



---

CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

*For the Three and Nine Months ended September 30, 2011 and 2010*

---

WESTERNO ONE EQUITY INCOME FUND

Suite 910, 925 West Georgia Street • Vancouver • British Columbia • Canada • V6C 3L2 • Telephone (604) 678-4042 • Fax (604) 681-5969



**MANAGEMENT'S COMMENTS ON  
UNAUDITED CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS**

**NOTICE OF NO AUDITOR REVIEW OF CONDENSED INTERIM FINANCIAL STATEMENTS**

Under National Instrument 51-102, Part 4, subsection 4.3(3)(a), if an auditor has not performed a review of the interim financial statements, they must be accompanied by a notice indicating that the financial statements have not been reviewed by an auditor.

The accompanying unaudited condensed interim consolidated financial statements of WesternOne Equity Income Fund (the "Fund") have been prepared by and are the responsibility of the Fund's management. The unaudited condensed interim consolidated financial statements are prepared in accordance with International Financial Reporting Standards and reflect management's best estimates and judgment based on information currently available.

The Fund's independent auditor has not performed a review of these financial statements in accordance with standards established by the Canadian Institute of Chartered Accountants for a review of interim financial statements by an entity's auditor.

# WesternOne Equity Income Fund

## CONDENSED INTERIM CONSOLIDATED STATEMENTS OF FINANCIAL POSITION (Unaudited)

(Canadian Dollars)

	<i>Note</i>	As at September 30, 2011	As at December 31, 2010
<b>ASSETS</b>			
<b>CURRENT ASSETS</b>			
Cash and cash equivalents		\$ 21,916,705	\$ 3,991,637
Accounts receivable	14	20,241,131	9,476,079
Inventories	6	7,702,805	2,058,753
Deposits and prepaid expenses		1,315,160	576,756
		51,175,801	16,103,225
PROPERTY & EQUIPMENT	4	57,844,609	35,671,863
INTANGIBLE ASSETS	5	50,735,297	22,331,771
GOODWILL	5	46,792,852	9,492,731
DEFERRED INCOME TAX ASSETS	8	8,796,459	7,868,561
<b>TOTAL ASSETS</b>		<b>\$ 215,345,018</b>	<b>\$ 91,468,151</b>
<b>LIABILITIES</b>			
<b>CURRENT LIABILITIES</b>			
Operating loans	7	\$ 3,180,506	\$ 2,608,318
Accounts payable and accrued liabilities		19,541,786	4,008,467
Distributions payable		852,662	694,452
Series A Debentures	13	-	9,778,717
Current portion of Units	9	-	600,000
Capital and acquisition loans	7	61,692,860	30,444,585
Other liabilities		969,783	365,844
		86,237,597	48,500,383
FINANCE LEASES OBLIGATION	12	778,733	569,924
2010 DEBENTURES (Face Value \$22,877,000)	13	25,393,470	27,876,000
2011 DEBENTURES (Face Value \$86,250,000)	13	85,387,500	-
EXCHANGEABLE UNITS	9	672,750	495,000
FUND UNITS	9	-	45,491,616
UNIT BASED COMPENSATION	10	888,598	207,053
OTHER LONG TERM LIABILITIES		1,114,074	306,244
		200,472,722	123,446,220
<b>UNITHOLDERS' EQUITY</b>			
FUND UNITS	9	64,924,816	-
NON CONTROLLING INTEREST		888,919	-
FOREIGN CURRENCY TRANSLATION RESERVE		(28,407)	-
ACCUMULATED DEFICIT		(50,913,032)	(31,978,069)
		14,872,296	(31,978,069)
<b>TOTAL LIABILITIES &amp; UNITHOLDERS' EQUITY</b>		<b>\$ 215,345,018</b>	<b>\$ 91,468,151</b>

SUBSEQUENT EVENTS (Note 18)

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

# WesternOne Equity Income Fund

## CONDENSED INTERIM CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME/(LOSS) (Unaudited)

(Canadian Dollars)	<i>Note</i>	Three-month period ended September 30, 2011	Three-month period ended September 30, 2010	Nine-month period ended September 30, 2011	Nine-month period ended September 30, 2010
<b>REVENUE</b>					
Modular building and equipment rentals		\$ 9,121,196	\$ 6,383,356	\$ 25,408,427	\$ 17,290,801
Modular building and equipment sales		21,779,123	1,446,988	30,882,628	3,871,491
Parts, fuel, service and others		4,386,417	3,389,675	16,974,247	14,262,880
		35,286,736	11,220,019	73,265,302	35,425,172
<b>COST OF SALES</b>					
Cost of modular building and equipment rentals, excluding depreciation		4,848,151	3,796,152	13,683,438	10,323,729
Cost of modular building and equipment sold		15,522,968	1,345,723	22,319,683	3,534,839
Depreciation of rental equipment		2,535,068	1,989,743	6,951,758	5,645,336
Parts, fuel, service and others		1,664,425	1,202,191	7,210,119	5,976,572
		24,570,612	8,333,809	50,164,998	25,480,476
<b>GROSS PROFIT</b>		10,716,124	2,886,210	23,100,304	9,944,696
<b>OPERATING EXPENSES</b>					
General and administration (including depreciation and amortization of operating and intangible assets)		8,298,626	3,682,014	18,291,005	10,593,979
Business acquisitions	15	12,631	-	965,743	430,978
		8,311,257	3,682,014	19,256,748	11,024,957
<b>OTHER EXPENSES</b>					
Finance (income)/costs	7, 13, 14	(1,437,712)	743,257	11,815,107	3,072,357
Debenture issuance costs		35,984	-	4,884,946	1,733,160
Franchise termination fee		-	815,976	-	815,976
Impairment of intangible asset		-	909,725	-	909,725
Distributions to Unitholders		-	2,102,103	4,549,835	6,296,706
		(1,401,728)	4,571,061	21,249,888	12,827,924
<b>INCOME/(LOSS) BEFORE INCOME TAXES</b>		3,806,595	(5,366,865)	(17,406,332)	(13,908,185)
<b>DEFERRED INCOME TAX EXPENSE/(RECOVERIES)</b>	8	155,735	(361,456)	(927,899)	(1,310,294)
<b>NET INCOME/(LOSS)</b>		3,650,860	(5,005,409)	(16,478,433)	(12,597,891)
<b>LOSS ATTRIBUTABLE TO NON-CONTROLLING INTEREST</b>		106,455	-	106,455	-
<b>NET INCOME/(LOSS) ATTRIBUTABLE TO UNITHOLDERS</b>		3,757,315	(5,005,409)	(16,371,978)	(12,597,891)
<b>UNREALIZED LOSS FROM FOREIGN EXCHANGE TRANSLATION</b>		(28,407)	-	(28,407)	-
<b>NET AND COMPREHENSIVE INCOME/(LOSS) ATTRIBUTABLE TO UNITHOLDERS</b>		\$ 3,728,908	\$ (5,005,409)	\$ (16,400,385)	\$ (12,597,891)
Basic weighted average income/(loss) per unit		0.22	(0.36)	(1.05)	(0.90)
Diluted weighted average income/(loss) per unit		0.20	(0.36)	(1.05)	(0.90)
Basic weighted average number of units outstanding		16,934,396	14,009,781	15,640,464	13,989,314
Diluted weighted average number of units outstanding		21,361,299	14,009,781	15,640,464	13,989,314

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

# WesternOne Equity Income Fund

## CONDENSED INTERIM CONSOLIDATED STATEMENT OF CHANGES IN UNITHOLDERS' EQUITY (Unaudited)

(Canadian Dollars)	Fund Units	Non-controlling interest	Foreign currency translation reserve	Retained deficit	Total
<b>BALANCE, January 1, 2010</b>	\$ -	\$ -	\$ -	\$ (16,911,069)	\$ (16,911,069)
Net and comprehensive loss for the period	-	-	-	(4,321,623)	(4,321,623)
<b>BALANCE, March 31, 2010</b>	-	-	-	(21,232,692)	(21,232,692)
Net and comprehensive loss for the period	-	-	-	(3,270,859)	(3,270,859)
<b>BALANCE, June 30, 2010</b>	\$ -	\$ -	\$ -	\$ (24,503,551)	\$ (24,503,551)
Net and comprehensive loss for the period	-	-	-	(5,005,409)	(5,005,409)
<b>BALANCE, September 30, 2010</b>	\$ -	\$ -	\$ -	\$ (29,508,960)	\$ (29,508,960)
<b>BALANCE, December 31, 2010</b>	\$ -	\$ -	\$ -	\$ (31,978,069)	\$ (31,978,069)
Net and comprehensive loss for the period	-	-	-	(5,906,532)	(5,906,532)
<b>BALANCE, March 31, 2011</b>	\$ -	\$ -	\$ -	\$ (37,884,601)	\$ (37,884,601)
Reclassification of Fund Units (Note 9)	56,568,289	-	-	-	56,568,289
Net and comprehensive loss for the period	-	-	-	(14,222,761)	(14,222,761)
<b>BALANCE, June 30, 2011</b>	\$ 56,568,289	\$ -	\$ -	\$ (52,107,362)	\$ 4,460,927
Issuance of units from conversion of debentures	8,245,120	-	-	-	8,245,120
Issuance of units from exercise of options	111,407	-	-	-	111,407
Distribution declared	-	-	-	(2,562,985)	(2,562,985)
Investment from non-controlling interest	-	995,374	-	-	995,374
Unrealized loss from foreign exchange translation	-	-	(28,407)	-	(28,407)
Net income/(loss) for the period	-	(106,455)	-	3,757,315	3,650,860
<b>BALANCE, September 30, 2011</b>	\$ 64,924,816	\$ 888,919	\$ (28,407)	\$ (50,913,032)	\$ 14,872,296

