets in association with the termination of this franchise in the quarter ended September 30, 2010. Excluding these non-recurring items, adjusted net loss remained the same at \$0.16 million (\$0.01 per Unit) for the fourth quarter and \$3.75 million (\$0.27 per Unit) for the twelve months ended December 31, 2010.

Total assets were \$91.16 million as at December 31, 2010, compared to \$78.83 million a year ago. The difference was primarily due to incremental assets from the OnSite acquisition, changes in working capital as a result of the normal course of the business, amortization of capital assets and recognition of future income tax assets.

Long-term liabilities were \$24.62 million as at December 31, 2010, compared to \$9.70 million a year ago. The difference was primarily due to the issuance of the 2010 Debentures (net of the associated equity portion, which was recorded under Unitholders' Equity), partially offset by the reclassification of the Series A Debentures to current liabilities as they will mature on August 15, 2011.

## **FUTURE INCOME TAXES**

In 2007, the Federal Government of Canada amended the Income Tax Act to impose an entity level specified investment flow-through tax (the "SIFT Tax") on Canadian publicly listed income trusts effective January 1, 2011. As a result of the SIFT tax, starting from January 1, 2011, the Fund is subject to income taxes at a rate approximately equal to the rate applicable to income earned by a Canadian

public corporation, and is prevented from deducting trust distributions when calculating taxable income. The Fund has undepreciated capital costs and eligible capital properties which can be used for tax deductions when calculating taxable income.

The SIFT Tax also recharacterizes such distributions as eligible dividends received from a taxable Canadian corporation. Eligible dividend treatment for distributions to unitholders will generally be beneficial to Canadian resident investors holding their units in taxable accounts compared to the previous characterization primarily as ordinary income.

Future income taxes are recorded on the temporary differences arising between the accounting and tax bases of balance sheet assets and liabilities.

Under the SIFT Tax rules, the tax rate on the post-2010 reversal of temporary differences is estimated by the Fund to be 26.5% for 2011 and 25.0% thereafter. Temporary differences reversing prior to December 31, 2010 will give rise to nil future income taxes. Based on its assets and liabilities as at December 31, 2010, the Fund has estimated the amount of its temporary differences and the period in which these differences will reverse.

As a result of the SIFT Tax rules, Canadian accounting guidance required that the Fund record a cumulative future tax asset of \$7.13 million at the end of the fiscal year 2010. Accordingly, the Fund recorded an adjustment representing a non-cash, future income tax recovery of \$0.01 million and \$0.80 million, respectively, for the three and twelve months ended December 31, 2010.

## **OPERATING RESULTS**

### *Basis of discussion and analysis*

The Fund's operating results reflect its operations for the three and twelve months ended December 31, 2010. For the purposes of discussing operating results of the Fund under this section, only Business LPs that have operated for two full fiscal years prior to the year ended December 31, 2010 are included for discussion. This allows management to utilize financial information that is consistently maintained by the Fund to conduct year-over-year comparisons. In this case the operating results from all of PER, OCR, C&N, Deerfoot (excluding OnSite as it was acquired on April 1, 2010), H&P and overhead and other expenses at the Fund's corporate level are included for discussion.

## Revenue

The following table summarizes the revenues (excluding OnSite) for the three and twelve months ended December 31, 2009 and 2010.

Summary of Revenues (\$000's)	Three months ended		Year ended		Increase/(Decrease)		Increase/(Decrease)	
	December 31		December 31		Three months ended		Year ended	
	2010	2009	2010	2009	\$	%	\$	%
Equipment Rentals	\$ 5,983	\$ 4,557	\$ 20,185	\$ 19,287	\$ 1,426	31.3%	\$ 898	4.7%
Equipment Sales	965	726	4,274	3,903	239	32.8%	371	9.5%
Parts, Fuel, Service and Others	5,503	5,050	18,657	18,470	453	9.0%	187	1.0%
<b>Total Revenues</b>	<b>\$ 12,451</b>	<b>\$ 10,333</b>	<b>\$ 43,116</b>	<b>\$ 41,660</b>	<b>\$ 2,118</b>	<b>20.5%</b>	<b>\$ 1,456</b>	<b>3.5%</b>

Revenue from equipment rentals of \$5.98 million for the three months ended December 31, 2010 increased by 31.3%, or \$1.42 million, compared to \$4.56 million a year ago. For the twelve months ended December 31, 2010, revenue from equipment rentals increased by 4.7%, to \$20.19 million from \$19.29 million a year ago. The increase in rental revenue was primarily due to the higher rental volume in the Fund's Southern Alberta operation. In addition to a robust single-home residential construction sector, the Fund's increased presence in the commercial construction sector led to higher fleet utilization in that region. The increase in rental revenue was also due to the higher demand for rental equipment from the robust film production sector in Metro Vancouver. The year-over-year revenue growth in the fourth quarter also resulted in an overall 4.7% increase for the year.

Revenue from equipment sales of \$0.97 million for the three months ended December 31, 2010 increased by 32.8%, or \$0.24 million, compared to \$0.73 million a year ago. For the twelve months ended December 31, 2010, revenue from equipment sales increased by 9.5%, to \$4.27 million from \$3.90 million a year ago. During 2010, C&N, the Fund's Northern Vancouver Island operation, entered into a dealership arrangement with Polaris Industries Inc. to sell all-terrain vehicles for construction, agricultural, forestry and recreational applications. This new line of products contributed \$0.10 million and \$0.52 million for the three and twelve months ended December 31, 2010, respectively. In addition, the retail sales of lawn and garden equipment and related merchandise at the Southern Vancouver Island operation grew by 24.4% and 22.4% for the three and

twelve months ended December 31, 2010, respectively, from the same periods last year.

Revenue from parts, fuel, service and others of \$5.50 million for the three months ended December 31, 2010 increased by 9.0%, or \$0.45 million, compared to \$5.05 million a year ago. For the twelve months ended December 31, 2010, the revenue increased by 1.0%, to \$18.66 million from \$18.47 million a year ago. The increase in the fourth quarter revenue was primarily due to increased fuel sales, driven by higher commodity prices and the early arrival of winter in Alberta. Logistic-related revenue also increased as a result of the higher rental volume from the film production sector in Metro Vancouver and the commercial construction sector in Southern Alberta. The year-over-year revenue growth in the fourth quarter helped offset the slower construction heat season in the spring of 2010.

### Gross margin and gross profit

Gross margin was 70.5% and 67.1% for the three and twelve months ended December 31, 2010, respectively. This is compared to 67.6% and 67.4% for the same periods a year ago. Gross profit increased by 25.6% for the three months ended December 31, 2010, to \$8.77 million from \$6.98 million a year ago and increased by 3.1% for the twelve months ended December 31, 2010, to \$28.94 million from \$28.06 million a year ago. The margin for the fourth quarter improved year-over-year primarily due to higher rental rates charged on specialty aerial equipment and related services in the film production sector.

### *Cost of sales*

Cost of sales as a percentage of total revenue was 29.5% and 32.9% for the three and twelve months ended December 31, 2010, respectively, compared to 32.4% and 32.6% for the same periods a year ago.

Costs associated with equipment sales were 74.2% and 86.0% of equipment sales revenue for the three and twelve months ended December 31, 2010, compared to 78.9% and 90.7% for the same periods a year ago. While margins of retail equipment and merchandise sales remained relatively consistent compared to last year, margins from sales of used aerial equipment from the fleet tend to fluctuate from time to time.

Costs associated with parts, fuel, service and others was 23.8% and 24.4% of total revenue for the three and twelve months ended December 31, 2010, respectively, compared to 26.9% and 24.1% for the same periods a year ago. Costs under this category relate mostly to purchases of fuel for the rental fleet and fuel distribution sales, expenditures of parts for the servicing of customers' equipment, and costs of re-renting equipment from other rental companies. The lower percentage in the fourth quarter compared to the same period last year was primarily due to the economy of scale from the higher rental volume. The higher percentage for the year ended December 31, 2010 was mainly due to higher fuel costs and higher re-rental costs to satisfy one-off demand from customers compared to the same period last year.

### *Operating expenses*

Operating expenses, before interest, amortization, accretion, gain/loss on financial derivatives relating to changes in the fair market value of the fixed interest rate swap, asset impairments and costs relating to the termination of the Volvo Rents franchise was 37.4% and 41.2% of total revenue for the three and twelve months ended December 31, 2010, respectively, compared to 41.7% and 38.8% for the same periods a year ago. The percentage for the fourth quarter reduced year-over-year as the higher revenue base improved the operating leverage. The higher percentage for the year ended December 31, 2010 was attributable to increased repairs and maintenance work on the equipment fleet and higher cartage costs as a result of increased deliveries and higher fuel prices.

### *EBITDA*

EBITDA (for definition see "Non-GAAP Measures" below) as a percentage of total revenue was 33.2% and 25.9% for the three and twelve months ended December 31, 2010, compared to 25.8% and 28.4% for the same periods a year ago. Improvement in the EBITDA margin for the fourth quarter was primarily due to 1) increased demand for specialty aerial equipment rentals and related services in the film production sector; and 2) increased fuel sales in Alberta due to the early arrival of winter.

## SELECTED QUARTERLY FINANCIAL INFORMATION

The following table provides quarterly historical financial data of the Fund for each of the eight most recently completed quarters. This information should be read in conjunction with the applicable interim unaudited and annual audited consolidated financial statements and related notes thereto.

in \$000's except per Unit amounts and percentages (unaudited)	Q4 '10	Q3 '10	Q2 '10	Q1 '10	Q4 '09	Q3 '09	Q2 '09	Q1 '09
Revenue	\$ 14,827	\$ 11,220	\$ 11,160	\$ 13,045	\$ 10,333	\$ 7,741	\$ 9,485	\$ 14,100
Cost of sales	(4,003)	(3,217)	(3,408)	(4,752)	(3,348)	(2,247)	(2,991)	(5,008)
Gross profit	10,824	8,003	7,752	8,293	6,985	5,494	6,494	9,092
<i>Gross margin</i>	73.0%	71.3%	69.5%	63.6%	67.6%	71.0%	68.5%	64.5%
Operating expenses	(5,974)	(5,595)	(5,416)	(4,414)	(4,317)	(3,910)	(3,910)	(4,080)
EBITDA <sup>(1)</sup>	\$ 4,850	\$ 2,408	\$ 2,336	\$ 3,879	\$ 2,668	\$ 1,584	\$ 2,584	\$ 5,012
Net income/(loss)	\$ (158)	\$ (3,610)	\$ (1,887)	\$ 180	\$ 973	\$ (1,649)	\$ (372)	\$ 2,180
Income/(Loss) per Unit								
Basic	(0.01)	(0.26)	(0.13)	0.01	0.07	(0.12)	(0.03)	0.16
Diluted	(0.01)	(0.26)	(0.13)	0.01	0.07	(0.12)	(0.03)	0.15
Distributable cash generated <sup>(1)</sup>	\$ 3,593	\$ 1,004	\$ 811	\$ 3,038	\$ 1,893	\$ 883	\$ 1,826	\$ 4,300
Distributable cash per Unit <sup>(2)</sup>	0.2564	0.0717	0.0579	0.2175	0.1356	0.0634	0.1314	0.3163
Distribution declared	\$ 2,102	\$ 2,102	\$ 2,099	\$ 2,096	\$ 2,095	\$ 2,092	\$ 2,085	\$ 2,057
Distribution per Unit	0.1500	0.1500	0.1500	0.1500	0.1500	0.1500	0.1500	0.1500
Payout percentage <sup>(3)</sup>	58.5%	209.3%	259.0%	69.0%	110.6%	236.9%	114.2%	47.8%

### Notes:

- (1) See definition of EBITDA and distributable cash under "Non-GAAP Measures" below.
- (2) Calculated based on basic weighted average number of Units.
- (3) Amounts calculated using distributable cash and distributions declared for the related period, not on per Unit amounts. Calculated as distribution declared divided by distributable cash generated.

### Seasonality

The seasonality of the Fund's business impacts its operating results as follows: the Fund's aerial and general rentals business is generally lower from January through March as the winter weather hampers construction activity. Construction heater rentals and related fuel supply and wholesale during the winter months compensate for the slow winter business cycle in the aerial and general rentals sector. From April through July, the rental demand for construction and general rental equipment grows gradually as rental activities accelerate into the summer months. Expenditures on inventory for sale and rental fleet are mostly incurred during these months in anticipation of equipment rental and sales

in the summer and fall. From August through November the demand for rental equipment continues as construction companies strive to meet construction targets prior the start of the holiday season in December. The construction heater rentals and fuel wholesale business in Alberta starts in November and continues through to the spring of the following year.

In addition to the seasonal nature of the Fund's business, the quarterly changes above are also due to organic growth in the business and timing of acquisition of assets.

## CASH FLOW AND LIQUIDITY

The following table provides an overview of the Fund's cash flows from operating, investing and financing activities for the three and twelve months ended December 31, 2010.

Summary of cash flows (\$000's)	Three months ended		Year ended	
	December 31		December 31	
	2010	2009	2010	2009
Net change of cash related to:				
Operations				
Cash generated from operating earnings	\$ 3,522	\$ 2,054	\$ 8,213	\$ 9,505
Changes from non-cash working capital	(5,164)	(2,145)	(2,321)	838
Investing	(2,622)	(760)	(19,864)	(774)
Financing	(762)	(2,429)	15,894	(9,514)
Net change in cash during the period	\$ (5,026)	\$ (3,280)	\$ 1,922	\$ 55

As mentioned above, the revenue and operating results of the businesses of the Fund have historically displayed seasonal variations throughout a year. While certain of the Fund's variable costs can be managed to match seasonal patterns, a significant portion of its costs are fixed and cannot be adjusted for seasonality. The fluctuation in future results of operations may require the Fund to rely on its operating loans for working capital financing at certain times of the year.

A single Canadian chartered bank (the "Bank") has provided a \$5.75 million operating loan on an interest only basis, that is payable upon demand, on which the Business LPs had drawn \$2.61 million as at December 31, 2010.

Working capital management continues to be an important element of cash generation for the Fund. As at December 31, 2010, management expects that net receivables are collectible and that payments to suppliers will also continue under current terms.

The Fund had a working capital deficiency of \$31.16 million as at December 31, 2010. The Fund's working capital includes items expected for normal operations, such as cash and cash equivalents, accounts receivable, inventories, prepaid expenses, deposits, operating loans, accounts payable and accrued liabilities, distributions payable, unearned revenue, financial derivatives, the current portion of capital lease obligations and term mortgage payable, and Series A Debentures which will mature on

August 15, 2011. As at December 31, 2010, the working capital deficiency included \$30.44 million of capital and acquisition loans. As at December 31, 2010, the outstanding capital and acquisition loans were advanced from the Bank with maturity dates ranging from February 2013 to November 2015. Since the capital and acquisition loans could be repayable on demand before their maturity dates, they were classified as current liabilities in the financial statements of the Fund. As at December 31, 2010, the Fund had made all monthly payments related to the capital and acquisition loans according to the payment schedule of the Bank and the Fund was in compliance with its covenants. The Fund had total cash and cash equivalents of \$3.99 million as at December 31, 2010. For the twelve months ended December 31, 2010, the Fund generated \$5.89 million of cash from operating activities. The Fund does not anticipate any problems in meeting future obligations as they become due given the level of funds from its operations and its ability to make monthly loan payments according to the payment schedule of the Bank.