See accompanying Notes to the Condensed Interim Consolidated Financial Statements

# WesternOne Equity Income Fund

## CONDENSED INTERIM CONSOLIDATED STATEMENT OF CASH FLOWS (Unaudited)

(Canadian Dollars)	<i>Note</i>	Three-month period ended September 30, 2011	Three-month period ended September 30, 2010	Nine-month period ended September 30, 2011	Nine-month period ended September 30, 2010
<b>OPERATING ACTIVITIES</b>					
Income/(loss) for the period		\$ 3,650,860	\$ (5,005,409)	\$ (16,478,433)	\$ (12,597,891)
Items not affecting cash -					
Amortization of tangible and intangible assets	4,5	4,309,189	3,230,563	11,385,349	9,308,542
Interest expense relating to amortization of transaction cost and conversion of convertible debentures		42,471	41,674	252,251	98,411
Deferred tax expense/(recoveries)	8	155,735	(361,456)	(927,899)	(1,310,294)
(Gain)/loss on derivatives		186,448	(58,903)	106,151	(167,106)
Unit-based compensation	10	36,520	21,436	718,953	82,892
Increase/(decrease) in fair value of convertible debentures		(4,536,381)	(406,643)	5,629,311	25,020
Increase/(decrease) in fair value of Exchangeable Units		(69,750)	(33,750)	177,750	(11,250)
Gain on sale of property and equipment		(500,183)	(43,094)	(963,415)	(107,799)
Business acquisition costs		12,631	-	965,743	430,978
Debenture issuance costs		35,984	-	4,884,947	1,733,160
Finance costs		3,149,698	1,096,233	5,956,888	2,917,647
Franchise termination fee		-	815,976	-	815,976
Impairment of intangible asset		-	909,725	-	909,725
Distributions		-	2,102,103	4,549,835	6,296,706
		6,473,222	2,308,455	16,257,431	8,424,717
Changes in non-cash working capital and equity balances -					
Accounts receivable		(1,938,590)	(429,828)	183,893	1,125,031
Inventories		2,644,012	(154,831)	(163,267)	(198,471)
Deposits and prepaid expenses		(23,661)	(210,067)	(175,494)	(110,023)
Accounts payable and accrued liabilities		5,871,802	1,531,726	11,005,441	2,024,607
Unearned revenue		36,000	27,691	51,657	1,998
Foreign currency translation reserve		(28,407)	-	(28,407)	-
		13,034,378	3,073,146	27,131,254	11,267,859
<b>INVESTING ACTIVITIES</b>					
Purchase of property and equipment		(6,376,368)	(2,769,186)	(13,602,725)	(5,024,231)
Proceeds from the sale of property and equipment		1,373,335	811,796	3,096,601	1,541,212
Payment for franchise termination		-	(815,976)	-	(815,976)
Business acquisition	15	(12,631)	-	(100,902,889)	(13,759,353)
		(5,015,664)	(2,773,366)	(111,409,013)	(18,058,348)
<b>FINANCING ACTIVITIES</b>					
Debentures issued for cash (net of expenses)	13	(35,984)	-	81,365,053	25,866,841
Finance costs		(3,149,698)	(1,096,233)	(5,956,888)	(2,917,647)
Distributions paid		(2,499,798)	(2,101,235)	(6,954,610)	(6,294,187)
Proceeds from option exercises		91,355	-	147,900	-
Investment from non-controlling interest		995,374	-	995,374	-
Repayment of Series A Debentures		(306,100)	-	(306,100)	-
Advance/(Repayment) of loans payable		2,268,335	3,225,711	32,912,098	(2,916,789)
		(2,636,516)	28,243	102,202,827	13,738,218
<b>NET CHANGE IN CASH AND EQUIVALENTS DURING THE PERIOD</b>		<b>5,382,198</b>	<b>328,023</b>	<b>17,925,068</b>	<b>6,947,729</b>
<b>CASH AND EQUIVALENTS, BEGINNING OF PERIOD</b>		<b>16,534,507</b>	<b>8,689,593</b>	<b>3,991,637</b>	<b>2,069,887</b>
<b>CASH AND EQUIVALENTS, END OF PERIOD</b>		<b>\$ 21,916,705</b>	<b>\$ 9,017,616</b>	<b>\$ 21,916,705</b>	<b>\$ 9,017,616</b>
<b>Supplemental cash flow information:</b>					
Interest received		39,427	13,497	52,882	34,621
Interest paid		2,940,465	1,155,136	5,650,769	3,084,753
Assets under capital lease acquired		-	147,608	488,394	213,761

See accompanying Notes to the Condensed Interim Consolidated Financial Statements

# WesternOne Equity Income Fund

## Notes to the Condensed Interim Consolidated Financial Statements

September 30, 2011

(Unaudited)

---

### 1. CORPORATE INFORMATION

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 ("BC"). 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 established to indirectly acquire 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").

The Fund is based in Vancouver, BC, and has been established to seek opportunities to acquire businesses in the sector of construction and infrastructure services in order to generate stable and growing distributions for its Unitholders as well as to achieve overall capital appreciation.

The Fund structures its operations in two principal business platforms:

- **Equipment rentals, sales and fuel distribution:** The Fund has acquired six businesses in this sector since its initial public offering in August 2006, and has integrated the operations of these business units under the brand name "WesternOne Rentals & Sales" ("WRS"). This business specializes in providing aerial equipment rentals for construction, film production, and shipyards; construction heat, general construction equipment rentals, and sales of equipment and related services. WRS has 12 locations in Western Canada servicing markets in all major cities.
- **Modular building manufacturing and leasing:** The Fund, through its wholly-owned subsidiary, acquired Britco Structures LLP and Britco Leasing Ltd. on June 1, 2011 (see Note 15). Britco has two manufacturing facilities, a lease fleet of over 1,200 units and four branch offices across BC and Alberta. Britco provides permanent modular building solutions for offices, hotels, resorts, and special purpose housing, and provides modular workforce housing units to the oil and gas and mining industries.

At September 30, 2011, the Fund had a working capital deficiency of \$35,061,796 and incurred a net and comprehensive loss for the nine months ended September 30, 2011 of \$16,400,385 (2010 - net loss of \$12,597,891). Included in the working capital deficiency were capital and acquisition loans of \$61,692,860. Excluding the non-current portion of the capital and acquisition loans not repayable within twelve months of \$51,291,102, the Fund had a working capital balance of \$16,229,306.

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 7). 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. As at September 30, 2011, the Fund was in compliance with all bank covenants. The Fund has consistently generated positive cash flow from operations and generated positive net income for the three months ended September 30, 2011.

Based on the performance of the Fund to date, the renegotiation of the capital and acquisition loans during 2010, 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.

# WesternOne Equity Income Fund

## Notes to the Condensed Interim Consolidated Financial Statements

September 30, 2011

(Unaudited)

---

### 2. BASIS OF PREPARATION

#### (a) Statement of compliance

The Fund prepares its financial statements in accordance with Canadian Generally Accepted Accounting Principles as set out in the Handbook of the Canadian Institute of Chartered Accountants (“CICA Handbook”). In 2010, the CICA Handbook was revised to incorporate International Financial Reporting Standards (“IFRS”), and requires publicly accountable enterprises to apply such standards effective for years beginning on or after January 1, 2011. Accordingly, the Fund has commenced reporting on this basis in these interim consolidated financial statements. In these financial statements, the term “Canadian GAAP” refers to Canadian Generally Accepted Accounting Principles before the adoption of IFRS.