During the three months ended December 31, 2010, the Fund generated cash of \$3.52 million from operating earnings. This is offset by \$5.16 million relating to changes from non-cash working capital which largely related to an increase in accounts receivable due to the construction heat and fuel distribution sales in the winter. The changes from non-cash working capital represented a normal course of fluctuation in the Fund's businesses.

During the three months ended December 31, 2010, the Fund purchased rental equipment and other operating assets of \$3.16 million and received proceeds of \$0.54 million from sales of fleet equipment. The Fund also received net bank financing of \$1.34 million for capital expenditures of fleet equipment and distributed \$2.10 million to the Unitholders.

### Liquidity Risks

Liquidity risk is the risk that the Fund will not be able to meet its obligations as they fall due.

The Fund manages its liquidity risk through cash and debt management. As at December 31, 2010, the Fund had available unused approved credit facilities (operating, capital and acquisition loans combined) of \$4.42 million. The Fund also had accounts receivable of \$9.48 million and cash and cash equivalents totalling \$3.99 million. Management expects to discharge the Fund's liabilities by means of cash flow generated from operations, existing cash reserves and refinancing of debt instruments.

As at December 31, 2010, the timing of cash outflows relating to financial liabilities are outlined in the table below:

in \$000's	1 year	2 years	3 years	4-5 years	Total	Carrying value
Accounts payable and accrued liabilities	\$ 4,040				\$ 4,040	\$ 4,040
Distributions payable	694				694	694
Capital leases	219	207	234	181	841	732
Term mortgage	39	319			358	324
Interest rate swap	80				80	89
Capital and acquisition loans <sup>(1)</sup>	6,886	6,848	12,529	7,454	33,717	30,445
Convertible debentures <sup>(2)</sup>	12,374	2,346	2,346	29,946	47,012	32,883
	\$ 24,332	\$ 9,720	\$ 15,109	\$ 37,581	\$ 86,742	\$ 69,207

Note:

- (1) The capital and acquisition loans are repayable on demand. The cash outflow reflects the scheduled repayment term.
- (2) The Series A Debentures will mature on August 15, 2011. At maturity, at the Fund's sole option, the Series A Debentures shall be converted into such number of Units as is determined by dividing the principal amount of Series A Debentures plus accrued and unpaid interest by the value of Units obtained by calculating 95% of the weighted average trading price of the Units on the Exchange during the prior 20 consecutive days on which Units are traded.

## CAPITAL RESOURCES

In addition to the \$5.75 million interest-only demand operating loan described in "Cash Flow and Liquidity" above, the Bank has made capital and acquisition loans available to the Fund to finance its capital expenditures and future acquisitions. As at December 31, 2010, \$31.72 million of capital and acquisition loans were approved by the Bank and \$30.44 million were outstanding.

The Fund's credit facilities have covenants specifying a minimum current ratio of 1.25 to 1.0, a maximum funded debt to earnings (as defined in the credit facilities agreement) ratio of 3.0 to 1.0, a minimum debt service coverage ratio of 1.25 to 1.0,

and a restriction on increases in distributions to Unitholders and future acquisitions without the prior written consent of the Bank. For purposes of calculating the current ratio, 25% of Series A Debentures that will mature on August 15, 2011 and capital and acquisition loans that are due within one year are included in current liabilities. As at December 31, 2010, the Fund was in compliance with all bank covenants.

Under the current terms, the capital and acquisition loans charge interest, at the Fund's option, at the Bank's prime rate plus a range of 1.2% to 1.7%, or the Bank's banker's acceptance rate plus a stamping fee with a range of 2.7% to 3.2%.

**DISTRIBUTABLE CASH AND DISTRIBUTIONS**

The Fund reviews its historic and expected results on a regular basis. This review includes consideration of economic conditions, including seasonality, the competitive environment, future cash requirements and projected accretion from newly acquired businesses. It is the Fund's normal policy not to distribute 100% of distributable cash (for definition see "Non-GAAP Measures" below) on a calendar year basis in order to address the seasonality nature of the business and unforeseen events, should they occur. With respect to the Fund's ongoing strategy of monthly distributions, management and the board of

Trustees consider the current and projected business activity level of the Fund's existing operations as well as impact from the projected accretion from the recent acquisition of OnSite. While it is the Fund's policy to make stable monthly distributions to Unitholders, unforeseen events may occur and cause the board of Trustees to decide to reduce or suspend monthly distributions temporarily or permanently.

The following shows the Fund's distribution history since its initial public offering on August 15, 2006:

Distribution history (per Unit)	2006	2007	2008	2009	2010	2011
January		\$ 0.0408	\$ 0.0500	\$ 0.0500	\$ 0.0500	\$ 0.0500
February		0.0408	0.0500	0.0500	0.0500	0.0500 <sup>(2)</sup>
March		0.0450	0.0500	0.0500	0.0500	
April		0.0450	0.0500	0.0500	0.0500	
May		0.0450	0.0500	0.0500	0.0500	
June		0.0500	0.0500	0.0500	0.0500	
July		0.0500	0.0500	0.0500	0.0500	
August	\$ 0.0224 <sup>(1)</sup>	0.0500	0.0500	0.0500	0.0500	
September	0.0408	0.0500	0.0500	0.0500	0.0500	
October	0.0408	0.0500	0.0500	0.0500	0.0500	
November	0.0408	0.0500	0.0500	0.0500	0.0500	
December	0.0608	0.0500	0.0500	0.0500	0.0500	
<b>Total</b>	<b>\$ 0.2056</b>	<b>\$ 0.5666</b>	<b>\$ 0.6000</b>	<b>\$ 0.6000</b>	<b>\$ 0.6000</b>	<b>\$ 0.1000</b>

Notes:

(1) 17-day period from August 15-31, 2006.

(2) Declared on February 16, 2011.

Distributions are paid on or about the 15th day of each month to Unitholders of record on the last business day of the preceding month.

**Reconciliation of cash provided by operating activities to distributable cash**

The following table reconciles cash flow from operating activities to distributable cash for the three and twelve months ended December 31, 2010.

Reconciliation of cash flow from operating activities to distributable cash (\$000's, except for per Unit amounts and percentages)	Three months ended		Year ended	
	December 31, 2010		December 31, 2010	
Cash flow from operating activities	\$	(1,642)	\$	5,892
Changes in non-cash working capital balances		5,164		2,321
		3,522		8,213
Loss on sale of assets		175		282
Maintenance capital expenditure <sup>(1)</sup>		(104)		(865)
Franchise termination fees <sup>(2)</sup>		-		816
Distributable cash generated <sup>(1)</sup>	\$	3,593	\$	8,446
Distributions declared	\$	2,102	\$	8,399
Distributable cash generated per Unit	\$	0.2564	\$	0.6035
Distributions declared per Unit		0.1500		0.6000
Payout percentage <sup>(3)</sup>		58.5%		99.4%
Net income/(loss)	\$	(158)	\$	(5,476)
Deficit of net loss below distributions declared	\$	(2,260)	\$	(13,875)

**Notes:**

- (1) See definition of "maintenance capital expenditures" and "distributable cash" under "Non-GAAP Measures" below.
- (2) Related to the termination of the Volvo Rents franchise effective October 1, 2010. The one-time, non-recurring cost relating to the franchise termination was excluded from distributable cash.
- (3) Amounts calculated using distributable cash and distributions declared for the related period, not on per Unit amounts. Calculated as distribution declared divided by distributable cash generated.

**NON-GAAP MEASURES**

References in this MD&A to "EBITDA" are to earnings before interest, income taxes, depreciation, amortization, accretion, gain/loss on financial derivatives relating to changes in the fair market value of the fixed interest rate swap, foreign exchange gains/losses, write-down of fleet assets, intangible assets and goodwill, and non-recurring items such as the costs relating to the termination of the Volvo Rents franchise. EBITDA is a measure used by many investors to compare issuers on the basis of ability to generate cash flow from operations. EBITDA is not an earnings measure recognized by GAAP, does not have standardized meanings prescribed by GAAP and is therefore unlikely to be comparable to similar measures presented by other issuers. The Fund's management believes that EBITDA is an important supplemental measure in evaluating the Fund's performance and in determining whether to invest in Units.

Readers of this information are cautioned that EBITDA should not be construed as an alternative to net income or loss determined in accordance with

GAAP as indicators of the Fund's performance or to cash flows from operating, investing and financing activities as measures of the Fund's liquidity and cash flows. The Fund's method of calculating EBITDA may differ from the methods used by other issuers and, accordingly, the Fund's EBITDA may not be comparable to similar measures presented by other issuers.

References in this MD&A to "distributable cash" are to cash available for distribution to the Unitholders by the Fund. Distributable cash is not a recognized measure under GAAP and does not have a standardized meaning prescribed by GAAP. Canadian open-ended income trusts, such as the Fund, use distributable cash as an indicator of financial performance and it should not be seen as a measurement of liquidity or a substitute for comparable metrics prepared in accordance with GAAP. The Fund's distributable cash may differ from similar computations as reported by other issuers and, accordingly, may not be comparable to distributable cash as reported by such issuers. The Fund's management believes that, in addition to net income, distributable cash is a useful supplemental

measure that may assist investors in assessing the return on their investment in Units. See “Distributable Cash and Distributions - Reconciliation of cash provided by operating activities to distributable cash”.

“Adjusted net income/(loss)” is not a recognized measure under GAAP. Adjusted net income/(loss) is net income/(loss) adjusted for charges relating to asset impairment and fees related to the termination of the Volvo franchise. Adjusted net income/(loss) is used to compare the Fund’s current and prior years’ profitability on a consistent basis.

“Maintenance capital expenditures” is not a recognized measure under GAAP and does not have a standardized meaning prescribed by GAAP. The Fund considers maintenance capital expenditures as expenditures that are required to maintain the service capacity of the Fund’s rentable equipment fleet (defined as equipment that has generated rental

revenue equal to or exceeding 10% of the original acquisition cost of such equipment in the immediately preceding 12 months) and operating assets which include vehicles, trailers, furniture and fixtures, computer equipment and software and leasehold improvements. The maintenance capital expenditures for the Fund are calculated as the difference between the original acquisition cost and the related net book value upon the disposition of such equipment, plus the cost of replacement of operating assets.

**OFF-BALANCE SHEET FINANCING**

The Fund has no off-balance sheet arrangements, except for the operating leases relating to the Fund’s various operating assets, as disclosed in note 11(a) of the Financial Statements. The operating lease arrangements represent a normal course of the Fund’s businesses.

**CONTRACTUAL OBLIGATIONS**

The minimum repayments required for the currently outstanding capital and acquisition loans are as follows:

Loans payable (\$000's)	2011	2012	2013	2014	2015
Loans Payable	\$ 5,559	\$ 5,850	\$ 11,931	\$ 4,163	\$ 2,968

The Fund has the following rental, term mortgage, capital lease and operating lease commitments:

Contractual obligations (\$000's)	2011	2012	2013	2014	2015	Thereafter
Rental commitments	\$ 1,809	\$ 1,565	\$ 1,288	\$ 899	\$ 649	\$ 2,632
Term Mortgage	18	310	-	-	-	-
Capital leases	219	207	234	163	18	-
Operating leases	411	242	101	33	-	-
	\$ 2,457	\$ 2,324	\$ 1,623	\$ 1,095	\$ 667	\$ 2,632

**LONG TERM INCENTIVE PLAN**

Trustees, directors, officers and key employees of the Fund and its direct and indirect subsidiaries are eligible to participate in the Fund’s long term incentive plan (the “LTIP”). The purpose of the LTIP is to provide eligible participants with compensation opportunities that will enhance the Fund’s ability to attract, retain and motivate key personnel and reward key employees for significant performance that results in the Fund exceeding its cash available for distribution targets. Pursuant to the LTIP, the Fund

sets aside a pool of funds based upon the amount, if any, by which the cash available for distribution per Unit (as measured on a fully diluted basis) exceeds certain defined threshold amounts. A third-party trustee will purchase Units in the market with this pool of funds and hold the Units until such time as ownership vests to each participant. LTIP participants are entitled to receive distributions on all Units held for their account prior to the applicable vesting date. Unvested Units held by the third-party trustee for an LTIP participant will be forfeited if the participant resigns or is terminated for cause prior to

the applicable vesting date, and those Units will be sold and the proceeds returned to the Fund.

The Fund's compensation committee has the power to, among other things: (i) determine those individuals who will participate in the LTIP; (ii) determine the level of participation of each participant; and (iii) determine the time or times when LTIP awards will vest or be paid to each participant.

The compensation committee from time to time may adjust the threshold amounts. In fiscal 2010, the LTIP provided for awards that may be earned based on the amount by which cash available for distribution per Unit (as measured on a fully diluted basis), exceeds a base distribution threshold of \$0.65 per Unit per annum (the "threshold"). The percentage amount of that excess which forms the LTIP incentive pool is determined as follows:

Percentage by which cash available for distribution per Unit exceeds base distribution threshold	Maximum proportion of excess cash available for distribution for LTIP Payments
over 5% to 10%	15% of any excess over 5% to 10%
greater than 10%	20% of any excess over 10%

For the year ended December 31, 2010, the cash available for distribution per Unit did not exceed the threshold. Accordingly, no payments were approved under the LTIP for the 2010 fiscal year.

### **WESTERNONE EQUITY INCENTIVE UNIT OPTION PLAN**

Under the WesternOne Equity Incentive Unit Option Plan, options to purchase the Fund's Units may be granted to senior executives, directors, Trustees, certain employees of, and service providers to, the Fund and its direct and indirect subsidiaries. The purpose of the WesternOne Equity Incentive Unit Option Plan is to provide such eligible participants with compensation opportunities that will encourage ownership of Units, enhance the Fund's ability to attract, retain and motivate key personnel, and reward directors, officers, employees and service providers for significant performance and growth in the Fund's cash flow.

On March 17, 2009, the Trustees approved the amendment to the WesternOne Equity Incentive Unit Option Plan by changing the maximum number of Units reserved for issuance under the WesternOne Equity Incentive Unit Option Plan from 463,000 Units to 10% of the outstanding Unit capital of the fund on a rolling basis. The amendment was subsequently approved by the Unitholders at the Fund's annual meeting on April 17, 2009.

On February 10, 2010, the Fund granted options to senior executives, directors, Trustees and certain employees to purchase, in aggregate, an additional 503,000 Units. Each option provides the holder with the right for up to ten years to purchase one Unit at an exercise price of \$4.30. Vesting of the options occurs equally over the next five years.

As at the date of this MD&A, no options granted had yet been exercised and 9,000 options had been forfeited and cancelled due to the departure of an employee.

### **TRANSACTIONS WITH RELATED PARTIES**

The Fund purchased equipment from 0798319 BC Ltd., a company in which a board member of the Fund has a controlling interest, for \$93,102 (2009 - \$52,842) and \$437,417 (2009 - \$336,972) during the three and twelve months ended December 31, 2010, respectively. These transactions arose during the normal course of business and have been recorded at fair market value.

The Fund currently rents premises in various locations from companies in which an officer and certain general managers of Business LPs hold interests. Specifically, the Fund rents premises in its operating locations in Comox (British Columbia), Calgary (Alberta) and Edmonton (Alberta) from Mahatta Holdings Ltd., Eastlake Properties Inc. and MYR Developments Ltd., respectively. The Fund

paid \$204,941 (2009 - \$200,000) and \$811,410 (2009 - \$801,541) aggregately in rent to such companies during the three and twelve months ended December 31, 2010, respectively. The rent between the parties is at fair market value. The terms of the leases range from renewal on a monthly basis (with a termination notice of three months given either by the tenant or landlord) to August 31, 2023.

## **FUND UNITS AND PRINCIPAL UNITHOLDERS**

As at the date of this MD&A, 14,602,559 Units are issued and outstanding, each of which entitles the holder to one vote at Unitholder meetings. Furthermore, 65,309 Series A Debentures and 27,600 2010 Debentures are issued and outstanding with an outstanding balance of \$6.53 million and \$27.60 million respectively. Upon conversion of Series A Debentures and 2010 Debentures, an additional 1,554,976 and 5,257,142 Units, respectively, would be issuable. In addition, 125,000 exchangeable units ("Exchangeable LP Units") were issued by a subsidiary indirectly controlled by the Fund on February 15, 2008. The Exchangeable LP Units have no voting rights but have economic rights equivalent to the Fund's Units, and are exchangeable to the Units on a one-for-one basis. To the knowledge of the Fund, no person beneficially owns, directly or indirectly, or exercises control or direction over, Units carrying more than 10% of the voting rights attached to all of the issued and outstanding Units.

## **FINANCIAL INSTRUMENTS AND RISK MANAGEMENT**

The Fund's financial assets and liabilities consist primarily of cash and cash equivalents, accounts receivable, operating loans, accounts payable and accrued liabilities, distribution payable, term mortgage, capital and acquisition loans, financial derivatives not designated in an effective hedging relationship, Series A Debentures and 2010 Debentures. These financial instruments arise from the Fund's normal course of business, with respect to the financing of its day-to-day operations, capital expenditures and acquisitions.

The carrying values of the financial instruments, except for the capital and acquisition loans, mortgage

payable, Series A Debentures and 2010 Debentures, are considered to approximate their fair values due to their short term nature. The carrying values of the capital and acquisition loans approximate their fair values as the related interest rates of the loans were at market as at December 31, 2010. The Fund has considered credit risk in making this determination and concluded no material adjustments would be required. The fair values of the mortgage payable is based on discounted future cash flows using discount rates that reflect current market conditions for instruments having similar terms and conditions. The fair values of Series A Debentures and 2010 Debentures are determined based on the closing prices at the Exchange as at December 31, 2010.

As required by Canadian GAAP, the Fund separated the liability and equity component of each of the Fund's convertible debentures. Proceeds from the issuance of the Fund's convertible debentures were allocated to the equity and liability components of the convertible debentures using the residual method. The fair value of the equity component was determined using the Black-Scholes pricing model. The difference between the proceeds received and the fair value of the equity component calculated at the date of issuance was allocated as the liability component. The liability component will be accreted through the term of the convertible debentures through the recording of an accretion expense using the effective interest method, until such date if or when all underlying convertible debentures are converted into Units.

In addition to liquidity risk described in "Cash Flow and Liquidity" above, the Fund is exposed to credit, interest rate and foreign exchange risks associated with its financial assets and liabilities. Overall, the Trustees have responsibility for the establishment and approval of the Fund's risk management policies. Management continually performs risk assessments to ensure that all significant risks related to the Fund's operations have been reviewed and assessed to reflect changes in market conditions and the Fund's operating activities.

### ***Credit risk***

Credit risk is the risk of financial loss to the Fund if a customer or counterparty to a financial instrument fails to meet its contractual obligation. The maximum

exposure to credit risk is the full carrying value of the financial instrument. The Fund is exposed to credit risk with respect to its accounts receivable, particularly from customers in the construction industry in British Columbia and Alberta due to its concentration of business in that sector. The Fund mitigates the risk by means of a diverse customer base in the construction (industrial, commercial, infrastructure and residential) as well as other sectors, in which there was no single account receivable balance in excess of 10% of the Fund's consolidated accounts receivable balance as at December 31, 2010. In general, the Fund mitigates the risk by following a program of credit evaluations of customers and limits the amount of credit extended when deemed necessary. The Fund maintains provisions for potential credit losses. As at December 31, 2010, the Fund had provisions for potential uncollectible accounts receivable of \$0.16 million and the related bad debt expense is classified as an operating expense in the Fund's income statement.

#### *Interest rate risk*

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Fund's term mortgage, Series A Debentures and 2010 Debentures all bear fixed interest rates, and hence are not exposed to any interest rate risk. The Fund's credit facilities bear interest at variable rates. In this case the Fund is managing its interest rate risk through entering into an interest rate swap agreement with the Bank for a portion of the outstanding acquisition loan. The Fund does not hold or use any derivative instruments for trading or speculative purposes. For the twelve months ended December 31, 2010, the increase or decrease in net earnings for each one percent change in interest rates on floating rate debt amounts to \$309,944. Interest expense is classified as part of operating expenses in the Fund's income statement.

#### *Foreign exchange risk*

Foreign exchange risk is the risk that the fair value or future cash flow of a financial instrument will fluctuate because of changes in foreign exchange rates.

The Fund's cash flow exposure to foreign currency is due mainly to purchases of rental equipment and replacement parts from suppliers in the United States. For the twelve months ended December 31, 2010, the Fund recorded foreign exchange losses of \$1,538. Foreign exchange gains or losses are classified as part of operating expenses in the Fund's income statement.

As at December 31, 2010, the Fund's consolidated balance sheet included \$135,457 of accounts payable (2009 - \$440,247), and \$43,765 of cash (2009 - \$160,236) which were U.S. currency denominated.

The Fund does not use, hold or issue foreign exchange contracts for trading or speculative purposes.

### **CRITICAL ACCOUNTING ESTIMATES**

The preparation of the Financial Statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities as at the date of the Financial Statements and the reported amounts of revenue and expenses during the reporting period. The Fund has taken into account the current economic environment when determining the provision for inventory obsolescence, provision for doubtful accounts and any impairment of goodwill and other assets. As conditions change in 2011, actual results could differ from those estimates. The Fund's significant accounting policies are described in note 3 of the Financial Statements. The Fund bases its estimates on historical experience and various other assumptions that are believed to be reasonable in the circumstances. The Fund considers the following to be most critical in understanding the judgments that are involved in preparing the Financial Statements and the uncertainties that could affect the Fund's results of operations, financial condition and cash flows.

#### *Provision of inventory obsolescence*

The value of the Fund's inventory, which includes equipment for resale and parts inventories, is evaluated by management throughout each year.

When required, reserves are recorded to ensure that the book value of the resale equipment is valued at the lower of cost or estimated net realizable value. Management identifies slow moving or obsolete parts inventories (if any) and estimates appropriate obsolescence provisions related thereto. Assumptions underlying management's evaluation of inventory obsolescence include stability in inventory price levels and estimates of customer demand and projected level of repairs and maintenance needed for the rental fleet. Depending on the future economic environment, there is a risk that the Fund could have an increase in inventory obsolescence which would result in an increased charge to net income.

#### *Provision for doubtful accounts*

The Fund is exposed to credit risk with respect to its accounts receivable, particularly from customers in the construction industry in British Columbia and Alberta due to its concentration of business in that sector. Management mitigates the risk by means of a diverse customer base in the construction (industrial, commercial, infrastructure and residential) as well as other sectors, in which there was no single account receivable balance in excess of 10% of the Fund's consolidated accounts receivable balance as at December 31, 2010. In general, the Fund mitigates the risk by following a program of credit evaluations of customers and limits the amount of credit extended when deemed necessary. The Fund maintains provisions for potential credit losses, and any such losses to date have been within management's expectations. Assumptions underlying management's evaluation of provision for doubtful accounts include stability of the business environment that customers operate in and financial health of customers. The provision for doubtful accounts at December 31, 2010 did not reflect any significant increase in expected losses compared to prior years. However, depending on the future economic environment, there is a risk that the Fund could experience a greater number of defaults which would result in an increased charge to net income.

#### *Property and equipment*

Management reviews property and equipment for impairment whenever changes in circumstances indicate that the carrying amount of an asset may not

be recoverable from expected undiscounted future cash flows from their expected use and eventual disposition. If such assets are considered to be impaired, the impairment to be recognized is measured as the amount by which the carrying amount of the assets exceeds their estimated fair value. Any impairment is included in income for the period in which the impairment is recognized. Assumptions underlying management's evaluation of property and equipment impairments include estimates of the physical state of the assets and customers' demand for the rental fleet equipment. Depending on the future economic environment, there is a risk that the Fund could have an increase in property and equipment impairments which would result in an increased charge to net income.

#### *Intangible assets*

Management reviews intangible assets with definite lives for impairment whenever changes in circumstances indicate the carrying amount of an asset may not be recoverable from expected undiscounted future cash flows through its expected use and eventual disposition. Management reviews intangible assets with indefinite lives for impairment at least annually. If such assets are considered impaired, the impairment to be recognized is measured as the amount by which the carrying amount of the assets exceeds their estimated fair value. Fair value is estimated using discounted cash flows. Any impairment is included in income for the period in which the impairment is recognized. Assumptions underlying management's evaluation of intangible asset impairments include estimates of future cash flow generated from and expected lives of the respective intangible assets, and future costs of capital. Depending on the future economic environment, there is a risk that the Fund could have an increase in intangible asset impairments which would result in an increased charge to net income.

#### *Goodwill*

Goodwill represents the excess of the cost of an acquired enterprise over the net of the amounts assigned to assets acquired and liabilities assumed less any subsequent write-downs for impairment. Goodwill is not amortized and is reviewed for impairment at least annually or whenever events or changes in circumstances indicate that the carrying

amount may be impaired. Goodwill impairment is assessed based on a comparison of the fair value of a reporting unit to the underlying carrying value of the reporting unit's net assets, including goodwill. If goodwill is considered to be impaired, the impairment to be recognized is measured as the amount by which the carrying amount of the goodwill exceeds its estimated fair value. Assumptions underlying management's evaluation of goodwill impairments include estimates of future operations of, and related cash flow generated from, the Fund's reporting units, and marketplace data. Depending on the future economic environment, there is a risk that the Fund could have an increase in goodwill impairments which would result in an increased charge to net income.

#### *Accrual of unbilled revenue*

Revenue from rental contracts and related services is generated through cycle billing to customers. Accrual of revenue relating to invoices not yet issued to customers at period-end is estimated by management based on rental rates specified in rental contracts and expected length of the rental periods.

#### *Future income taxes*

In 2007, the Federal Government of Canada amended the Income Tax Act to impose an entity level specified investment flow-through tax (the "SIFT Tax") on Canadian publicly listed income trusts effective January 1, 2011. As a result of the SIFT tax, starting from January 1, 2011, the Fund is subject to income taxes at a rate approximately equal to the rate applicable to income earned by a Canadian public corporation, and is prevented from deducting trust distributions when calculating taxable income.

Future income tax assets and liabilities are determined based on the temporary differences between the tax basis of the Fund's assets and liabilities and the amounts reported in the financial statements, to the extent that such temporary differences are expected to reverse on or after January 1, 2011. Future tax assets or liabilities are calculated using the tax rates for the periods in which the differences are expected to be settled. Future tax assets are recognized to the extent that they are considered more likely than not to be realized. Assumptions underlying the composition of future

income tax assets include estimates of future results of operations, the timing of reversal of temporary differences, as well as the tax rates and laws in each province at the time of the expected reversal. The composition of future income tax assets is reasonably likely to change from period to period due to the uncertainties surrounding these assumptions.

## **ADOPTION OF NEW ACCOUNTING STANDARDS**

### *International Financial Reporting Standards*

In February 2008, the Canadian Accounting Standards Board confirmed that International Financial Reporting Standards ("IFRS") will replace Canada's current generally accepted accounting principles for publicly accountable profit-oriented enterprises for interim and annual financial statements effective January 1, 2011. The Fund will be required to report under IFRS for its interim and annual financial statements for the fiscal year ending December 31, 2011.

The Fund has developed an IFRS transition work plan consisting of three phases as follows:

#### Phase 1: Preliminary study and diagnostic

- a. Identification of the IFRS standards that will require changes with regard to measurement in the consolidated financial statements and disclosure.
- b. Rank of standards based on their anticipated impact on the Fund's consolidated financial statements and the effort their implementation will require.

Status: Completed

#### Phase 2: Standards analysis

- a. Analysis of the difference between GAAP and IFRS.
- b. Selection of the accounting policies that the Fund will apply on an ongoing basis.
- c. The Fund's selection of IFRS 1 exemptions at the date of transition which is January 1, 2010

(the "Transition Date"), calculation of the quantitative impact on the consolidated financial statements and disclosure analysis.

Status: Completed

Phase 3: Implementation

- a. Preparation of the opening balance sheet at the Transition Date.
- b. Production of template for the interim and annual consolidated financial statements and the associated disclosure for the fiscal year ending December 31, 2011.
- c. Identification and implementation of changes required for information technology, internal control over financial reporting, disclosure controls and procedure, business activities, financial reporting expertise and training.

Status: Substantially completed. Certain financial reporting processes, business processes and internal controls are being reassessed as a result of the new IFRS guidance and developments.

Based on the work that has been completed to date, the Fund has identified the following key areas that may have a significant effect in converting its GAAP balance sheet to its opening IFRS statement of financial position on the Transition Date. The expected impacts are as follows:

1. Classification of the Fund's Units

The Fund's Units are currently classified as equity under GAAP. According to IFRS, the Units should be classified as liability as the Fund's declaration of trust contains an annual distribution requirement to distribute all undistributed income within the Fund, which constitutes a contractual obligation to deliver cash under International Accounting Standards ("IAS") 32. The related transaction costs incurred for issuing the Units are charged to retained earnings of the Fund. As a result, on transition to IFRS, the Fund's liabilities will increase and equity will decrease. Consequently,

distributions declared after the Transition Date will be recorded as part of the Fund's comprehensive income as they would be categorized as expense. The Fund will account for the Units using the amortized cost method. The Fund is currently evaluating whether the Units, as a liability, would be considered current or long-term.

2. Convertible debentures

The Fund's Series A and 2010 Debentures will be affected in the following ways:

a) Under GAAP, the Fund separated the debt and equity components of the convertible debentures by using the residual method, whereby the Fund determined the fair value of the equity component of the convertible debentures (i.e. the conversion feature), and then subtracted it from the fair value of the instrument as a whole to arrive at the value of the liability component. Under IFRS, while the bifurcation of the convertible debentures would still need to take place, it is the liability component which needs to be valued initially, with the equity component being assigned the residual value. This would normally have an effect on the Fund's statement of financial position, however, since the Fund's Units are to be classified as a liability (as described above), the convertible debentures cease to have an equity component to them, and as a result, are not bifurcated.

b) Under GAAP, the carrying value of the liability portion of the Fund's convertible debentures are based on their amortized cost. However, since the debentures will not have an equity component and will be considered a liability in their entirety (as described above), IFRS allows the Fund to determine the carrying value of its convertible debentures based on their fair market values. The Fund elected to use the fair market values of the convertible debentures in determining their carrying values, as these values are readily available given the Fund's convertible debentures are traded publicly on

the Exchange, and thus, would provide more meaningful information to Unitholders. As a result, on transition to IFRS, the Fund's liabilities will increase. Subsequent to the Transition Date, the Fund will need to mark its convertible debentures to market at the end of each reporting period and the difference in fair values of the convertible debentures will be recorded as part of the Fund's comprehensive income.