These condensed interim consolidated financial statements have been prepared in accordance with International Accounting Standards (“IAS”) 34, “Interim Financial Reporting”. The condensed interim consolidated financial statements do not include all of the information required for full annual financial statements.

An explanation of how the transition to IFRS has impacted the reported financial position, financial performance and cash flows of the Fund is provided in Note 19. This note includes reconciliations of equity and total comprehensive income for comparative periods reported under previous Canadian GAAP to those reported under IFRS. The Fund has consistently applied the same accounting policies in its opening IFRS statement of financial position at January 1, 2010 and throughout all periods presented, as if these policies had always been in effect.

The policies applied in these interim consolidated financial statements are based on IFRS issued and outstanding as of November 4, 2011, the date the Trustees approved the statements. Any subsequent changes to IFRS that are given effect in the Fund’s annual consolidated financial statements for the year ending December 31, 2011 could result in restatement of these interim consolidated financial statements, including the transition adjustments recognized on change-over to IFRS.

The interim consolidated financial statements should be read in conjunction with the Fund’s Canadian GAAP annual financial statements for the year ended December 31, 2010 and the Fund’s condensed interim consolidated financial statements as at and for the three months ended March 31, 2011. Note 19 discloses IFRS information for the nine month period ended September 30, 2010 that is material to an understanding of these interim consolidated financial statements.

The interim consolidated financial statements were authorized for issue by the trustees of the Fund on November 4, 2011.

#### (b) Basis of measurement

The interim consolidated financial statements have been prepared on the historical cost basis except for the following material items in the statement of financial position:

- derivative financial instruments are measured at fair value;
- financial instruments, including debentures and Exchangeable Units, at fair value through profit or loss are measured at fair value; and
- liabilities for cash settled unit based payment arrangements are measured at fair value.

# WesternOne Equity Income Fund

## Notes to the Condensed Interim Consolidated Financial Statements

September 30, 2011

(Unaudited)

---

(c) Foreign currency

The consolidated financial statements of the Company are presented in Canadian dollars.

- Transactions in foreign currency:

Each entity within the consolidated group records transactions using its functional currency, being the currency of the primary economic environment in which it operates. Foreign currency transactions are translated into the respective functional currency of each entity using the foreign currency rates prevailing at the date of the transaction. Period end balances of monetary assets and liabilities in foreign currency are translated to the respective functional currencies using period end foreign currency rates. Foreign currency gains and losses arising from settlement of foreign currency transactions are recognized in earnings.

- Foreign operations translation:

The assets and liabilities of foreign operations are translated into Canadian dollars at period end foreign currency rates. The results of foreign operations are translated into Canadian dollars at average rates for the period. Foreign currency translation gains and losses are recognized in other comprehensive income. The relevant amount in cumulative foreign currency translation adjustment is reclassified into earnings upon disposition or partial disposition of a foreign operation.

(d) Use of estimates and judgments

The preparation of the condensed interim consolidated financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

The critical estimates and judgments utilized in preparing the Fund's financial statements include the valuation, impairment and useful life of intangible assets, goodwill and property and equipment, valuation of future income taxes, fair values of financial instruments, lease classification, provisions and contingencies. Actual results may differ from these estimates.

(e) New accounting standards not yet adopted

IFRS 9 - Financial Instruments

In November 2009, the IASB issued IFRS 9 - Financial Instruments, which is the first step in its project to replace IAS 39 - Financial Instruments: Recognition and Measurement. IFRS 9 establishes the measurement and classification of financial assets. Under IFRS 9, financial assets are measured either at fair value through earnings or at amortized cost if certain conditions are met. The effective date of this standard is January 1, 2013, but early adoption is permitted. The Fund will apply this standard to its financial statements beginning on January 1, 2013. The Fund is currently evaluating the impact of IFRS 9 on its financial statements.

# WesternOne Equity Income Fund

## Notes to the Condensed Interim Consolidated Financial Statements

September 30, 2011

(Unaudited)

---

### IFRS 10 – Consolidated Financial Statements

In May 2011, the IASB issued IFRS 10 – Consolidated Financial Statements. The objective of IFRS 10 is to establish principles for the presentation and preparation of consolidated financial statements when an entity controls one or more other entities. The effective date of this standard is January 1, 2013, but early adoption is permitted. The Fund will apply this standard to its financial statements beginning on January 1, 2013. The adoption of IFRS 10 is not expected to have a significant impact on the Fund's consolidated financial statements.

### IFRS 12 – Disclosure of Interests in Other Entities

In May 2011, the IASB issued IFRS 12 – Disclosure of Interests in Other Entities. The objective of IFRS 12 is to require the disclosure of information that enables users of financial statements to evaluate the nature of, and risks associated with, its interests in other entities and the effects of those interests on its financial position, financial performance and cash flows. The effective date of this standard is January 1, 2013, but early adoption is permitted. The Fund will apply this standard to its financial statements beginning on January 1, 2013. The adoption of IFRS 12 is not expected to have a significant impact on the Fund's consolidated financial statements.

### IFRS 13 – Fair Value Measurement

In May 2011, the IASB issued IFRS 13 - Fair Value Measurement. The objective of IFRS 13 is to define fair value, set out in a single IFRS the framework for measuring fair value, and establish disclosure requirements regarding fair value measurements. The effective date of this standard is January 1, 2013, but early adoption is permitted. The Fund will apply this standard to its financial statements beginning on January 1, 2013. The Fund is currently evaluating the impact of IFRS 13 on its financial statements.

## 3. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies set out below have been applied consistently by the Fund and all of its subsidiaries to all periods presented in these condensed interim consolidated financial statements and in preparing the opening IFRS statement of financial position at January 1, 2010 for the purposes of the transition to IFRS, unless otherwise indicated.

### (a) Basis of consolidation

#### *Subsidiaries*

These condensed interim consolidated financial statements 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 condensed interim 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., WEQ Heat & Propane LP, WEQ Britco GP Inc. and WEQ Britco LP. WEQ Britco LP includes the accounts of its subsidiary, WEQ USA Inc. WEQ USA Inc. owns 81% of and includes the accounts of its subsidiary, WEQ Britco USA LLC. WEQ Britco USA LLC owns 55% of and includes the accounts of its subsidiary, Britco Structures USA LLC. Subsidiaries are those entities controlled

# WesternOne Equity Income Fund

## Notes to the Condensed Interim Consolidated Financial Statements

September 30, 2011

(Unaudited)

---

by the Fund. The financial statements of subsidiaries are included in the interim consolidated financial statements from the date that control commences until the date that control ceases.

On September 15, 2011, the Fund and two other minority investors signed an agreement to form Britco Structures USA LLC ("BUSA"), a modular manufacturing business in Texas, USA, with investments of \$891,700 and \$995,374, respectively. On September 15, 2011, one of the minority investors issued a promissory note to BUSA with a principal amount of \$1,204,131. The promissory note is repayable in five years with equal annual instalments, and bears interest at an annual rate of 10% until March 12, 2012 and within a range from 8.5% to 12.0% thereafter. The promissory note will mature on September 14, 2016.

### (b) Business combinations

The acquisition of businesses is accounted for using the purchase method. The cost of the acquisition is measured at the aggregate of the fair values, at the date of exchange of assets given, liabilities incurred or assumed, and equity instruments issued in exchange for control of the acquiree. The acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under IFRS 3, "Business Combinations" as issued in January 2008 are recognized at their fair values at the acquisition date, except for non-current assets that are classified as held-for-sale in accordance with IFRS 5, "Non-current Assets Held for Sale and Discontinued Operations" which are recognized and measured at fair value, less costs to sell.

On an acquisition-by-acquisition basis, any noncontrolling interest is measured either at fair value of the non-controlling interest or at the fair value of the proportionate share of the net assets acquired.

To the extent the fair value of consideration paid exceeds the fair value of the net identifiable tangible and intangible assets, goodwill is recognized. To the extent the fair value of consideration paid is less than the fair value of net identifiable tangible and intangible assets, the excess is recognized in income.

Transaction costs, other than those associated with the issue of debt or equity securities, that the Fund incurs in connection with a business combination are expensed as incurred.

As part of its transition to IFRS, the Fund elected to restate only those business combinations that occurred on or after January 1, 2010. In respect of acquisitions prior to January 1, 2010, goodwill represents the amount recognized under previous Canadian GAAP.

### (c) Property and equipment

Items of property and equipment are measured at cost less accumulated depreciation and accumulated impairment losses. Cost includes expenditures that are directly attributable to the acquisition of the asset.