Other significant IFRS elections that the Fund has made are as follows:

1. Election of options and application of exemptions under IFRS 1

IFRS 1 is the standard that provides guidance for creating the Fund's first IFRS financial statements. The standard provides elective options in the opening balance and mandatory exceptions to retrospective application of IFRS in certain circumstances. The Fund has assessed the impact of the mandatory exceptions and made elections from the available options under IFRS 1.

As a result of the assessment, the Fund has elected not to apply IFRS 3 retrospectively before the Transition Date. The Fund has also elected to measure its property, plants and equipments at historical cost under IFRS.

2. Impairment of assets

According to IAS 36, an impairment loss is recognized if an asset's or cash generating unit's (including goodwill) carrying value exceeds its recoverable amount. GAAP generally uses a two-step approach to impairment testing: first comparing asset carrying values with undiscounted future cash flows to determine whether impairment exists, and then measuring impairment by comparing asset carrying values to their fair value (which is calculated using discounted cash flows). IAS 36 uses a one-step approach for testing and measuring impairment, with asset carrying values compared directly with the higher of fair value less costs to sell and value in use (which uses discounted cash flows).

This may potentially result in write-downs where the carrying value of assets were previously supported under GAAP on an undiscounted cash flow basis, but could not be supported on a discounted cash flow basis. This difference could lead to income statement and earnings volatility in future periods, but is not expected to have a significant impact on the Fund's opening IFRS statement of financial position on the Transition Date.

The Fund is in the final stage in assessing the effect of IFRS on operations and business processes as follows:

1. Information system and business process

The Fund has substantially completed the assessment of changes required to the Fund's information system, accounting and business processes. To date, no significant requirements of changes were identified. The Fund is also in the process of assessing the impact of IFRS on the Fund's covenants.

2. Internal controls over financial reporting

The Fund has substantially completed the assessment of additional control requirements as a result of changes to the Fund's operating and financial reporting processes. To date, no significant requirements of changes to internal controls were identified. The Fund is also performing an assessment to identify key disclosures under IFRS and the potential additional control requirements.

3. Training and financial reporting expertise

The Fund engaged additional financial reporting consultants to assist with the IFRS transition. The Fund's financial reporting professionals have attended training sessions and seminars in order to familiarize themselves with IFRS. The Fund's audit committee Chairman has completed a certification program from the Institute of Chartered Accountants of England and Wales. Other members of the Fund's audit committee and board of directors and Trustees continue to receive IFRS briefings and updates from the

Fund's auditor and financial reporting professionals to ensure they are IFRS literate. In addition, the members of the board and audit committee receive briefings from auditors and management on the latest IFRS developments.

## **RISKS AND UNCERTAINTIES**

For risks and uncertainties associated with the Fund, refer to the Fund's Annual Information Form dated March 31, 2010. In particular, the Fund believes that the following items represent significant areas for consideration:

### *Current economic conditions*

The Fund's business is subject to changes in national, North American or global economic conditions, including but not limited to, recessionary or inflationary trends, equity market levels, consumer credit availability, interest rates, consumers' disposable income and spending levels, job security and unemployment, and overall consumer confidence. Changes in any of the above economic conditions could have a material adverse effect on the Fund's business, financial condition, results of operations and cash flows.

Current economic conditions at both a local and national level may impact customer demand for the Fund's products and services. Changes in interest rates, consumer and business confidence, corporate profits, credit conditions, foreign exchange, commodity prices and the level of government infrastructure spending may influence the Fund's customers' operating and capital spending, and therefore the Fund's revenues and results of operations. Although the Fund has attempted to address its exposure to business and industry cyclicity by diversifying its operations by geography, product offerings and customer base, there can be no assurance that the Fund's results of operations, and the cash flows, will not be adversely affected by changes in economic conditions.

### *Failure to access financing*

The Fund's ability to grow successfully through add-on acquisitions and rental fleet capital expenditures is dependent on its ability to obtain financing. There can be no assurance that the Fund will be able to

access financing on satisfactory terms and prices. Failure to access future financing may adversely affect the Fund's ongoing operations and execution of the growth strategy.

### *Credit facilities risk*

The Fund is required to comply with covenants under its credit facilities. In the event that the Fund does not comply with covenants under such credit facilities, its access to capital could be restricted or immediate full repayment of the credit facilities could be required. As mentioned in "Cash Flow and Liquidity" above, the Fund's senior credit facility is repayable on demand, although scheduled repayment terms occur over the next five years. While the Fund has made all monthly debt repayments according to the Bank's payment schedule and was in compliance with all bank covenants as at December 31, 2010, the Bank may demand immediate repayment of the entire credit facility. In such an event, the Fund may need to refinance the credit facility either by way of issuing Units or debentures, or reducing or eliminating distributions.

### *Financial health of Business LPs and cash flows*

The Fund is entirely dependent on the operations and assets of the Business LPs through its indirect ownership interests. The Fund's ability to make regular distributions to Unitholders and make interest and principal payments on the Series A Debentures and 2010 Debentures when due is dependent on the cashflow generated by the Business LPs. This is affected by the profitability, fluctuations in working capital, margin sustainability and capital expenditures of the Business LPs. Although the Business LPs intend to distribute their cash available for distribution, there can be no assurance regarding the amounts of income to be generated by the Business LPs and amounts paid to the Fund. The failure of any Business LP to make its anticipated distributions could adversely impact the Fund's financial condition and cash flows and therefore distributions to Unitholders and payments to holders of Series A Debentures and 2010 Debentures.

### *Dependence upon WesternOne Equity LP to fund cash distributions*

The Fund is an unincorporated, open-ended trust that will ultimately be entirely dependent on the operations and assets of WesternOne Equity LP, including the Business LPs. Cash distributions to Unitholders and interest and principal payments to the Series A Debentures and 2010 Debentures holders will ultimately be dependent on, among other things, the ability of WesternOne Equity LP to make cash available for distributions. The Fund's ability to make cash distributions or other payments or advances will be subject to applicable laws and regulations and contractual restrictions contained in the instruments governing any indebtedness of WesternOne Equity LP, including restrictive covenants in the credit facilities agreement.

### *Cash distributions are not guaranteed and will fluctuate with business performance*

Although the Fund intends to make the cash distributions ultimately received by the Fund, less expenses and amounts, if any, paid by the Fund in connection with the redemption of Units, there can be no assurance regarding the amounts of income to be generated by the business of WesternOne Equity LP or ultimately distributed to the Fund. The Fund's ability to make cash distributions, and the actual amount distributed, will ultimately be entirely dependent on the operations and assets of WesternOne Equity LP, and will be subject to various factors including its financial performance, its obligations under the applicable credit facilities, fluctuations in its working capital, the sustainability of its margins and its capital expenditure requirements.

### *Distributions are discretionary*

The Fund is not obligated to pay distributions on the Units. The payment of distributions is at the sole discretion of the Trustees and the board of directors of WesternOne Equity GP Inc., and they may decide to eliminate or reduce any distributions paid on the Units, or retain cash otherwise available for distribution for investment in the Fund's business. Any reduction or elimination of distributions could cause the market price of the Units to decline and

could further cause the Units to become less liquid, which may result in losses to Unitholders.

### *Nature of the Units*

Securities like the Units share certain attributes common to both equity securities and debt instruments. The Units do not represent a direct investment in the business of WesternOne Equity LP and should not be viewed by investors as direct securities of WesternOne Equity LP. The Units represent a fractional interest in the Fund. The price per Unit is a function of anticipated distributable income, interest rates and other factors.

### *Prior ranking indebtedness*

The likelihood that purchasers of the Series A Debentures and the 2010 Debentures will receive payments owing to them under the respective terms of such debentures will depend on the financial health of the Fund and its creditworthiness. Series A Debentures are subordinate in right of payment to all of the Fund's existing and future senior indebtedness, while 2010 Debentures are subordinate in right of payment to Series A Debentures as well as all of the Fund's existing and future senior indebtedness. Therefore, if the Fund becomes bankrupt, liquidates its assets or enters into certain other transactions, the Fund's assets will be available to pay its obligations with respect to such debentures only after it has paid all of its senior indebtedness in full. There may be insufficient assets remaining following the senior indebtedness payments to pay amounts due on any or all of such debentures then outstanding.

### *Conversion following certain transactions*

In the case of certain transactions, the Series A Debentures and 2010 Debentures will become convertible into the securities, cash or property receivable by a holder of Units in the kind and amount of securities, cash or property into which the Series A Debentures and the 2010 Debentures were convertible immediately prior to the transaction. This change could substantially lessen or eliminate the value of the conversion privilege associated with such debentures in the future.

*Unpredictability and volatility of Unit prices*

The market price of the Units could be subject to significant fluctuations in response to variations in quarterly operating results, monthly distributions, and other factors. In addition, industry specific fluctuations in the stock market may adversely affect the market price of the Units regardless of the Fund's operating performance. There can be no assurance that the price of the Units will remain at current levels. The annual yield on the Units as compared to the annual yield on other financial instruments may also influence the price of Units in the public trading markets. In addition, the securities markets have experienced significant price and volume fluctuations from time to time in recent years that often have been unrelated or disproportionate to the operating performance of particular issuers. These broad fluctuations may adversely affect the market price of the Units.

*Failure to realize anticipated benefits of acquisitions*

The Fund's future growth depends in large part on its ability to acquire additional businesses, manage expansion, control costs in its operations and consolidate businesses into its organization. In pursuing a strategy of acquiring other businesses, the Fund faces risks commonly encountered with growth through acquisitions. These risks include, but are not limited to, incurring significantly higher capital expenditures and operating expenses, failing to integrate the operations and personnel of the acquired businesses, entering new unfamiliar markets, incurring undiscovered liabilities at acquired businesses, disrupting the Fund's ongoing business, diverting the Fund's management resources, failing to maintain uniform standards, controls and policies, impairing relationships with employees, suppliers and customers as a result of changes in management, causing increased expenses for accounting and computer systems and incorrectly valuing acquired entities.

The Fund may not adequately anticipate all the demands that its growth will impose on its personnel, procedures and structures, including its financial and reporting control systems, data processing systems and management structure. Moreover, the Fund's failure to retain qualified management personnel at

any acquired businesses may increase the risk associated with integrating the businesses. If the Fund cannot adequately anticipate and respond to these demands, it may fail to realize acquisition synergies and its resources will be focused on incorporating new operations into its structure rather than on areas that may be more profitable. In addition, although the Fund conducts what it believes to be a prudent level of investigation regarding the operating condition of each business it purchases, in light of the circumstances of each transaction, an unavoidable level of risk remains regarding the actual operating condition of each such business. Until the Fund actually assumes operating control of business assets, it may not be able to ascertain the actual value of such assets.

*Growth initiatives*

The Fund's ability to grow successfully through add-on acquisitions is dependent on a number of factors, including: the identification of suitable acquisition targets in both new and existing markets; the negotiation of purchase agreements on satisfactory terms and prices; securing attractive financing arrangements; and the integration of newly acquired operations into the existing business. Any acquisition will involve a number of risks, including: the inability to integrate the operations, personnel and information systems of the acquired business; the potential acquisition of previously undisclosed liabilities; the potential disruption of the Fund's ongoing business and the diversion of management's attention from its day-to-day operations. An unsuccessful acquisition could have a material adverse impact on the Fund, its results of operations and financial condition.

In addition, the Business LPs' abilities to successfully expand through opening new branches is dependent upon many factors, including their ability to: negotiate acceptable lease terms for additional sites in both new and existing markets; effectively hire, train, manage and retain qualified personnel; create brand awareness in new markets; and successfully enter and compete in new geographic markets in which the Fund has no previous experience.

### *Competition*

There can be no assurances that the Fund will be able to compete successfully against its respective competitors or that such competition will not have a material adverse effect on its businesses, financial condition, results of operations and cash flows and therefore distributions to Unitholders. Existing or future competitors may also compete with the Fund for acquisition candidates, which may increase acquisition prices and reduce the number of suitable acquisition candidates. If the Fund is not able to compete effectively in this regard, its future growth may be negatively impacted.

### *Financing constraints*

The indebtedness represented by the operating loan, credit facilities for equipment purchases and capital leases that the Fund uses to finance the Business LPs' new equipment inventories and rental fleet acquisitions could limit the future availability of debt financing to fund acquisitions. An extension to the acquisition loan under the existing credit facilities agreement may not be available to the Fund on favourable terms from its current or other lenders. The Fund may be required to use available cash or other sources of debt or equity financing. Using cash to complete acquisitions may substantially affect the Fund's operating or financial flexibility. If the Fund is unable to obtain financing on acceptable terms, it may be required to reduce the scope of its presently anticipated expansion, which may materially and adversely affect its growth strategy.

### *Supply disruptions*

Various businesses of the Fund are dependent on the steady supply of fuels for their business operations with respect to fuel sales, equipment rentals and general logistics. Potential disruptions of fuel supply from the existing suppliers could negatively impact the Fund's revenues and operating results if the Fund fails to secure alternate fuel supplies.

### *Seasonality and fluctuations in results*

The revenue and operating results of the business of each of the Business LPs have historically displayed seasonal variations throughout the year, and this variation is expected to continue in the foreseeable future. See "Seasonality" above.

### *Adverse weather conditions*

Adverse weather conditions may affect construction schedules. Prolonged rain, snowfall or extreme cold weather may shut down construction sites. This may reduce demand for equipment and propane usages, particularly in the areas of outdoor construction activity and space heating. On the other hand, unseasonably warm weather in the winter may reduce demand for heating fuel and related equipment rentals. As a result, the Fund's revenues and operating results may be negatively affected.

### *Expansion*

Existing or future competitors may compete with the Fund for acquisition candidates, which may increase acquisition prices and reduce the number of suitable acquisition candidates. Existing or future competitors may also compete with the Fund for new locations, which may reduce the number of suitable expansion locations. If the Fund is not able to compete effectively in this regard, its future growth may be negatively impacted. In addition, there is no guarantee that future growth initiatives will be successful.

### *Interest rates*

The Fund's credit facilities bear interest at variable rates. The Fund is currently using a combination of fixed interest rate swaps and short-term instrument in the form of a banker's acceptance to reduce exposure to interest rate risk on a portion of its loans. Fluctuations in interest rates may significantly increase debt serving costs on the variable rate portion of the credit facilities, and may have an adverse effect on the Fund's future earnings and cash flows. Rising interest rates may also have the effect of depressing demand in the interest rate sensitive aspects of the Business LPs' businesses, particularly new and used equipment sales, because many of their customers finance their equipment purchases. As a result, rising interest rates may have the effect of reducing the Fund's revenues.

### *Foreign exchange*

Foreign exchange risk is primarily limited to currency fluctuations between the Canadian and U.S. dollar. The majority of the equipment purchased by the Fund is denominated in U.S. dollars.