Gains and losses on disposal of an item of property and equipment are determined by comparing the proceeds from disposal with the carrying amount of property and equipment, and are recognized in profit or loss.

The costs of the day-to-day servicing of property and equipment are recognized in profit or loss as incurred.

# WesternOne Equity Income Fund

## Notes to the Condensed Interim Consolidated Financial Statements

September 30, 2011

(Unaudited)

---

### *Depreciation*

Depreciation is calculated over the depreciable amount, which is the cost of an asset, less its residual value.

Depreciation is recognized in profit or loss on a straight-line basis over the estimated useful life of each part of an item of property and equipment, since this most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset.

The estimated useful lives for the current and comparative periods are as follows:

Rental fleet .....	1-20 years
Building .....	25 years
Automotive, tractors and trailers .....	3-7 years
Furniture, fixtures and equipment .....	3-5 years
Computer equipment .....	2-5 years
Leasehold improvements .....	lesser of 5 years and the remaining term of the lease

Depreciation methods, useful lives and residual values are reviewed at each financial year end and adjusted if appropriate.

### (d) Goodwill and intangible assets

#### *Goodwill*

Goodwill is not amortized but is reviewed for impairment at least annually or whenever events or changes in circumstances indicate that the carrying amount may be impaired. Goodwill is allocated to the cash generating unit (“CGU”) to which it relates. The fund identifies CGU’s as identifiable groups of assets that are largely independent of the cash inflows from other assets or groups of assets.

#### *Other intangible assets*

Finite life intangible assets are carried at cost less any accumulated amortization and any accumulated impairment loss and are amortized on a straight line basis over their estimated useful lives.

Indefinite life intangible assets are carried at cost less any accumulated impairment loss.

Amortization is calculated based on the cost of the asset, less its residual value.

Amortization is recognized in profit or loss on a straight-line basis over the estimated useful lives of intangible assets, other than goodwill and indefinite life intangible assets, from the date that they are available for use, since this most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset.

The estimated useful lives for the current and comparative periods are as follows:

Customer relationships .....	10 years
Non-competition agreements .....	3-5 years
Software .....	1-5 years
Brand name .....	indefinite

# WesternOne Equity Income Fund

## Notes to the Condensed Interim Consolidated Financial Statements

September 30, 2011

(Unaudited)

---

(e) Inventories

New and used equipment inventories of the equipment rental business, as well as raw materials, work in progress and finished goods inventories of the modular building manufacturing business are recorded at the lower of cost and net realizable value, with cost determined on a specific item basis. 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) 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 and parts revenue, comprised of equipment servicing and sales of parts, is recognized when the parts are delivered, the related services have been rendered, and collectability is reasonably assured.

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

Revenue from equipment sales 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.

Revenue from manufacturing and sales of modular units are based upon contracts with customers that include fixed prices. Revenue is recognized using the percentage of completion method based on costs incurred to date over the total costs to complete the design, manufacture, transport and installation. Deposits received prior to completion are deferred and recognized throughout the design, manufacture, transport and installation.

(g) Leased assets

Leases in terms of which the Fund assumes substantially all the risks and rewards of ownership are classified as finance leases. Upon initial recognition the leased asset is measured at an amount equal to the lower of its fair value and the present value of the minimum lease payments. Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to that asset.

Minimum lease payments made under finance leases are apportioned between the finance expense and the reduction of the outstanding liability. The finance expense is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

Other leases are operating leases and are not recognized in the Fund's statement of financial position. Payments under operating leases are recognized in the income statement on a straight-line basis over the term of the lease. Lease incentives received are recognized in the income statement as an integral part of the total lease expense.

# WesternOne Equity Income Fund

## Notes to the Condensed Interim Consolidated Financial Statements

September 30, 2011

(Unaudited)

---

(h) Warranty provision

Warranties are given to customers on modular products sold to them. A warranty provision is recognized when products are sold. The provision is based on historical warranty data. Actual warranty costs in the future may differ from the estimates based on historical performance. The level of warranty provision required is reviewed on a product by product basis and adjusted accordingly in light of actual experience.

(i) Financial instruments

*Loans and receivables*

Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market. The Fund initially recognizes loans and receivables on the date that they are originated. The loans and receivables are derecognized when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Such assets are recognized initially at fair value. Subsequent to initial recognition, loans and receivables are measured at amortized cost using the effective interest method, less any impairment losses. Assets in this category include accounts receivable and cash and cash equivalents. Cash and cash equivalents consist of cash on hand, plus short term investments with stated maturity dates of 90 days or less.

*Financial liabilities at fair value through profit or loss*

Financial instruments in this category are recognized initially and subsequently at fair value. Transaction costs are expensed in the statement of comprehensive income. Gains and losses arising from changes in fair value are presented in the statement of comprehensive income within finance costs in the period in which they arise. Financial liabilities at fair value through profit or loss are classified as current except for the portion expected to be realized or paid beyond twelve months of the date of the statement of financial position, which are classified as non-current. The Fund has the following financial liabilities at fair value through profit or loss: 2010 Debentures, 2011 Debentures and Exchangeable Units.

*Non-derivative financial liabilities*

The Fund initially recognizes debt securities issued on the date that they are originated. All other financial liabilities are recognized initially on the trade date at which the Fund becomes a party to the contractual provisions of the instrument.

The Fund derecognizes a financial liability when its contractual obligations are discharged, cancelled or expired. Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Fund has a legal right to offset the amounts and intends either to settle on a net basis or to realize the asset and settle the liability simultaneously. Such financial liabilities are recognized initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, these financial liabilities are measured at amortized cost using the effective interest method.

Interest, losses and gains relating to the financial liability are recognized in profit or loss.

# WesternOne Equity Income Fund

## Notes to the Condensed Interim Consolidated Financial Statements

September 30, 2011

(Unaudited)

---

The Fund has the following non-derivative financial liabilities: operating loans, accounts payable and accrued liabilities, distributions payable, capital and acquisition loans, equipment financing payable and term mortgage.

### *Financial derivatives not using hedge accounting*

The Fund holds derivative financial instruments at times to hedge its interest rate exposure. Financial derivatives not using hedge accounting are recognized initially at fair value; attributable transaction costs are recognized in profit or loss as incurred. Subsequent to initial recognition, derivatives are recognized at fair value and changes therein are accounted for in profit or loss.

### (j) Segment reporting

The Fund's operating segments are organized based on the operating structure of the Fund's business and are reported in a manner consistent with the internal reporting provided to the chief operating decision maker ("CODM"). The chief executive officer has authority for resource allocation and assessment of the Fund's performance and is therefore the CODM.

# WesternOne Equity Income Fund

## Notes to the Condensed Interim Consolidated Financial Statements

September 30, 2011

(Unaudited)