Furthermore, a portion of PER's business relates to equipment rental in the film industry in British Columbia which is sensitive to the U.S. dollar currency fluctuations. The Fund does not use derivative instruments to reduce these risks.

As at December 31, 2010, the Fund's consolidated balance sheet included \$135,457 of accounts payable and \$43,765 of cash which were U.S. currency denominated.

#### *Discontinuation of tax incentives*

Currently the Government of British Columbia provides refundable tax credits through the Production Services Tax Credit Program to accredited production corporations who produce accredited films or videos in British Columbia. These credits are available to both domestic and foreign producers. This creates an incentive for film productions in the province and fuels demand for associated products and services from businesses such as PER, which is a major supplier of logistics equipment in Metro Vancouver. Unless the government continues such tax incentives with terms that are competitive compared to other jurisdictions such as Ontario and Quebec, it may affect the level of production activities in British Columbia. This may impact the Fund's revenues and operating results from this sector.

#### *Income tax matters*

Under the SIFT Tax rules, which are discussed in detail under "Future Income Taxes", commencing January 1, 2011, the Fund is subject to income taxes at a rate approximately equal to the rate applicable to income earned by a Canadian public corporation, and is prevented from deducting trust distributions when calculating taxable income. Unitholders will be treated as if they have received an eligible dividend from a Canadian public corporation equal to the taxable portion of their distributions and will be taxed accordingly.

The payment for the SIFT Tax may reduce the cash flow of the Fund, thereby reducing the amount available for distribution to Unitholders. As a result, the Fund may not be able to maintain its current level of distributions.

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

The Fund's management, under the supervision of its Chief Executive Officer ("CEO") and Chief Financial Officer ("CFO"), is responsible for establishing and maintaining disclosure controls and procedures ("DC&P") and internal control over financial reporting ("ICFR"). DC&P are designed to provide reasonable assurance that information required to be disclosed by the Fund in annual filings, interim filings or other reports filed or submitted under securities legislation is recorded, processed, summarized and reported within the time periods specified in the securities legislation. Furthermore, DC&P are designed to ensure that information required to be disclosed by the Fund in annual filings, interim filings or other reports filed or submitted under securities legislation is accumulated and communicated to the Fund's management, including its CEO and CFO, as appropriate to allow timely decisions regarding required disclosure. ICFR is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with Canadian generally accepted accounting principles.

The Fund's ICFR may not prevent or detect all misstatements because of the inherent limitations of any control system. Additionally, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions or deterioration in the degree of compliance with the Fund's policies and procedures.

As at December 31, 2010, the Fund's management under the supervision of its CEO and CFO has completed an assessment of the design and effectiveness of DC&P and ICFR. In making this assessment, management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO") in Internal Control – Integrated Framework. Based on this assessment, the CEO and CFO concluded that the Fund maintained effective DC&P and ICFR for the year ended December 31, 2010.

There has been no change in the Fund's DC&P and ICFR that occurred during the year ended December 31, 2010 that has materially affected, or is reasonably likely to materially affect, the Fund's DC&P and ICFR.

## OUTLOOK

The following discussion is qualified in its entirety by the "Forward-looking Information" at the beginning of this MD&A, and the section titled "Risks and Uncertainties".

The Fund has benefited from the gradual economic recovery in 2010, particularly in the second half of the year when it recorded positive year-over-year organic growth. Management attributes the growth to the strong construction activity in Alberta, a stabilized construction climate in BC, and a rebound in the filming and oil & gas sectors which are the Fund's key niche markets.

Management sees improving market conditions continuing, taking into account factors such as the low interest rate environment, recent strength in the resource-based economy in Western Canada (oil & gas, precious metals, forestry), and favourable government policies in areas such as film production tax credits and infrastructure project roll-outs. In respect of the high Canadian dollar, management sees the related impact on the Fund's business, particularly the shipyard sector (as the higher Canadian dollar makes it less attractive for US cruise ships to come to Canada for maintenance) to be largely offset by the net benefit from the Fund's ability to source cheaper rental fleet equipment in the US, as well as management's focus on increasing business volume with Canadian-based businesses such as BC Ferries.

Management seeks future organic growth through leveraging its integrated network of 12 operations and its unified brand name, "WesternOne Rentals & Sales". The network of complete equipment rental and fuel distribution solutions allows the Fund's

operation to mobilize fleet efficiently, while the integrated marketing strategy identifies cross-selling opportunities within the Fund's existing markets and product offerings.

Management continues to actively review its rental fleet condition and execute a growth capital expenditure strategy through selectively purchasing high-utilization equipment in order to meet the future market demands. Furthermore, management continues to seek external growth through identifying accretive acquisition opportunities in the construction and infrastructure services sector.

## ADDITIONAL INFORMATION

Additional information relating to the Fund, including the Fund's Annual Information Form and other public filings, is available on SEDAR at [www.sedar.com](http://www.sedar.com) or on the Fund's website at [www.weq.ca](http://www.weq.ca).

### *For more information, please contact:*

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## INVESTOR RELATIONS

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## TRADING SYMBOLS

Toronto Stock Exchange: WEQ.UN, WEQ.DB and WEQ.DB.B

# MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

To the Unitholders of  
WesternOne Equity Income Fund (the "Fund"):

Management is responsible for the preparation and presentation of the accompanying financial statements, including responsibility for significant accounting judgments and estimates in accordance with Canadian generally accepted accounting principles and ensuring that all information in the annual report is consistent with the statements. This responsibility includes selecting appropriate accounting principles and methods, and making decisions affecting the measurement of transactions in which objective judgment is required.

In discharging its responsibilities for the integrity and fairness of the financial statements, management designs and maintains the necessary accounting systems and related internal controls to provide reasonable assurance that transactions are authorized, assets are safeguarded and financial records are properly maintained to provide reliable information for the preparation of financial statements.

The Audit Committee of the Board of Trustees of the Fund is responsible for overseeing management in the performance of its financial reporting responsibilities, and for recommending to the Board of Trustees to approve the financial information included in the annual report. The Audit Committee fulfils these responsibilities by reviewing the financial information prepared by management and discussing relevant matters with management and external auditors. The Audit Committee is also responsible for recommending the appointment of the Fund's external auditors.

KPMG LLP, an independent firm of Chartered Accountants, has been appointed by the Audit Committee to audit the financial statements and report directly to the Unitholders; their report follows. The external auditors have full and free access to both the Audit Committee and management to discuss their audit findings.

March 14, 2010

**"Darren T. Latoski"**  
Chief Executive Officer  
WesternOne Equity Income Fund

# INDEPENDENT AUDITORS' REPORT

To the Unitholders of WesternOne Equity Income Fund:

We have audited the accompanying consolidated financial statements of WesternOne Equity Income Fund ("the Fund"), which comprise the consolidated balance sheets as at December 31, 2010 and 2009 and the statements of income (loss) and comprehensive income (loss), statements of unitholders equity, and statements of cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

## **Management's Responsibility for the Financial Statements**

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with Canadian generally accepted accounting principles, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

## **Auditor's Responsibility**

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform an audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Fund's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Fund's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

## **Opinion**

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of WesternOne Equity Income Fund as at December 31, 2010 and 2009, and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

[signed]

KPMG LLP

Chartered Accountants

March 10, 2011

Vancouver, Canada

# WesternOne Equity Income Fund

## CONSOLIDATED BALANCE SHEETS

	As at December 31, 2010	As at December 31, 2009
<b>ASSETS</b>		
<b>CURRENT ASSETS</b>		
Cash and cash equivalents	\$ 3,991,637	\$ 2,069,887
Accounts receivable	9,476,079	6,139,001
Inventories	2,058,753	1,454,686
Deposits and prepaid expenses	576,756	511,944
	16,103,225	10,175,518
PROPERTY AND EQUIPMENT (Note 4)	35,923,304	29,536,303
INTANGIBLE ASSETS (Note 5)	22,080,330	24,353,964
GOODWILL	9,923,709	8,430,418
FUTURE INCOME TAXES (Note 8)	7,131,017	6,332,903
	\$ 91,161,585	\$ 78,829,106
<b>LIABILITIES AND UNITHOLDERS' EQUITY</b>		
<b>CURRENT LIABILITIES</b>		
Operating loans (Note 6)	\$ 2,608,318	\$ 1,740,870
Accounts payable and accrued liabilities	4,040,327	3,396,243
Distributions payable	694,452	691,932
Current portion of capital leases obligation (Note 12)	162,354	146,306
Current portion of term mortgage (Note 7)	17,941	16,815
Unearned revenue	64,775	73,876
Financial derivatives (Note 6)	88,914	-
Series A Debentures (Note 9)	9,144,260	-
Capital and acquisition loans (Note 6)	30,444,585	32,767,926
	47,265,926	38,833,968
CAPITAL LEASES OBLIGATION (Note 12)	569,924	267,767
TERM MORTGAGE (Note 7)	306,244	321,626
FINANCIAL DERIVATIVES (Note 6)	-	302,686
SERIES A DEBENTURES (Note 9)	-	8,805,704
2010 DEBENTURES (Note 9)	23,738,987	-
	71,881,081	48,531,751
UNITHOLDERS' EQUITY	19,280,504	30,297,355
	\$ 91,161,585	\$ 78,829,106

COMMITMENTS (Note 11)

SUBSEQUENT EVENTS (Note 19)

APPROVED ON BEHALF OF THE BOARD OF TRUSTEES

"Darren Latoski"

Trustee

"Douglas Scott"

Trustee

See accompanying Notes to the Consolidated Financial Statements

# WesternOne Equity Income Fund

## CONSOLIDATED STATEMENTS OF UNITHOLDERS' EQUITY

	Fund Units (Note 10)	Contributed Surplus	Equity component of convertible debentures (Note 9)	Retained deficit	Total Unitholders' Equity
<b>BALANCE, December 31, 2008</b>	<b>39,822,704</b>	<b>24,926</b>	<b>1,092,570</b>	<b>(5,642,829)</b>	<b>35,297,371</b>
Issuance of Units (net of issuance costs)	1,924,805				1,924,805
Issuance of units upon exercise of agent options	220,885				220,885
Employee unit-based compensation for the period		51,277			51,277
Net and comprehensive income for the period				1,131,410	1,131,410
Distributions declared				(8,328,393)	(8,328,393)
<b>BALANCE, December 31, 2009</b>	<b>41,968,394</b>	<b>76,203</b>	<b>1,092,570</b>	<b>(12,839,812)</b>	<b>30,297,355</b>
Issuance of units upon conversion of Series A Debentures	211,621		(23,216)		188,405
Equity component of 2010 Debentures (Note 9)			2,587,932		2,587,932
Employee unit-based compensation for the period		81,254			81,254
Net and comprehensive loss for the period				(5,475,587)	(5,475,587)
Distributions declared				(8,398,855)	(8,398,855)
<b>BALANCE, December 31, 2010</b>	<b>42,180,015</b>	<b>157,457</b>	<b>3,657,286</b>	<b>(26,714,254)</b>	<b>19,280,504</b>

See accompanying Notes to the Consolidated Financial Statements

# WesternOne Equity Income Fund

## CONSOLIDATED STATEMENTS OF INCOME/(LOSS) AND COMPREHENSIVE INCOME/(LOSS)

	Year ended December 31, 2010	Year ended December 31, 2009
<b>REVENUE</b>		
Equipment rental	\$ 24,991,329	\$ 19,287,199
Equipment sales	5,231,202	3,902,793
Parts, fuel, service and others	20,029,819	18,469,756
	<u>50,252,350</u>	<u>41,659,748</u>
<b>COST OF SALES</b>		
Equipment sold	4,397,095	3,539,622
Parts, fuel, service and others	10,983,350	10,055,199
	<u>15,380,445</u>	<u>13,594,821</u>
<b>GROSS PROFIT</b>	<u>34,871,905</u>	<u>28,064,927</u>
<b>OPERATING EXPENSES</b>		
General and administrative	9,403,570	7,419,625
Freight	4,139,591	2,812,109
Service	4,783,766	3,554,359
Sales	3,026,815	2,375,741
Interest	4,574,642	2,579,492
Amortization and depreciation	12,898,835	11,042,792
Accretion of debentures	578,559	225,605
	<u>39,405,778</u>	<u>30,009,723</u>
<b>OTHER EXPENSES</b>		
Loss on derivatives (Note 6)	14,127	54,695
Franchise termination fee (Note 5)	815,976	-
Impairment of intangible assets (Note 5)	909,725	-
	<u>1,739,828</u>	<u>54,695</u>
<b>LOSS BEFORE PROVISION FOR INCOME TAXES</b>	(6,273,701)	(1,999,491)
<b>FUTURE INCOME TAX RECOVERIES (Note 8)</b>	(798,114)	(3,130,901)
<b>NET AND COMPREHENSIVE INCOME/(LOSS)</b>	<u>\$ (5,475,587)</u>	<u>\$ 1,131,410</u>
Basic and diluted weighted average income/(loss) per unit	\$ (0.39)	\$ 0.08
Basic and diluted weighted average number of units outstanding	13,995,559	13,850,643

See accompanying Notes to the Consolidated Financial Statements

# WesternOne Equity Income Fund

## CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year ended December 31, 2010	Year ended December 31, 2009
<b>OPERATING ACTIVITIES</b>		
Net income/(loss)	\$ (5,475,587)	\$ 1,131,410
Items not affecting cash -		
Amortization of property and equipment	8,763,357	7,172,560
Amortization of intangible assets	4,135,478	3,870,232
Interest expense relating to amortization of transaction costs	514,844	368,208
Accretion of debentures	578,559	225,605
Future income tax recoveries	(798,114)	(3,130,901)
Gain on derivatives	(213,772)	(222,393)
Unit-based compensation	81,254	51,277
Impairment of intangible assets	909,725	-
Loss/(gain) on sale of property and equipment	(282,344)	38,979
	<u>8,213,400</u>	<u>9,504,977</u>
Changes in non-cash working capital balances -		
Accounts receivable	(2,540,048)	2,095,527
Inventories	(296,994)	(156,821)
Deposits and prepaid expenses	(3,163)	(159,290)
Accounts payable and accrued liabilities	528,095	(895,409)
Unearned revenue	(9,101)	(45,769)
	<u>5,892,189</u>	<u>10,343,215</u>
<b>INVESTING ACTIVITIES</b>		
Purchase of property and equipment	(8,185,105)	(1,882,999)
Proceeds from the sale of property and equipment	2,080,030	1,108,980
Acquisitions (Note 13)	(13,759,353)	-
	<u>(19,864,428)</u>	<u>(774,019)</u>
<b>FINANCING ACTIVITIES</b>		
Distributions paid	(8,396,335)	(8,297,305)
Units issued for cash (net of expenses)	-	2,145,690
Debentures issued for cash (net of expenses)	25,866,840	-
Repayment of term mortgage	(16,815)	(15,760)
Repayment of loans payable	(1,559,701)	(3,346,428)
	<u>15,893,989</u>	<u>(9,513,803)</u>
<b>NET CHANGE IN CASH AND EQUIVALENTS DURING THE YEAR</b>	<u>1,921,750</u>	<u>55,393</u>
<b>CASH AND EQUIVALENTS, BEGINNING OF YEAR</b>	<u>2,069,887</u>	<u>2,014,494</u>
<b>CASH AND EQUIVALENTS, END OF YEAR</b>	<u>\$ 3,991,637</u>	<u>\$ 2,069,887</u>
<b>Supplemental cash flow information:</b>		
Interest received	46,645	23,613
Interest paid	4,291,317	2,488,372
Conversion of convertible debentures into fund units	211,621	-
Assets under capital lease acquired	515,449	374,115

See accompanying Notes to the Consolidated Financial Statements

## 1. ORGANIZATION AND NATURE OF OPERATIONS

WesternOne Equity Income Fund (the “Fund”) is an unincorporated, open-ended, limited purpose trust created on June 14, 2006 and under the declaration of trust governed by the laws of British Columbia. The Fund is authorized to issue an unlimited number of units (“Units”) and special voting units. Each holder of a unit of the Fund (“Unitholder”) participates pro rata in any distribution of the Fund. The Fund was initially established to indirectly acquire the assets of Production Equipment Rentals Company and such other investments as the trustees of the Fund (the “Trustees”) may determine. The Fund commenced operations on August 15, 2006 when it completed its initial public offering (the “Offering”).

Through its indirectly owned subsidiaries, the Fund operates equipment rental, sale and service, and fuel wholesale and distribution businesses in British Columbia and Alberta.

At December 31, 2010, the Fund has a working capital deficiency of \$31,162,701 and incurred a loss for the year ended December 31, 2010 of \$5,475,587 (2009 – net income of \$1,131,410). Included in the working capital deficiency are capital and acquisition loans of \$30,444,585 and the Series A Debentures of \$9,144,260. Excluding these items and including the current portion of the capital and acquisition loans repayable in fiscal 2011 of \$5,559,001, the Fund has a working capital balance of \$2,867,143.

The Series A Debentures are convertible into Units at the option of the debenture holders or convertible into Units on maturity at the option of the Fund. Based on the current trading price of the Units, management anticipates that a significant portion of these debentures will convert into Units prior to maturity as evidenced through the subsequent event described in Note 19.

The Fund has financed its business acquisitions and expansion of its rental fleet through bank debt that is repayable on demand, although scheduled repayment terms occur over the next five years (Note 6). The Fund has used demand loans in order to minimize interest expense. The Fund believes it could convert these loans into long term if desired, albeit with a

higher interest cost. In 2010, the Fund successfully renegotiated these loans in order to fund the acquisition of the assets of On\*Site Equipment (Note 13). As at December 31, 2010, the Fund was in compliance with all bank covenants.

The Fund generated a net loss for the year, mainly as a result of the first half of the year, due to the recession which impacted the economic activity level in British Columbia and Alberta in the latter half of 2009 and into the first half of 2010. The Fund’s results improved in the latter half of 2010 along with the economic recovery in British Columbia and Alberta and the Fund is forecasting improved results for 2011. The Fund has consistently generated positive cash flow from operations.

Based on the performance of the Fund to date, the renegotiation of the capital and acquisition loans during 2010 (Note 6), and the support from the Bank to date, the Fund does not believe there is any significant risk of having to repay such loans on dates earlier than the scheduled repayment dates. As a result of this determination, the Fund has concluded that it is a going concern and that there is no substantial doubt as to the Fund’s ability to continue as a going concern in the foreseeable future.

## 2. ADOPTION OF NEW ACCOUNTING STANDARDS

### *International Financial Reporting Standards*

In February 2008, the Accounting Standards Board confirmed the date of changeover from generally acceptable accounting principles (“GAAP”) to International Financial Reporting Standards (“IFRS”). Canadian publicly accountable enterprises must adopt IFRS for their interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011. The Fund has developed a three-phase IFRS transition work plan, and after having completed the preliminary impact assessment, has identified four key potential areas of impact. These areas are: election of options and application of exceptions under IFRS 1, classification of Fund units, impairment of assets, and financial instruments. The Fund is currently in the final stages of its IFRS transition work plan and is working to finalize and quantify the impact of IFRS in these areas.

### 3. SIGNIFICANT ACCOUNTING POLICIES

These consolidated financial statements are prepared under Canadian GAAP and are stated in Canadian dollars. The Fund has consolidated the assets, liabilities and equity of all subsidiaries after the elimination of inter-entity transactions and balances. The consolidated financial statements include the accounts of the Fund, and its wholly owned subsidiaries, WesternOne Equity GP Inc. and WesternOne Equity Operating Trust. These two subsidiaries in turn include the accounts of their subsidiaries, WesternOne Equity LP, WEQ Production Equipment GP Inc., WEQ Production Equipment LP, WEQ Old Country Rentals GP Inc., WEQ Old Country Rentals LP, WEQ C&N Rentals GP Inc., WEQ C&N Rentals LP, WEQ Deerfoot Rentals GP Inc., WEQ Deerfoot Rentals LP, WEQ Heat & Propane GP Inc., and WEQ Heat & Propane LP.

Certain comparative figures have been reclassified to conform with presentation adopted in the current year.

#### (a) Financial Instruments

The Fund's financial assets and financial liabilities are initially recognized at their fair value and their subsequent measurement is dependent on their classification or designation as described below. Their classification or designation depends on the purpose for which the financial instruments were acquired or issued and their characteristics. Financial instruments classified or designated as held for trading are measured at fair value with gains and losses recognized in net income. Available-for-sale financial instruments are measured at fair value, with unrealized gains and losses recognized in other comprehensive income. Financial instruments classified as held-to-maturity, loans and receivables, and other liabilities are measured at amortized cost.

The following is a summary of each significant category of financial instruments outstanding as at December 31, 2010:

Cash and cash equivalents.....	Held-for-trading
Financial derivatives* .....	Held-for-trading
Accounts receivable .....	Loans and receivables

Operating loans .....	Other liabilities
Accounts payable and accrued liabilities .....	Other liabilities
Distributions payable .....	Other liabilities
Capital and acquisition loans .....	Other liabilities
Term mortgage .....	Other liabilities
Debentures .....	Other liabilities

\* These derivative instruments have not been designated as hedges for accounting purposes and are fair valued on a quarterly basis

Transaction costs that are directly attributable to the acquisition or issue of a financial asset or financial liability are netted against the fair value of the financial instrument on initial recognition, with the exception of transaction costs related to financial instruments that are classified as held for trading. These transaction costs are then amortized over the expected life of the financial instrument using the effective interest method. Transaction costs related to held for trading financial instruments are expensed as incurred.

#### (b) Measurement uncertainty

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Areas requiring significant management estimates include the valuation, impairment and useful life of intangible assets, goodwill and property and equipment, valuation of future income taxes, and fair values of financial instruments. These estimates are reviewed periodically (at least annually) and, as adjustments become necessary, they are reported in earnings in the period in which they become known.

Other areas requiring the use of management estimates include the accrual of unbilled revenue at year end, and the valuation of accounts receivable and service parts inventory.

Changes to the underlying assumptions and estimates or legislative changes in the near term could have a material impact on any estimates recognized.

**(c) Revenue recognition**

Revenue from rental contracts and logistical support is recognized in the period in which the related services have been provided and collectability is reasonably assured.

Service revenue, comprised of the sale of parts and equipment servicing, is recognized when the parts are delivered, the related services have been rendered, and collectability is reasonably assured.

Revenue from fuel wholesale and distribution is recognized at the time when the fuel is delivered, the related services have been rendered, and collectability is reasonably assured.

Revenue from equipment held for resale is recognized at the time at which the contract is signed by the purchaser, all significant risks and rewards of ownership have been transferred to the purchaser, and collectability is reasonably assured.

**(d) Cash and cash equivalents**

Cash and cash equivalents consist of cash on hand and bank balances, plus short term investments with stated maturity dates of less than 90 days. Short term investments in this category are valued at quoted market value.

**(e) Inventories**

New and used equipment inventories are recorded at the lower of cost and net realizable value, with cost determined on a specific item basis. New and used equipment inventory write-downs are included in cost of sales.

Parts inventories are valued at the lower of cost and net realizable value, with cost generally being determined on a weighted-average basis. Parts inventory write-downs are included in cost of sales.

**(f) Property and equipment**

Property and equipment are recorded at cost. The Fund amortizes its property and equipment over their estimated useful lives on a straight-line basis as follows:

Rental fleet.....	1-8 years
Tractors and trailers.....	7 years
Furniture, fixtures and equipment.....	5 years
Computer equipment and software.....	5 years
Leasehold improvements ..	lesser of 5 years and the remaining term of the lease

Amortization commences in the month in which the related assets are acquired, and therefore there is no reduction in the rate for the year of acquisition.

Management reviews these assets for impairment whenever changes in circumstances indicate that the carrying amount of an asset may not be recoverable from expected undiscounted future cash flows from their expected use and eventual disposition. If such assets are considered to be impaired, the impairment to be recognized is measured as the amount by which the carrying amount of the assets exceeds their estimated fair value. Any impairment is included in income for the period in which the impairment is recognized.

**(g) Intangible assets**

Identifiable intangible assets are recorded at cost, less any provision for permanent impairment. The Fund does not amortize its intangible assets with indefinite lives. The Fund amortizes its intangible assets with definite lives over their estimated useful lives on a straight-line basis:

Customer relationships.....	10 years
Non-competition agreements .....	1-3 years
Franchise Agreements.....	12 years
Brand name .....	nil

Management reviews intangible assets with definite lives for impairment whenever changes in circumstances indicate the carrying amount of an asset may not be recoverable from expected undiscounted future cash flows from their expected use and eventual disposition. Management reviews intangible assets with indefinite lives for impairment at least annually. If such assets are considered impaired, the impairment to be recognized is measured as the amount by which the carrying amount of the assets exceed their estimated fair value. Fair value is estimated using discounted cash

flows. Any impairment is included in income for the period in which the impairment is recognized.

***(h) Goodwill***

Goodwill represents the excess of the cost of an acquired enterprise over the net of the amounts assigned to assets acquired and liabilities assumed less any subsequent write-downs for impairment. Goodwill is not amortized and is reviewed for impairment at least annually or whenever events or changes in circumstances indicate that the carrying amount may be impaired. Goodwill impairment is assessed based on a comparison of the fair value of a reporting unit to the underlying carrying value of the reporting unit's net assets, including goodwill. If goodwill is considered to be impaired, the impairment to be recognized is measured as the amount by which the carrying amount of the goodwill exceeds its estimated fair value.

***(i) Foreign currency translation***

Assets bought and sold during the period and transactions relating to income in foreign currencies are translated into Canadian dollars at the rate in effect at the time of the related transaction. Monetary assets and liabilities in foreign currencies at the close of the year are translated into Canadian dollars at the rate prevailing at the balance sheet date.

Foreign exchange gains or losses arise from recording the difference between foreign currency balances translated at rates prevailing at period-end and balances translated at rates prevailing on transaction dates. Foreign currency gains and losses are included in the results of operations in the period in which they occur.

***(j) Income taxes and future income taxes***

In 2007, the Federal Government of Canada amended the Income Tax Act to impose an entity level specified investment flow-through tax (the "SIFT Tax") on Canadian publicly listed income trusts effective January 1, 2011. As a result of the SIFT tax, starting from January 1, 2011, the Fund is subject to income taxes at a rate approximately equal to the rate applicable to income earned by a Canadian public corporation, and is prevented from

deducting trust distributions when calculating taxable income. Unitholders will be treated as if they have received an eligible dividend from a Canadian public corporation equal to the taxable portion of their distributions and will be taxed accordingly.

Future income tax assets and liabilities are determined based on the temporary differences between the tax basis of the Fund's assets and liabilities and the amounts reported in the financial statements, to the extent that such temporary differences are expected to reverse on or after January 1, 2011. Future tax assets or liabilities are calculated using the tax rates for the periods in which the differences are expected to be settled. Currently the enacted or substantively enacted tax rate is 26.5% for 2011 and 25.0% thereafter. Future tax assets are recognized to the extent that they are considered more likely than not to be realized.

***(k) Income/(loss) per unit***

Basic income per unit of the Fund is calculated by dividing income by the weighted average number of units outstanding during the reporting period. Diluted income per unit is calculated by dividing income by the sum of the weighted average number of Units outstanding used in the basic income per Unit calculation and the number of Units that would be issued assuming a dilutive effect of the conversion of the Series A Debentures and 2010 Debentures (Note 9). The impact of the conversion feature is calculated using the if-converted method.

***(l) Long-term incentive plan***

Under the terms of a long-term incentive plan ("LTIP"), 15% to 20% of distributable cash in excess of an established threshold may be set aside, subject to approval of the Fund's compensation committee (the "Compensation Committee"), to purchase Units of the Fund, as required, in the market for certain employees. The cost is accrued in the period when distributable cash exceeds the thresholds established by the LTIP and amortized to general and administrative expenses in the vesting period of the applicable employee award.

For the year ended December 31, 2010, the Compensation Committee approved \$Nil of LTIP (2009 - \$Nil).

*(m) Unit-based Compensation and Other Unit-based Payments*

The Fund grants Unit options to directors, trustees and employees pursuant to a Unit-based compensation plan described in Note 17. Compensation expense is recorded for Unit

options issued to such individuals using the fair value method with a corresponding increase in contributed surplus. Any consideration received on exercise of options or the purchase of Units is credited to Fund Units.

Under the fair value based method, Unit based payments made to employees are measured at the grant date and amortized on a straight-line basis over the vesting period of the options.

**4. PROPERTY AND EQUIPMENT**

	December 31, 2010		
	Cost	Accumulated Amortization	Net Book Value
Rental fleet	\$ 47,985,100	\$ 16,902,652	\$ 31,082,448
Building	128,017	19,392	108,625
Land	481,133	-	481,133
Tractors and trailers	3,688,355	785,373	2,902,982
Furniture, fixtures and equipment	1,431,717	592,895	838,822
Computer equipment	485,433	211,978	273,455
Leasehold improvements	461,108	225,269	235,839
	<u>\$ 54,660,863</u>	<u>\$ 18,737,559</u>	<u>\$ 35,923,304</u>
	December 31, 2009		
	Cost	Accumulated Amortization	Net Book Value
Rental fleet	\$ 35,912,836	\$ 9,859,443	\$ 26,053,393
Building	128,017	12,785	115,232
Land	481,133	-	481,133
Tractors and trailers	1,972,295	418,860	1,553,435
Furniture, fixtures and equipment	1,156,727	327,771	828,956
Computer equipment	370,348	129,049	241,299
Leasehold improvements	401,407	138,552	262,855
	<u>\$ 40,422,763</u>	<u>\$ 10,886,460</u>	<u>\$ 29,536,303</u>

## 5. INTANGIBLE ASSETS

	December 31, 2010		
	Cost	Accumulated Amortization	Net Book Value
Customer relationships	\$ 30,154,050	\$ 9,529,700	\$ 20,624,350
Brand name	782,017	-	782,017
Non-competition agreements	3,151,265	2,477,302	673,963
	\$ 34,087,332	\$ 12,007,002	\$ 22,080,330

  

	December 31, 2009		
	Cost	Accumulated Amortization	Net Book Value
Customer relationships	\$ 27,517,223	\$ 6,580,216	\$ 20,937,007
Brand name	782,017	-	782,017
Franchise Agreements	1,164,448	181,945	982,503
Non-competition agreements	3,064,417	1,411,980	1,652,437
	\$ 32,528,105	\$ 8,174,141	\$ 24,353,964

During the year ended December 31, 2010, an impairment on intangible assets of \$909,725 (2009 – nil) was recognized as a result of terminating a franchise agreement.