### 4. PROPERTY AND EQUIPMENT

	Rental fleet	Building	Land	Tractor & trailer	Furniture, fixtures and equipment	Computer equipment	Leasehold improvement	Total
<b>Cost</b>								
January 1, 2010	\$ 35,912,836	\$ 128,017	\$ 481,133	\$ 1,972,295	\$ 1,156,727	\$ 146,627	\$ 401,407	\$ 40,199,042
Business acquisition	7,572,350	-	-	718,000	74,380	80,000	-	8,444,730
Additions	7,205,206	-	-	1,030,466	201,272	-	59,701	8,496,645
Disposals	(2,705,292)	-	-	(32,406)	(662)	(73,943)	-	(2,812,303)
December 31, 2010	\$ 47,985,100	\$ 128,017	\$ 481,133	\$ 3,688,355	\$ 1,431,717	\$ 152,684	\$ 461,108	\$ 54,328,114
Additions	1,789,693	-	-	232,529	8,881	17,787	133,617	2,182,507
Disposals	(589,514)	-	-	-	(289,110)	-	-	(878,624)
March 31, 2011	\$ 49,185,279	\$ 128,017	\$ 481,133	\$ 3,920,884	\$ 1,151,488	\$ 170,471	\$ 594,725	\$ 55,631,997
Business acquisition	17,039,293	-	-	52,592	1,042,981	33,035	32,750	18,200,651
Additions	4,611,359	-	-	786,188	45,205	24,070	253,999	5,720,821
Disposals	(1,353,829)	-	-	-	-	-	-	(1,353,829)
June 30, 2011	\$ 69,482,102	\$ 128,017	\$ 481,133	\$ 4,759,664	\$ 2,239,674	\$ 227,576	\$ 881,474	\$ 78,199,640
Additions	\$4,586,359	1,090,830	113,073	159,352	114,425	22,288	220,571	6,306,898
Disposals	(1,157,455)	-	-	-	-	(40,630)	-	(1,198,085)
Fully depreciated assets	(847,805)	-	-	-	-	-	-	(847,805)
September 30, 2011	72,063,201	1,218,847	594,206	4,919,016	2,354,099	209,234	1,102,045	82,460,648
<b>Accumulated Depreciation</b>								
January 1, 2010	\$ 9,859,443	\$ 12,785	\$ -	\$ 418,860	\$ 327,771	\$ 58,643	\$ 138,552	\$ 10,816,054
Depreciation	7,922,401	6,607	-	398,919	265,786	72,027	86,717	8,752,457
Disposals	(879,192)	-	-	(32,406)	(662)	-	-	(912,260)
December 31, 2010	\$ 16,902,652	\$ 19,392	\$ -	\$ 785,373	\$ 592,895	\$ 130,670	\$ 225,269	\$ 18,656,251
Depreciation	2,132,168	1,626	-	162,921	75,939	25,898	41,581	2,440,133
Disposals	(75,348)	-	-	-	(128,863)	-	-	(204,211)
March 31, 2011	\$ 18,959,472	\$ 21,018	\$ -	\$ 948,294	\$ 539,971	\$ 156,568	\$ 266,850	\$ 20,892,173
Depreciation	2,284,522	1,626	-	112,312	48,130	17,730	18,512	2,482,832
Disposals	(480,410)	-	-	-	-	-	-	(480,410)
June 30, 2011	\$ 20,763,584	\$ 22,644	\$ -	\$ 1,060,606	\$ 588,101	\$ 174,298	\$ 285,362	\$ 22,894,595
Depreciation	2,535,068	5,244	-	159,650	112,868	19,628	61,724	2,894,182
Disposals	(324,933)	-	-	-	-	-	-	(324,933)
Fully depreciated assets	(847,805)	-	-	-	-	-	-	(847,805)
September 30, 2011	22,125,914	27,888	-	1,220,256	700,969	193,926	347,086	24,616,039
<b>Carrying Amount</b>								
December 31, 2010	\$ 31,082,448	\$ 108,625	\$ 481,133	\$ 2,902,982	\$ 838,822	\$ 22,014	\$ 235,839	\$ 35,671,863
September 30, 2011	49,937,287	1,190,959	594,206	3,698,760	1,653,130	15,308	754,959	57,844,609

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

# WesternOne Equity Income Fund

## Notes to the Condensed Interim Consolidated Financial Statements

September 30, 2011

(Unaudited)

### 5. GOODWILL & INTANGIBLES

	Goodwill	Customer relationships	Brand names	Franchise agreement	Non-compete agreement	Software	Total
<b>Cost</b>							
January 1, 2010	\$ 8,430,418	\$ 27,517,223	\$ 782,017	\$ 1,164,448	\$ 3,064,417	\$ 223,721	\$ 41,182,244
Additions	-	-	-	-	-	109,028	109,028
Fully amortized intangible assets	-	-	-	-	(47,893)	-	(47,893)
Impairment	-	-	-	(1,164,448)	-	-	(1,164,448)
Acquisition	1,062,313	2,636,827	-	-	134,742	-	3,833,882
December 31, 2010	\$ 9,492,731	\$ 30,154,050	\$ 782,017	\$ -	\$ 3,151,266	\$ 332,749	\$ 43,912,813
Fully amortized intangible assets	-	-	-	-	(661,300)	-	(661,300)
March 31, 2011	\$ 9,492,731	\$ 30,154,050	\$ 782,017	\$ -	\$ 2,489,966	\$ 332,749	\$ 43,251,513
Acquisition	37,300,121	14,676,884	15,895,090	-	1,399,638	-	69,271,733
June 30, 2011	\$ 46,792,852	\$ 44,830,934	\$ 16,677,107	\$ -	\$ 3,889,604	\$ 332,749	\$ 112,523,246
Additions	-	-	-	-	-	116	116
September 30, 2011	46,792,852	44,830,934	16,677,107	-	3,889,604	332,865	112,523,362
<b>Accumulated Amortization</b>							
January 1, 2010	\$ -	\$ 6,580,216	\$ -	\$ 181,945	\$ 1,411,980	\$ 70,406	\$ 8,244,547
Amortization	-	2,949,439	-	72,778	1,113,261	10,902	4,146,380
Fully amortized intangible assets	-	-	-	-	(47,893)	-	(47,893)
Impairment	-	-	-	(254,723)	-	-	(254,723)
December 31, 2010	\$ -	\$ 9,529,655	\$ -	\$ -	\$ 2,477,348	\$ 81,308	\$ 12,088,311
Amortization	-	753,889	-	-	258,931	16,637	1,029,457
Fully amortized intangible assets	-	-	-	-	(661,300)	-	(661,300)
March 31, 2011	\$ -	\$ 10,283,544	\$ -	\$ -	\$ 2,074,979	\$ 97,945	\$ 12,456,468
Amortization	-	876,159	-	-	230,942	16,637	1,123,738
June 30, 2011	\$ -	\$ 11,159,703	\$ -	\$ -	\$ 2,305,921	\$ 114,582	\$ 13,580,206
Amortization	-	\$1,120,774	-	-	277,596	16,637	\$1,415,007
September 30, 2011	\$ -	\$12,280,477	\$ -	\$ -	\$ 2,583,517	\$ 131,219	\$ 14,995,213
<b>Carrying Amount</b>							
December 31, 2010	\$ 9,492,731	\$ 20,624,395	\$ 782,017	\$ -	\$ 673,918	\$ 251,441	\$ 31,824,502
September 30, 2011	46,792,852	32,550,457	16,677,107	-	1,306,087	201,646	97,528,149

As at September 30, 2011, all goodwill and intangible assets held by the Fund were acquired as part of business combinations.

Brand names are related to previous business acquisitions. Based on the expected future use of the brand names, they have been assigned an indefinite life. All other intangible assets' useful lives are finite.

# WesternOne Equity Income Fund

## Notes to the Condensed Interim Consolidated Financial Statements

September 30, 2011

(Unaudited)

For the purpose of impairment testing, goodwill is allocated to the Fund's CGUs. CGUs are the Fund's operating divisions that represent the lowest level within the Fund at which the goodwill is monitored for internal management purposes, which is not higher than the Fund's operating segments.

### 6. INVENTORIES

For the three and nine month period ended September 30, 2011, changes in inventory recognized as cost of sales amounted to \$16,095,662 (2010 - \$1,930,174) and \$28,127,419 (2010 - \$8,488,057) respectively and the write-down of inventories to net realizable value amounted to \$nil (2010 - \$nil).

	September 30, 2011	December 31, 2010
Raw materials	\$ 2,616,478	\$ -
Work in progress	3,111,870	-
Finished goods	1,974,457	2,058,753
	\$ 7,702,805	\$ 2,058,753

As at September 30, 2011, the Fund's operating loan is secured by 50% of the Fund's acceptable inventory balance (as defined in the operating loan agreement).

### 7. CREDIT FACILITIES

The Fund's credit facilities consist of the following:

	September 30, 2011		December 31, 2010	
	Approved	Carrying value	Carrying value	
Operating loans	\$ 5,750,000	\$ 3,180,506	\$ 2,608,318	
Capital loans:				
Non-revolving	1,296,840	1,296,840	1,638,920	
Revolving:	14,500,000			
Loan #1		5,344,675	6,089,445	
Loan #2		1,878,561	2,088,437	
Loan #3		620,068	720,000	
Loan #4		1,439,472	1,691,000	
Loan #5		819,936	972,000	
Loan #6		-	692,813	
Loan #7		1,147,539	-	
Loan #8		694,615	-	
Loan #9		545,666	-	
Loan #10		915,901	-	
Other		-	969,001	
	15,796,840	14,703,273	14,861,616	
Acquisition loans:	46,989,587			
Loan #1		5,262,437	6,254,533	
Loan #2		8,026,014	9,328,436	
Loan #3		33,701,136	-	
	46,989,587	46,989,587	15,582,969	
Capital and acquisition loans	62,786,427	61,692,860	30,444,585	
Total credit facilities	\$ 68,536,427	\$ 64,873,366	\$ 33,052,903	

# WesternOne Equity Income Fund

## Notes to the Condensed Interim Consolidated Financial Statements

September 30, 2011

(Unaudited)

The following table illustrates the funding dates, maturity dates and interest rates as at September 30, 2011 for the capital and acquisition loans described above:

Loan	Funding date	Maturity date	Interest rate at September 30, 2011
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 #7	June 20, 2011	June 19, 2016	4.70%
Loan #8	June 20, 2011	June 19, 2016	4.70%
Loan #9	July 13, 2011	July 12, 2016	4.70%
Loan #10	August 10, 2011	August 9, 2016	4.70%
Acquisition Loans:			
Loan #1	February 15, 2008	February 14, 2013	4.50%
Loan #2	October 1, 2008	September 30, 2013	4.50%
Loan #3	May 31, 2011	May 30, 2016	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 which are payable upon demand. The operating loans are at the Bank's prime rate plus 1.00% and are secured by 50% of acceptable inventory and 75% of acceptable accounts receivable (as defined in the operating loan agreement), minus priority claims. The operating loan has no stated maturity date and is due on demand.