## 6. CREDIT FACILITIES

The Fund's credit facilities consist of the following:

	December 31, 2010		December 31, 2009
	Approved	Carrying Value	Carrying Value
Operating loans	\$ 5,750,000	\$ 2,608,318	\$ 1,740,870
Capital loans:			
Non-revolving	1,638,920	1,638,920	2,087,881
Revolving:	14,500,000		
Loan #1		6,089,445	7,029,522
Loan #2		2,088,437	1,130,433
Loan #3		720,000	-
Loan #4		1,691,000	-
Loan #5		972,000	-
Loan #6		692,813	-
Other		969,001	-
	16,138,920	14,861,616	10,247,836
Acquisition loans:	15,582,969		
Loan #1		6,254,533	7,478,034
Loan #2		9,328,436	10,956,950
Loan #3		-	4,085,106
	15,582,969	15,582,969	22,520,090
Capital and Acquisition loans	31,721,889	30,444,585	32,767,926
Total Credit Facilities	\$ 37,471,889	\$ 33,052,903	\$ 34,508,796

The following table illustrates the funding dates, maturity dates and interest rates as at December 31, 2010 for the Capital and Acquisition Loans described above:

Loan	Funding Date	Maturity Date	Interest Rate at Dec 31, 2010
Non-Revolving	August 14, 2006	August 13, 2013	4.20%
Revolving:			
Loan #1	July 2, 2010	July 1, 2014	4.20%
Loan #2	July 2, 2010	July 1, 2015	4.70%
Loan #3	September 14, 2010	September 13, 2015	4.70%
Loan #4	September 15, 2010	September 14, 2015	4.70%
Loan #5	September 28, 2010	September 27, 2015	4.70%
Loan #6	November, 16, 2010	November 15, 2015	4.70%
Acquisition Loans:			
Loan #1	February 15, 2008	February 14, 2013	4.50%
Loan #2	October 1, 2008	September 30, 2013	4.50%

A single Canadian chartered bank (the “Bank”) has made the above credit facilities available to various entities indirectly owned by the Fund to finance day-to-day operations, capital expenditures, and acquisitions.

The Bank has provided the operating loans payable upon demand. The operating loans are at the Bank’s prime rate plus 1.25% and are secured by 50% of inventory and 75% of acceptable (as defined in the operating loan agreement) accounts receivable, minus priority claims. The operating loan has no stated maturity date and is due on demand.

On July 2, 2010, the Fund completed refinancing and consolidating its existing capital loans (the “Refinancing”). The comparative figures of the capital loans have been reclassified to conform with presentation adopted after the Refinancing.

The capital and acquisition loans are repayable on demand, and unless and until demanded in monthly installments with interest, at the Fund’s option, at the Bank’s prime rate plus a range of 1.20% to 1.70%, or the Bank’s banker’s acceptance rate plus a stamping fee with a range of 2.70% to 3.20%. Unless repaid on demand to the Bank, the non-revolving capital loan shall be repaid in full by August 13, 2013. Unless repaid on demand to the Bank, the revolving capital and acquisition loans shall be repaid

in full on the fourth or fifth anniversary of the date of such advance made. The costs of obtaining the capital and acquisition loans are being amortized over the terms of the respective loans, resulting in an effective interest rate at December 31, 2010 of 4.53% (2009 – 3.70%) for the capital loans and 4.61% (2009 – 3.98%) for the acquisition loans.

On July 2, 2008, the Fund entered into an interest rate swap with the Bank. The swap has a three-year term, a notional value of \$9,312,000 at the commencement of the swap, and a fixed rate of 4.08% plus a stamping fee of 3.00% as at December 31, 2010. The Fund has not applied hedge accounting to this swap, and as a result recorded a financial derivative liability of \$88,914 at December 31, 2010 (2009 - \$302,686). The Fund marks the value of this derivative to market every quarter, and any resulting gains/losses are recorded in net income. The fair value of the interest rate swap is determined based on inputs that are readily available in public markets or can be derived from information available in publicly quoted markets. Therefore, the Fund has categorized this swap contract as Level 2.

The fair value of debt not due on demand was determined using the discounted cash flow forecast, at an appropriate market

discount rate as at December 31, 2010. The fair value of the interest rate swap was determined by discounting the future expected net cash flows of the fixed and variable interest payments using observable market data. The Fund's credit risk was considered in the fair value calculation of the interest rate swap.

The credit facilities have covenants specifying a minimum current ratio of 1.25 to 1.0, a maximum funded debt to earnings (as defined in the credit facilities agreement) ratio of 3.0 to 1.0, a minimum debt service coverage ratio of 1.25 to 1.0, and a restriction on increases in distributions to Unitholders and future acquisitions without the prior written consent of the Bank. For purposes of calculating the current ratio, 25% of the Series A Debentures and capital and acquisition loans that are due within one year are included in current liabilities. As at December 31, 2010 the Fund was in compliance with all bank covenants.

A general security agreement providing a charge over all assets of the Fund has been provided as collateral to the Bank.

Assuming that the contractual requirements of the capital and acquisition loans are met, and the demand feature is not exercised by the Bank, the minimum principal repayments required are as follows:

2011.....	\$ 5,559,001
2012.....	5,849,839
2013.....	11,930,531
2014.....	4,162,504
2015 and thereafter.....	<u>2,967,639</u>
	30,469,514
Balance of transaction costs to amortize.....	<u>(24,929)</u>
	<u>\$ 30,444,585</u>

## 7. TERM MORTGAGE

The Fund obtained, through a wholly-owned indirect subsidiary, a term mortgage, during 2008. The initial term of this mortgage is 4 years, and is being amortized over a period of 15 years. The fixed nominal interest rate of the mortgage is 6.50%, and the effective interest rate, including the amortization of transaction costs is 7.37%. This mortgage consists of blended principal and interest payments. At the end of the initial four-year term (April 11, 2012), a principal amount of \$303,349 will remain outstanding. A general security agreement providing a charge over all assets of the Fund has been provided as collateral to the lending institution. The minimum principal payments of the initial term of this mortgage are as follows:

2011.....	\$ 17,941
2012.....	<u>309,574</u>
	327,515
Balance of transaction costs to amortize....	<u>(3,330)</u>
	324,185
Less current portion.....	<u>(17,941)</u>
	<u>\$ 306,244</u>

As at December 31, 2010 the market rate of the mortgage payable was not materially different from the nominal rate. Therefore, the fair value of the mortgage payable is the same as the carrying value.

**8. FUTURE INCOME TAXES**

The reconciliation to statutory tax rate is as follows:

	December 31, 2010	December 31, 2009
Loss before taxes	\$ (6,273,701)	\$ (1,999,491)
Statutory tax rate	28.2%	29.5%
Expected tax recovery	\$ (1,769,184)	\$ (589,250)
Current year's income not taxable for tax purposes	1,769,184	589,250
Increase in future income tax recovery resulting from a change during the period in temporary differences expected to reverse after 2010	(798,114)	(3,130,901)
Future income tax recovery	\$ (798,114)	\$ 3,130,901

The tax effects of temporary differences that give rise to the future income tax asset/(liability) are as follows:

	December 31, 2010	December 31, 2009
Future income tax asset/(liability):		
Issue costs	\$ (31,416)	\$ 13,300
Intangible assets	3,128,836	2,689,562
Property, plant and equipment	4,034,136	3,575,559
Others	(539)	54,482
	\$ 7,131,017	\$ 6,332,903

**9. DEBENTURES****(a) Series A Debentures**

As part of the Offering, the Fund issued 100,000 5-year 9% senior secured convertible debentures – Series A (“Series A Debentures”) at \$100 per Series A Debenture, for proceeds of \$10,000,000.

At any time after August 15, 2008, on not more than 60 days’ notice and not less than 30 days’ notice, the Fund may redeem the Series A Debentures at a price equal to the principal amount thereof plus accrued and unpaid interest up to but excluding the date of redemption, provided that the current market price (defined as “the weighted average trading price of the Units on the Toronto Stock Exchange (the “Exchange”) for the 20 consecutive trading days ending on the fifth trading day preceding such date”) of the Units on the day preceding the date on which notice of redemption is given is at least 125% of the conversion price of \$4.20 per Unit. The redemption can be settled in cash or through the issuance of Units.

At maturity on August 15, 2011, the Fund shall repay the outstanding principal amount of the Series A Debentures, along with any accrued or unpaid interest, or, at the Fund’s sole option, upon providing not less than 30 days’ notice and not more than 60 days’ notice, the Series A Debentures shall be converted into such number of Units as is determined by dividing the principal amount of Series A Debentures plus accrued and unpaid interest by the value of Units obtained by calculating 95% of the weighted average trading price of the Units on the Exchange during the prior 20 consecutive days on which Units are traded.

The holders of Series A Debentures are permitted to convert all or any part of the principal of, and accrued interest on, the Series A Debentures held by them into Units at the conversion price of \$4.20 per Unit at any time prior to the maturity of the Series A Debentures, subject to anti-dilution provisions.

As required by Canadian GAAP, the Fund separated the liability and equity component of the Series A Debentures. Proceeds from the issuance of the Series

A Debentures were allocated to the equity and liability components of the Debentures using the residual method. The fair value of the equity component was determined using the Black-Scholes pricing model. The difference between the proceeds received and the fair value of the equity component calculated at the date of issuance was allocated as the liability component. The liability component will be accreted through the term of the Series A Debentures through the recording of an accretion expense using the effective interest method, until such date if or when all underlying Series A Debentures are converted into Units.

Cash financing costs in the amount of \$1,060,332 were incurred in the issuance of the Series A Debentures. The financing costs were netted against the Series A Debentures and amortized the using effective interest method. The effective interest rate as at December 31, 2010 was 15.0% (2009 – 15.0%).

The following summarizes the face and carrying value of the liability and equity component of the Series A Debentures at December 31, 2009 and December 31, 2010:

	Liability Component		Equity Component
	Face Value	Carrying Value	Carrying Value
Balance as at December 31, 2009	\$ 9,701,900	\$ 8,805,704	\$ 1,092,570
Conversion to Units	(208,000)	(184,784)	(23,216)
Amortization and Accretion		523,340	
Balance as at December 31, 2010	\$ 9,493,900	\$ 9,144,260	\$ 1,069,354

At closing of the Series A Debentures on August 15, 2006, the Fund granted the agents an option to purchase a certain principal number of Series A Debentures equal to 5% of the principal amount of Series A Debentures under the offering. The price to purchase the Series A Debentures under the Agents' Options was equal to the price under the offering, which was \$100 per Series A Debenture. The Agents' Options were expired on August 14, 2009.

The Series A Debentures rank senior to the Units and 2010 Debentures (as defined under note 9(b) below), pari passu in all respects with any other Series A Debentures issued from time to time, and are subordinate to senior security and permitted encumbrances.

The fair value of Series A Debentures, which was determined using the closing price at the Exchange as at December 31, 2010, was \$9,778,717 (2009 – \$9,799,889) for all outstanding debentures.

#### **(b) 2010 Debentures**

On February 26, 2010, the Fund completed a public offering of 27,600 8.50% unsecured convertible subordinated debentures (the "2010 Debentures") at

\$1,000 per debenture, for gross proceeds of \$27,600,000. The 2010 Debentures will mature on December 31, 2015.

On and after December 31, 2013 and prior to December 31, 2014, the 2010 Debentures are redeemable in whole or in part from time to time at the Fund's option at par plus accrued and unpaid interest, provided that the volume-weighted average trading price of the Units on the Exchange during the 20 consecutive trading days ending on the fifth trading day preceding the date on which notice of redemption is given is not less than 125% of the conversion price of \$5.25 per Unit. On and after December 31, 2014, the 2010 Debentures are redeemable at the Fund's option at any time at par plus accrued and unpaid interest. The redemption can be settled in cash or through the issuance of Units.

At maturity on December 31, 2015, the Fund has the option, upon not more than 60 nor less than 40 days' prior notice, to satisfy its obligations to pay on maturity, the principal amount of the 2010 Debentures, in whole or in part, by delivering freely tradeable Units. Any accrued and unpaid interest will be paid in cash. In such event, payment will be

satisfied by delivering for each \$1,000 due, that number of freely tradeable Units obtained by dividing \$1,000 by 95% of the volume-weighted average trading price of the Units on the Exchange for the 20 consecutive trading days ending five trading days prior to the date of maturity.

The 2010 Debentures are convertible at the holder's option into fully paid Units at any time prior to the close of business on the earlier of maturity and the business day immediately preceding the date fixed for redemption at a conversion price of \$5.25 per Unit, subjected to standard anti-dilutive provisions.

As required by Canadian GAAP, the Fund separated the liability and equity component of the 2010 Debentures. Proceeds from the issuance of the 2010 Debentures were allocated to the equity and liability components of the 2010 Debentures using the residual method. The fair value of the equity component was determined using the Black-Scholes pricing model. The difference between the proceeds

received and the fair value of the equity component calculated at the date of issuance was allocated as the liability component. The liability component will be accreted through the term of the 2010 Debentures through the recording of an accretion expense using the effective interest method, until such date if or when all underlying 2010 Debentures are converted into Units.

Cash financing costs in the amount of \$1,733,160 were incurred in the issuance of the 2010 Debentures. The financing costs were netted against the 2010 Debentures and amortized the using effective interest method. The effective interest rate as at December 31, 2010 was 12.18%.

The following summarizes the face and carrying value of the liability and equity component of the 2010 Debentures at December 31, 2010:

	<b>Liability Component</b>		<b>Equity Component</b>
	Face Value	Carrying Value	Carrying Value
Balance as at issuance on February 26, 2010	\$ 27,600,000	\$ 23,278,908	\$ 2,587,932
Amortization and Accretion		460,079	
Balance as at December 31, 2010	\$ 27,600,000	\$ 23,738,987	\$ 2,587,932

The payment of the principal of, and interest on, the 2010 Debentures are subordinated in right of payment to all senior obligations of the Fund, including all senior security and Series A Debentures. The 2010 Debentures rank pari passu with other series of debentures issued under the trust indenture of the 2010 Debentures, and rank senior to the Units.

The fair value of 2010 Debentures, which was determined using the closing price at the Exchange as at December 31, 2010, was \$27,876,000 for all outstanding debentures.

## 10. FUND UNITS

An unlimited number of Units may be created and issued by the Fund pursuant to the Declaration of Trust. Each Unit is transferable and represents an equal undivided beneficial interest in any distributions from the Fund. The Units are not subject to future calls or assessments, and entitle the Unitholders thereof to one vote at all meetings of voting Unitholders. The Units are redeemable at any time on demand by the holders thereof, subject to certain terms and conditions.

The following summarizes changes to the Fund’s Units for the year ended December 31, 2010:

	Fund Units <sup>(1)</sup>	Fund Units Outstanding	Exchangeable Units Outstanding <sup>(2)</sup>
Balance as at December 31, 2009	\$ 41,968,394	13,838,634	125,000
Issuance of Units upon conversion of Series A Debentures	211,621	50,386	
Balance as at December 31, 2010	\$ 42,180,015	13,889,020	125,000

Notes:

<sup>(1)</sup> Amounts are net of transaction costs where applicable.

<sup>(2)</sup> On February 15, 2008, pursuant to the acquisition of the assets of Deerfoot, WEQ Deerfoot Rentals LP, an indirect subsidiary of the Fund, issued 125,000 exchangeable units (“Exchangeable LP Units”) at \$4.00 per unit for net proceeds of \$500,000. Under the terms of the exchange agreement dated February 15, 2008, the Exchangeable LP Units are convertible to Units on a one-for-one basis at the option of the holder. The Exchangeable LP Units do not have voting rights, but have economic rights equivalent to the Fund’s Units.

During the period from the creation of the Fund on June 14, 2006 to December 31, 2010, a total of 13,889,020 Units and 125,000 Exchangeable LP Units were issued for \$46,618,063 excluding offering costs.

On February 19, 2009, the Fund issued 558,659 Units for net proceeds of \$1,924,805 after deducting expenses of \$198,099.

At closing of the Offering, the Fund granted the agents an option (“Agents’ Options”) to purchase a certain number of Units equal to 5% of the Units issued under the Offering. The price to purchase the Units was equal to the price under the Offering, which was \$3.50 per Unit. The Agents’ Options were expired on August 14, 2009.

## 11. COMMITMENTS

### (a) Minimum operating lease commitments

The Fund, through its indirectly owned subsidiaries, has entered into operating lease agreements for its operating assets. The leases require monthly payments, and have maturity dates ranging from January 2011 to August 2014. The minimum operating lease commitments, over the next five years, are as follows:

2011 .....	\$ 410,871
2012 .....	242,034
2013 .....	100,903
2014 .....	32,603

### (b) Minimum rental commitments

The Fund, through its indirectly owned subsidiaries, has the following minimum rental commitments for premises over the next five years:

2011 .....	\$ 1,808,739
2012 .....	1,564,735
2013 .....	1,288,397
2014 .....	898,703
2015 .....	649,056
Thereafter .....	2,631,705

The Fund periodically rents temporary space on an as required basis.

## 12. CAPITAL LEASES

The Fund, through its indirectly owned subsidiaries, has entered into capital lease agreements for assets that are part of the property and equipment. The leases have maturity dates ranging from November 2011 to September 2015, at imputed interest ranging from 4.20% to 10.89%, and all capital lease agreements have the option or requirement to purchase the assets at the end of the lease. The assets are being amortized consistent with the fund’s amortization policy, and at December 31, 2010 had a book value of \$889,564, with \$113,091 in accumulated amortization.

The following table illustrates the lease commitments:

2011	\$ 218,523
2012	207,202
2013	234,163
2014	162,921
2015	<u>18,320</u>
	841,129
Less: Amount representing interest	<u>(108,851)</u>
	732,278
Less: Current portion	<u>(162,354)</u>
Non-current portion	<u>\$ 569,924</u>

The fair values of the capital leases are not materially different from their carrying values.

Allocation of purchase price	
Accounts receivable, net	\$ 797,030
Inventory	307,073
Prepaid expenses	61,649
Accounts payable and accrued liabilities	(115,989)
Property and equipment	8,444,730
Intangible assets:	
Customer relationships	2,636,827
Non-compete agreements	134,742
Goodwill	1,493,291
	<u>\$ 13,759,353</u>
Consideration:	
Cash	\$ 13,328,375
Direct acquisition costs	430,978
	<u>\$ 13,759,353</u>

### 14. CAPITAL DISCLOSURES

The Fund’s capital currently consists of cash and cash equivalents, credit facilities (including capital and acquisition loans), debentures and issued unit capital.

The Fund’s objective when managing capital is to maximize long-term Unitholder value by:

- Maintaining a flexible capital structure that optimizes the cost of capital at acceptable risk and preserves the ability to meet financial obligations; and
- Providing a return to Unitholders by delivering monthly cash distributions.

### 13. ACQUISITION

On April 1, 2010, pursuant to an acquisition agreement dated April 1, 2010, WEQ Deerfoot Rentals LP, an indirect subsidiary of the Fund, purchased the assets of On\*Site Equipment (“OnSite”) from the partners of OnSite.

The purchase price was paid in cash, and the acquisition was accounted for using the purchase method. The allocation of the purchase price to the estimated fair value of the net assets acquired is as follows:

In managing its capital structure, the Fund monitors performance throughout the year to ensure anticipated cash distributions, working capital requirements and maintenance capital expenditures are funded from operations, available cash on deposit and where applicable, bank borrowings. The Fund will make adjustments to its capital structure to meet the objectives of the broader corporate strategy or in response to changes in economic conditions and risk. In order to maintain or adjust the capital structure, the Fund may adjust the amount of cash distributions to Unitholders, borrow funds and/or issue new Units.

The Fund’s credit facilities have restrictive covenants relating to debt incurrence and distributions to Unitholders. Furthermore, the credit facilities contain financial covenants, as described in Note 6 above, that also form the basis for the Fund to monitor its capital. The Fund closely monitors the business

performance to evaluate compliance with the covenants. As at December 31, 2010, the Fund is in compliance with all such covenants.

## 15. FINANCIAL INSTRUMENTS

### (a) Comparison of fair value to carrying value

Financial instruments consist of cash and cash equivalents, accounts receivable, financial derivatives, operating loans, accounts payable and accrued liabilities, distributions payable, capital and acquisition loans, mortgage payable, Series A Debentures, and 2010 Debentures. The carrying values of the financial instruments, except for the capital and acquisition loans, mortgage payable, Series A Debentures and 2010 Debentures, are considered to approximate their fair values due to their short term nature. The face values of the capital and acquisition loans approximate their fair values as they are due on demand. The fair value of the mortgage payable is based on discounted future cash flows using discount rates that reflect current market conditions for instruments having similar terms and conditions.

### (b) Credit risk

Credit risk is the risk of financial loss to the Fund if a customer or counterparty to a financial instrument fails to meet its contractual obligation. The maximum exposure to credit risk is the full carrying value of the financial instrument.

The Fund is exposed to credit risk with respect to its accounts receivable, particularly from customers in the construction industry in British Columbia and Alberta due to its concentration of business in that sector. The Fund mitigates the risk by means of a diverse customer base in the construction (industrial, commercial, infrastructure, and residential) as well as other sectors, in which there was no single account receivable balance in excess of 10% of the Fund's consolidated accounts receivable balance as at December 31, 2010. In general, the Fund mitigates the risk by following a program of credit evaluations of customers and limits the amount of credit extended when deemed necessary. The Fund maintains provisions for potential credit losses.

Aging of receivables is as follows:

	December 31, 2010	December 31, 2009
Trade receivables, gross		
Outstanding 1-30 days	\$ 5,029,316	\$ 3,852,073
Outstanding 30-60 days (past due)	2,629,517	1,275,828
Outstanding over 60 days (past due)	824,460	697,376
	8,483,293	5,825,277
Allowance for doubtful accounts	(163,135)	(239,032)
Trade receivables, net	8,320,158	5,586,245
Sales tax and other receivables	1,155,921	552,756
<b>Accounts Receivable</b>	<b>\$ 9,476,079</b>	<b>\$ 6,139,001</b>

### (c) Liquidity risk

Liquidity risk is the risk that the Fund will not be able to meet its obligations as they fall due.

The Fund manages its liquidity risk through cash and

debt management. As at December 31, 2010, the Fund had available unused approved credit facilities of \$4,418,986. The Fund also has accounts receivable of \$9,476,079, and cash and cash equivalents totalling \$3,991,637.

The timing of estimated cash outflows (including interest) relating to financial liabilities and capital lease obligations are outlined in the table below:

	1 year	2 years	3 years	4-5 years	beyond 5 years	Total	Carrying Value
Accounts payable and accrued liabilities	\$ 4,040,327					\$ 4,040,327	\$ 4,040,327
Distributions payable	694,452					694,452	694,452
Capital leases	218,523	207,202	234,163	181,241		841,129	732,278
Term mortgage	38,700	319,474				358,174	324,185
Interest rate swap	80,055					80,055	88,914
Capital and acquisition loans*	6,885,685	6,848,351	12,528,779	7,454,182		33,716,997	30,444,585
Debentures	12,373,932	2,346,000	2,346,000	29,946,000		47,011,932	32,883,247
Totals	\$ 24,331,674	\$ 9,721,027	\$ 15,108,942	\$ 37,581,423	\$ -	\$ 86,743,066	\$ 69,207,988

\* The capital and acquisition loans are repayable on demand.

**(d) Interest rate risk**

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

The Fund’s credit facilities bear interest at variable rates.

For the twelve months ended December 31, 2010, the increase or decrease in net earnings for each one percent change in interest rates on floating rate debt amounts to \$309,944.

The Fund is managing its interest rate risk, in part, through an interest rate swap (see Note 6).

The Fund’s Series A Debentures bear a fixed interest rate of 9.00% throughout the five-year term and thus are not exposed to any interest rate risk.

The Fund’s 2010 Debentures bear a fixed interest rate of 8.50% throughout the five-year term and thus are not exposed to any interest rate risk.

The Fund’s mortgage payable bears a fixed interest rate of 6.50% throughout the four-year term and thus is not exposed to any interest rate risk.

The Fund’s capital leases payable bear fixed interest rates from 4.20% to 10.89% throughout the terms of the leases and thus are not exposed to any interest rate risk.

**(e) Foreign exchange risk**

Foreign exchange risk is the risk that the fair value or future cash flow of a financial instrument will

fluctuate because of changes in foreign exchange rate.

The Fund’s cash flow exposure to foreign currency is due mainly to purchases of rental equipment and replacement parts from suppliers in the United States.

As at December 31, 2010, the Fund’s consolidated balance sheet included \$135,457 of accounts payable (2009 - \$440,247), and \$43,765 of cash (2009 - \$160,236) which were U.S. currency denominated.

The Fund does not use hold or issue financial instruments for trading or speculative purposes. At December 31, 2010 there were no foreign exchange contracts outstanding.

**16. RELATED PARTY TRANSACTIONS**

**(a) Purchase of equipment**

During 2010, the Fund purchased equipment from a company in which a board member of the Fund has a controlling interest, for \$437,417 (2009 - \$336,972). These transactions arose during the normal course of business and have been recorded at fair market value.

**(b) Rental obligations**

The Fund currently rents premises in various locations from companies in which employees of the Fund hold certain interests. During 2010, the Fund has paid \$811,410 (2009 - \$801,541) in such rent. The rent between the parties is at fair market value.

## 17. UNIT BASED COMPENSATION

Since August 14, 2006, the Fund had a unit-based compensation plan in place, as described below. Grants under this plan are accounted for according to the fair value based method of accounting for unit-based compensation.

On February 10, 2010, the Fund's board of trustees granted options to senior executives, directors,

trustees and certain employees to purchase, in aggregate, an additional 503,000 Units. Each option provides the holder with the right for up to ten years to purchase one Unit at an exercise price of \$4.30. Vesting of the options occurs equally over the next five years.

A summary of the details of the options granted follows:

	Number of Options	Exercise Price	Weighted Average Exercise Price
Outstanding, at December 31, 2008	463,000	\$ 4.90	\$ 4.90
Granted	-	-	-
Exercised	-	-	-
Forfeited	-	-	-
Outstanding, at December 31, 2009	463,000	\$ 4.90	\$ 4.90
Granted	503,000	\$ 4.30	\$ 4.30
Exercised	-	-	-
Forfeited	9,000	\$ 4.30 – \$ 4.90	\$ 4.57
Outstanding, at December 31, 2010	957,000	\$ 4.30 – \$ 4.90	\$ 4.59
Weighted average fair value of options granted at December 31, 2010			
	\$ 0.44		

The following table illustrates the fixed unit options outstanding, as of December 31, 2010:

	Outstanding Options			Options Exercisable	
	Number Outstanding December 31, 2010	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price	Number Exercisable December 31, 2010	Weighted Average Exercise Price
Range of Exercise Prices:					
\$ 4.90	459,000	7.5 years	\$ 4.90	184,200	\$ 4.90
\$ 4.30	498,000	9.2 years	\$ 4.30	-	\$ 4.30

The fair value of each option granted was estimated on the date of grant using the Black-Scholes options pricing model. The following table illustrates the assumptions of the model for options granted in 2010:

Grant date of options:	Annual Dividend Yield of Options	Volatility	Risk-Free Interest Rate	Expected life of the options
February 10, 2010	13.95%	49.13%	2.09%	10 years

## 18. SEGMENTED REPORTING

The Fund operates in two reportable segments: British Columbia Platform and Alberta Platform, based on the way that management organizes its business for making operating decisions and

assessing performance. Both platforms are engaged in the business of equipment rentals, sales and services and involve similar products, processes and marketing strategies. The Alberta platform is also involved in the business of fuel wholesale and distribution.

The Fund's business activity levels in the British Columbia Platform are generally lower from January through March as the winter weather hampers construction activity. Construction heater rentals and related fuel supply and wholesale during the winter months in the Alberta Platform compensate for the slow winter business cycle in British Columbia. From April through July, the rental demand for construction and general rental equipment grows gradually as rental activities accelerate into the summer months. From August through November the demand for rental equipment continues as

construction companies strive to meet construction targets prior the start of the holiday season in December. The construction heater rentals and fuel wholesale business in Alberta starts in November and continues through to the spring of the following year.

The method used for the allocation of assets jointly used by the operating segments and costs and liabilities jointly incurred (mostly corporate costs) between the operating segments is based on a proportion of each segment's assets, and for revenues and expenses on a proportion of each segment's revenue.

For the year ended December 31	British Columbia		Alberta		Consolidated	
	2010	2009	2010	2009	2010	2009
Total segment revenue	20,023,214	19,769,854	30,229,136	21,889,894	<b>50,252,350</b>	<b>41,659,748</b>
Earnings before interest, tax, depreciation, amortization, write-down of assets, and foreign exchanges gains/(losses)	3,768,838	4,901,279	9,704,190	6,947,314	<b>13,473,028</b>	<b>11,848,593</b>
Depreciation and amortization						
Property and equipment	4,722,939	4,611,113	4,040,418	2,561,447	<b>8,763,357</b>	<b>7,172,560</b>
Intangible and other assets	1,465,744	1,475,057	2,669,734	2,395,175	<b>4,135,478</b>	<b>3,870,232</b>
Identifiable assets excl goodwill	33,747,454	36,832,679	47,490,422	33,566,009	<b>81,237,876</b>	<b>70,398,688</b>
Goodwill	2,726,613	2,726,613	7,197,096	5,703,805	<b>9,923,709</b>	<b>8,430,418</b>
Total identifiable assets	36,474,067	39,559,292	54,687,518	39,269,814	<b>91,161,585</b>	<b>78,829,106</b>
Net purchases of property and equipment during the period (net of business acquisitions)	2,837,069	986,998	5,348,036	896,001	<b>8,185,105</b>	<b>1,882,999</b>

## 19. SUBSEQUENT EVENTS

Subsequent to the year ended December 31, 2010, 713,539 Units were issued as a result of the conversion of \$2,963,000 of the Series A Debentures, thereby reducing the balance of Series A Debentures and increasing the balance of the unitholders' equity.