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 September 30, 2011 of 4.57% (2010 – 3.70%) for the capital loans and 4.77% (2010 – 3.94%) for the acquisition loans.

On August 10, 2011, the Fund entered into an interest rate swap with the Bank. The swap had a three-year term, a notional value of \$20,000,000 at the commencement of the swap, and a fixed rate of 1.43% plus a stamping fee of 3.00% as at September 30, 2011. The Fund did not apply hedge accounting to this swap, and as a result recorded a financial derivative liability of \$195,065 at September 30, 2011. 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 September 30, 2011. 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

# WesternOne Equity Income Fund

## Notes to the Condensed Interim Consolidated Financial Statements

September 30, 2011

(Unaudited)

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 capital and acquisition loans that are due within one year are included in current liabilities. As at September 30, 2011 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:

October 1 to December 31, 2011 .....	\$ 2,565,642
2012 .....	10,510,142
2013 .....	16,832,427
2014 .....	9,239,070
2015 .....	7,639,205
Thereafter .....	<u>15,146,064</u>
	\$ 61,932,550
Balance of transaction costs to amortize .....	<u>(239,690)</u>
	\$ 61,692,860

### 8. DEFERRED INCOME TAX

Income tax expense is recognized based on management's best estimate of the annual income tax rate expected for the full financial year applied to the pre-tax income earned for the interim period. The Fund's consolidated effective tax rate is mainly affected by changes in the fair value of convertible debentures and distributions to unitholders, which are non-deductible expenses for tax purposes.

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

	September 30, 2011	December 31, 2010
Deferred income tax asset/(liability):		
Issue costs	\$ 1,346,035	\$ 598,382
Intangible assets	3,010,543	3,236,581
Property and equipment	4,435,903	4,034,137
Others	3,978	(539)
	<u>\$ 8,796,459</u>	<u>\$ 7,868,561</u>

### 9. 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 Fund's Units have no set par value.

As at January 1, 2010, the Units were classified as financial liabilities as the Units are redeemable and the Fund's declaration of trust contains a mandatory annual distribution requirement to distribute all undistributed income within the Fund, which constitutes a contractual obligation to deliver cash under IAS 32, "Financial Instruments: Presentation". On June 6, 2011, the Fund's Unitholders approved the amendment of certain terms of the Fund's declaration of trust, effective June 30, 2011. This amendment removed the mandatory annual distribution requirement of the Units. As a result of this amendment, the

# WesternOne Equity Income Fund

## Notes to the Condensed Interim Consolidated Financial Statements

September 30, 2011

(Unaudited)

fund's Units met the definition of equity instruments under IAS 32 and therefore, the Units were reclassified to equity from liabilities on a carryover basis on June 30, 2011.

Subsequent to the reclassification of Units from liabilities to equity, the Fund measures the Units at amortized cost and distributions are recorded directly to unitholders' equity. The fair value of the Units, which was determined using the closing price at the Toronto Stock Exchange (the "Exchange") as at September 30, 2011 was \$101,978,405 (2010 - \$61,111,688) for all outstanding Units

The following table summarizes changes to the Fund's Units for the nine months ended September 30, 2011:

	Fund Units and Exchangeable Units <sup>(1)(2)(3)</sup>	Fund Units outstanding	Exchangeable Units outstanding <sup>(2)</sup>
<b>Issued capital</b>			
Balance at December 31, 2010	\$ 46,586,616	13,889,020	125,000
Increase of fair value of Exchangeable Units	126,000	-	-
Issuance of Units from conversion of Debentures	5,945,127	1,134,998	-
Balance at March 31, 2011	\$ 52,657,743	15,024,018	125,000
Increase of fair value of Exchangeable Units	121,500	-	-
Issuance of Units from conversion of Debentures	4,457,643	752,325	-
Options exercised	73,903	13,150	-
Balance at June 30, 2011	\$ 57,310,789	15,789,493	125,000
Increase of fair value of Exchangeable Units	(69,750)	-	-
Issuance of Units from conversion of Debentures	8,245,120	1,243,902	-
Options exercised	111,407	19,850	-
Balance at September 30, 2011	\$ 65,597,566	17,053,245	125,000

<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 Equipment Rental Inc., WEQ Deerfoot Rentals LP, an indirect subsidiary of the Fund, issued 125,000 exchangeable units ("Exchangeable 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 Units are convertible to Units of the Fund on a one-for-one basis at the option of the holder. The Exchangeable Units do not have voting rights, but have economic rights equivalent to the Fund's Units. The Exchangeable Units are measured at fair value through profit and loss.

<sup>(3)</sup> Amount includes the Exchangeable Units of \$672,750 as at September 30, 2011.

## 10. UNIT BASED COMPENSATION

Since August 14, 2006, the Fund has had the 2006 Incentive Unit Option Plan (the "2006 Option Plan") in place for its senior executives, directors, trustees and certain employees and can issue Units according to the criteria detailed in the Fund's declaration of trust. Grants under this plan are classified as cash settled awards and are accounted for according to the fair value based method of accounting for unit-based compensation and the number of options expected to be vested. The maximum term of an option is 10 years from the date of grant. Grants under this plan are vested equally over five years of employment with the Fund from the grant date.

On May 10, 2011, the Fund's board of trustees granted options to certain employees to purchase in aggregate, 165,000 Units under the 2006 Option Plan and 135,000 Units under a special option grant. Each option provides the holder with the right for up to ten years to purchase one Unit at an exercise price of \$5.89. Vesting of the options occurs equally over the next five years of employment with the Fund.

# WesternOne Equity Income Fund

## Notes to the Condensed Interim Consolidated Financial Statements

September 30, 2011

(Unaudited)

On May 10, 2011, the Fund's board of trustees granted rights to certain employees to receive, in aggregate, 76,500 Units from the Fund (the "Unit Rights"). These rights will be vested and the related Units will be issued on May 30, 2012.

On August 24, 2011, the Fund's board of trustees granted options to senior executives, directors, trustees and certain employees to purchase, in aggregate, 364,500 Units under the 2006 Option Plan. Each option provides the holder with the right for up to ten years to purchase one Unit at an exercise price of \$5.97. Vesting of the options occurs equally over the next five years of employment with the Fund.

The following table summarizes the details of the options granted:

	Number of options	Exercise price	Weighted average exercise price
Outstanding, at January 1, 2010	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
Exercised	-	-	-
Outstanding, at March 31, 2011	957,000	\$4.30 - \$4.90	\$ 4.59
Granted	300,000	\$5.89	\$ 5.89
Exercised	(13,150)	\$4.30	\$ 4.30
Outstanding, at June 30, 2011	1,243,850	\$4.30 - \$5.89	\$ 4.90
Granted	364,500	\$5.97	\$ 5.97
Exercised	(19,850)	\$4.30 - \$4.90	\$ 4.61
Outstanding, at September 30, 2011	1,588,500	\$4.30 - \$5.97	\$ 5.15
Weighted average fair value of options granted at September 30, 2011		\$ 0.88	

The following table summarizes additional information relating to the options outstanding at September 30, 2011:

Range of exercise prices:	Options outstanding			Options exercisable	
	Number outstanding September 30, 2011	Weighted average remaining contractual life	Weighted average exercise price	Number exercisable September 30, 2011	Weighted average exercise price
\$ 4.90	449,000	6.8 years	\$ 4.90	275,800	\$ 4.90
\$ 4.30	475,000	8.4 years	\$ 4.30	76,600	\$ 4.30
\$ 5.89	300,000	9.7 years	\$ 5.89	-	\$ 5.89
\$ 5.97	364,500	9.9 years	\$ 5.97	-	\$ 5.97

The Fund expenses the fair value of stock options that are expected to vest over the vesting period. The fair value of each option granted is estimated at the end of each reporting period using the Black-Scholes options pricing model. Expected volatility is estimated by considering historic average Unit price volatility. Forfeiture of options was estimated to be minimal based on the forfeiture history of the options.

The following table illustrates the assumptions:

At September 30, 2011

Grant date of options	Unit price	Annual dividend yield of options	Volatility	Risk-free interest rate	Expected remaining life of options
July 9, 2008	\$ 5.98	10.03%	43.15%	1.73%	6.8 years
February 10, 2010	\$ 5.98	10.03%	43.15%	2.19%	8.4 years
May 10, 2011	\$ 5.98	10.03%	43.15%	2.19%	9.7 years
August 24, 2011	\$ 5.98	10.03%	43.15%	2.19%	9.9 years

# WesternOne Equity Income Fund

## Notes to the Condensed Interim Consolidated Financial Statements

September 30, 2011

(Unaudited)

At September 30, 2010

Grant date of options	Unit price	Annual dividend yield of options	Volatility	Risk-free interest rate	Expected remaining life of options
July 9, 2008	\$ 4.10	14.63%	45.97%	2.11%	7.8 years
February 10, 2010	\$ 4.10	14.63%	45.97%	2.74%	9.4 years

The Fund expenses the fair value of Unit Rights that are expected to vest over the vesting period. The fair value of each Unit Right is estimated at the end of each reporting period based on the closing price of the Units at the Exchange.

For the three and nine months ended September 30, 2011, the Fund recognized \$36,520 (2010 – \$21,436) and \$718,953 (2010 – \$82,892) of compensation expense respectively. At September 30, 2011, the Fund recorded a liability for cash-settled unit based options and Unit Rights of \$888,598 (2010 – \$207,053). The intrinsic value of the vested awards outstanding for the period was \$465,192 (2010 - \$nil).

### 11. OPERATING LEASE COMMITMENTS

The Fund, through its indirectly owned subsidiaries, has entered into operating lease agreements for certain operating assets.

Non-cancellable operating lease rentals are payable as follows:

	September 30, 2011	December 31, 2010
Less than one year	\$ 5,173,315	\$ 2,219,610
Between one and five years	15,018,320	4,776,431
More than five years	2,281,983	2,631,705

For the three and nine months ended September 30, 2011, the Fund recognized an expense of \$1,287,723 (2010 - \$605,402) and \$2,672,804 (2010 - \$1,740,810) in profit or loss in respect of operating leases.

The Fund's most significant operating leases are related to land and buildings with no purchase options. Certain of the land and building operating leases have renewal options.

### 12. FINANCE LEASE COMMITMENTS

The Fund, through its indirectly owned subsidiaries, has entered into finance lease agreements for certain tractors and trailers that are part of the property and equipment. All finance lease agreements have the option or requirement to purchase the assets with a pre-determined price or market price at the end of the lease. These assets are being amortized consistent with the fund's amortization policy (see Note 3), and as at September 30, 2011 had a net carrying value of \$1,156,943.

There are no contingent rent agreements as part of the Fund's lease agreements.

Finance lease liabilities are payable as follows:

	September 30, 2011		December 31, 2010	
	Future minimum lease payments	Present value of minimum lease payments	Future minimum lease payments	Present value of minimum lease payments
Less than one year	\$ 341,081	\$ 301,316	\$ 218,523	\$ 171,304
Between one and five years	856,698	675,453	622,606	560,974
	\$ 1,197,779	\$ 976,769	\$ 841,129	\$ 732,278

# WesternOne Equity Income Fund

## Notes to the Condensed Interim Consolidated Financial Statements

September 30, 2011

(Unaudited)

---

### 13. DEBENTURES

(a) Series A Debentures

On July 29, 2011, the Fund redeemed all outstanding Series A 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, subject to anti-dilutive provisions.

The Fund has elected to measure the 2010 Debentures at fair value through profit or loss, with the fair value based on the closing price at the Exchange as at the end of each financial period.

Cash financing costs in the amount of \$1,733,160 were incurred in the issuance of the 2010 Debentures. The financing costs were expensed when incurred.

The following summarizes the face and carrying value of the 2010 Debentures at December 31, 2010 and September 30, 2011:

	Face value	Carrying value
Balance as at December 31, 2010	\$ 27,600,000	\$ 27,876,000
Conversion to Units	(4,723,000)	(5,546,837)
Mark to market as at September 30, 2011		3,064,307
Balance as at September 30, 2011	\$ 22,877,000	\$ 25,393,470

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. 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.

# WesternOne Equity Income Fund

## Notes to the Condensed Interim Consolidated Financial Statements

September 30, 2011

(Unaudited)

---

The fair value of 2010 Debentures, which was determined using the closing price at the Exchange as at September 30, 2011, was \$25,393,470 (2010 – \$27,876,000) for all outstanding debentures.

(c) 2011 Debentures

The Fund completed a public offering on June 1, 2011 of 75,000 and an overallotment on June 6, 2011 of 11,250 8.00% extendible convertible series 2 unsecured subordinated debentures (collectively, the “2011 Debentures”) at \$1,000 per debenture, for gross proceeds of \$86,250,000. The 2011 Debentures will mature on June 30, 2018.

On and after June 30, 2014 and prior to June 30, 2016, the 2011 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 \$7.50 per Unit. On and after June 30, 2016, the 2011 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 June 30, 2018, 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 2011 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 2011 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 \$7.50 per Unit, subject to anti-dilutive provisions.

The Fund has elected to measure the 2011 Debentures at fair value through profit or loss, with the fair value based on the closing price at the Exchange as at the end of each financial period.

Cash financing costs in the amount of \$4,884,946 were incurred in the issuance of the 2011 Debentures. The financing costs were expensed when incurred.

The following summarizes the face and carrying value of the 2011 Debentures at September 30, 2011:

	Face value		Carrying value	
Issuance in June 2011	\$	86,250,000	\$	86,250,000
Mark to market as at September 30, 2011				(862,500)
Balance as at September 30, 2011	\$	86,250,000	\$	85,387,500

The payment of the principal of, and interest on, the 2011 Debentures are subordinated in right of payment to all senior obligations of the Fund, including all senior security. The 2011 Debentures rank pari passu with other series of debentures issued under the trust indenture of the 2011 Debentures, and rank senior to the Units.

The fair value of 2011 Debentures, which was determined using the closing price at the Exchange as at September 30, 2011, was \$85,387,500 (2010 – \$nil) for all outstanding debentures.

# WesternOne Equity Income Fund

## Notes to the Condensed Interim Consolidated Financial Statements

September 30, 2011

(Unaudited)

---

### 14. 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, equipment financing payable, 2010 Debentures, 2011 Debentures and Exchangeable Units. The carrying values of the financial instruments, except for the capital and acquisition loans, mortgage payable, equipment financing payable, 2010 Debentures, 2011 Debentures and Exchangeable Units, 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 values of the mortgage payable and equipment financing payable are based on discounted future cash flows using discount rates that reflect current market conditions for instruments having similar terms and conditions. The fair value of Exchangeable Units is based on observable market price and is disclosed in Note 9. The fair values of the 2010 Debentures and 2011 Debentures are also based on observable market price and are disclosed in Note 13.

(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 trade receivables, particularly from customers in the construction and resource industries in British Columbia and Alberta due to the Fund's concentration of business in these sectors. The Fund mitigates the risk by means of a diverse customer base in the construction (industrial, commercial, infrastructure, and residential), resource (oil & gas, mining and forestry) as well as other sectors. As at September 30, 2011, two of the Fund's accounts receivable balances were in excess of 10% of the Fund's consolidated accounts receivable balance. In assessing the credit risks in relation to these two accounts receivable balances, management has considered the financial health of the respective companies in terms of working capital position, financial leverage, ability to generate operating cash flow, revenue base and profitability. Management has also reviewed the payment history and average collection cycle of these accounts and made provisions where necessary. 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 allowance for doubtful accounts in respect of trade receivables is used to record impairment losses unless the Fund is satisfied that a recovery of the amount owing is possible, at which point the amounts are considered irrecoverable and are written off against the trade receivables directly.

Objective evidence that trade receivables are impaired can include default or delinquency by a debtor and indications that a debtor will enter into bankruptcy.

# WesternOne Equity Income Fund

## Notes to the Condensed Interim Consolidated Financial Statements

September 30, 2011

(Unaudited)

Aging of receivables is as follows:

	September 30, 2011	December 31, 2010
Trade receivables, gross		
Outstanding 1-30 days	\$ 5,535,907	\$ 5,029,316
Outstanding 30 – 60 days (past due)	9,319,077	2,629,517
Outstanding over 60 days (past due)	3,237,520	824,460
	18,092,504	8,483,293
Allowance for doubtful accounts	(593,890)	(163,135)
Trade receivables, net	17,498,614	8,320,158
Sales tax and other receivables	2,742,517	1,155,921
Accounts receivable	\$ 20,241,131	\$ 9,476,079

The movement in the allowance for doubtful accounts in respect of trade receivables is as follows:

	2011	2010
Balance as at January 1	\$ 163,135	\$ 239,032
Acquisition	276,792	-
Bad debt expenses	329,412	93,142
Wrote off against trade receivables	(175,449)	(148,692)
Balance as at September 30	\$ 593,890	\$ 183,482

Based on historic default rates, the Fund believes that, no impairment allowance is necessary in respect of trade receivables not past due.

(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 including monitoring debt covenants and timely collection of accounts receivables. As at September 30, 2011, the Fund had available unused approved credit facilities of \$3,663,061. The Fund also has accounts receivable of \$20,341,131, and cash and cash equivalents totalling \$21,916,705.

A centralized treasury function ensures that the Fund maintains funding flexibility by assessing future cash flow expectations and by maintaining sufficient headroom on its committed borrowing facilities. Cash flow estimates are based on rolling forecasts of operating, investing and financing cash flows. Such forecasting also takes into account borrowing limits, cash restrictions and compliance with debt covenants.

Cash which is surplus to working capital requirements is managed by the centralized treasury function which invests it in money market funds or bank money market deposits, choosing maturities which are aligned with expected cash needs based on the rolling forecast process.

(d) Market risk

*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.

# WesternOne Equity Income Fund

## Notes to the Condensed Interim Consolidated Financial Statements

September 30, 2011

(Unaudited)

The Fund is managing its interest rate risk, in part, through interest rate swaps (see Note 7).

The Fund's 2010 Debentures and 2011 Debentures bear a fixed interest rate of 8.5% and 8.0%, respectively, throughout the term of the debentures and thus are not exposed to any interest rate risk.

The Fund's mortgage payable bears a fixed interest rate of 6.5% throughout the four-year term and thus is not exposed to any interest rate risk.

The Fund's equipment financing payable bears fixed interest rates of up to 3.45% throughout the terms of the respective financing and thus is not exposed to any interest rate risk.

The Fund's finance leases payable bear fixed interest rates from 4.20% to 14.08% throughout the terms of the leases and thus are not exposed to any interest rate risk.

Units and Exchangeable Units are not exposed to interest rate risk as distributions paid are discretionary.

Finance (income)/costs consist of the following:

	Three-month period ended September 30, 2011	Three-month period ended September 30, 2010	Nine-month period ended September 30, 2011	Nine-month period ended September 30, 2010
Interest	\$ 2,977,921	\$ 1,139,377	\$ 5,815,329	\$ 2,994,135
Increase/(decrease) in fair value of convertible debentures	(4,536,380)	(356,872)	5,629,311	74,790
Others	120,747	(39,248)	370,467	3,432
	\$ (1,437,712)	\$ 743,257	\$ 11,815,107	\$ 3,072,357

### *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 exchange risks mainly relates to purchases of rental equipment and replacement parts from suppliers in the United States.

As at September 30, 2011, the Fund's consolidated balance sheet included \$1,380,044 of accounts payable (2010 - \$135,457), \$316,380 of operating line (2010 - \$nil) and \$2,990,932 of cash (2010 - \$43,765) which were U.S. currency denominated and were subject to foreign exchange risks.

The Fund does not use hold or issue financial instruments for trading or speculative purposes. At September 30, 2011 there were no foreign exchange contracts outstanding.

### (e) Capital Risk Management

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:

# WesternOne Equity Income Fund

## Notes to the Condensed Interim Consolidated Financial Statements

September 30, 2011

(Unaudited)

---

- 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.

In managing its capital structure, the Fund monitors performance throughout the period 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 7 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 September 30, 2011, the Fund was in compliance with all such covenants.

### 15. BUSINESS COMBINATIONS

On May 16, 2011, WEQ Britco LP ("Britco"), a subsidiary of the Fund, entered into an acquisition agreement with Britco Structure LLP and Britco Leasing Ltd (collectively, the "Britco Group") pursuant to which Britco agreed to acquire the assets and the business of the Britco Group (the "Acquisition"). The aggregate purchase price was paid in cash and is subject to an earn-out provision whereby the previous owners of the Britco Group will receive a portion of any earnings above a prescribed threshold for the year ending May 31, 2012. The Acquisition was completed on June 1, 2011.

Britco designs, manufactures and leases commercial portable and permanent modular buildings.

Management of the Fund believes the Acquisition is beneficial to the Fund for a number of reasons, including:

- the Acquisition represents a diversification of the Fund's equipment rentals, sales and services platform;
- the business platform of Britco benefits from the Fund's business networks and the Fund is able to offer an expanded range of products and services to a wider customer base;
- Britco's first on-site presence through its modular offices or staff accommodation units at its customers' locations provides an in-road for the Fund's other product and service offerings.
- the Acquisition gives the Fund economies of scale, improving the Fund's information technology infrastructure and leveraging sales and marketing efforts; and
- the Acquisition gives the Fund's existing construction and infrastructure businesses a marketing and sales channel in the high growth oil and gas sector in Alberta.

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:

# WesternOne Equity Income Fund

## Notes to the Condensed Interim Consolidated Financial Statements

September 30, 2011

(Unaudited)

<b>Allocation of purchase price</b>	
Accounts receivable	\$ 10,948,945
Inventories	5,480,785
Prepays	562,910
Accounts payable	(4,527,878)
Property and equipment	18,200,651
Intangible assets:	
Customer relationships	14,676,884
Brand name	15,895,090
Non-compete agreements	1,399,638
Goodwill	37,300,121
	<b>\$ 99,937,146</b>
Consideration:	
Cash	\$ 99,391,442
Earn-out provision	545,704

The purchase price above includes contingent consideration that may be paid out to the shareholders of Britco Group subject to completion of financial statements for Britco for the twelve months ended May 31, 2012. The contingent consideration is a percentage of earnings above a certain threshold that was agreed upon by both parties. At the end of each reporting period, until its settlement, the Fund determines the fair value of this contingent consideration, with changes in the fair value being recorded in profit and loss.

The Goodwill is attributable mainly to 1) Britco's strong business model which will enhance future growth in operation; 2) the synergies with the Fund's other businesses expected to be achieved from the reasons discussed above; and 3) Britco's assembled workforce. 75% of the goodwill is expected to be deductible for tax purposes pursuant to the Canadian Income Tax Act.

## 16. OPERATING SEGMENTS

As mentioned in note 1, the Fund structures its operations in two operating (and reportable) segments: 1) equipment rentals, sales and fuel distribution ("WesternOne Rentals & Sales" or "WRS"); and 2) modular building manufacturing & leasing ("Britco"), based on the way that management organizes the Fund's businesses for making operating decisions and assessing performance.

The seasonality of the Fund's business segments impact its quarterly operating results as follows:

(a) WesternOne Rentals & Sales

The 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.

(b) Britco

Britco's modular building manufacturing business does not follow a specific seasonal trend. Modular buildings are pre-fabricated buildings that are manufactured in Britco's two production facilities (in Agassiz and Penticton, BC) throughout the year, and are not subject to external weather conditions.

# WesternOne Equity Income Fund

## Notes to the Condensed Interim Consolidated Financial Statements

September 30, 2011

(Unaudited)

Production is scheduled based on the level of project backlogs, timing of contracts signed and job orders issued, product type and timing of delivery. Similarly, Britco's modular leasing business has not historically been subject to seasonality. Common applications of modular space units include work camp accommodations, classrooms, temporary offices, construction site offices, sales offices, special event headquarters and storage containers. Unlike WRS which typically has daily, weekly or monthly rental contracts with its customers, Britco's lease terms are typically longer (3 to 5 years), with the exception of short-term event-driven modular space rentals, which typically experience a higher level of activity during the summer months.

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 three-month period ended September 30	WesternOne Rentals & Sales		Britco		Consolidated	
	2011	2010	2011	2010	2011	2010
<b>Total segment revenue</b>	12,666,866	11,220,019	22,619,870	-	35,286,736	11,220,019
<b>Revenue with other segment (eliminated in consolidation)</b>	-	-	1,080	-	1,080	-
<b>Depreciation &amp; amortization of:</b>						
<b>Property and equipment</b>	2,523,705	2,167,351	370,477	-	2,894,182	2,167,351
<b>Intangible and other assets</b>	978,103	1,063,212	436,904	-	1,415,007	1,063,212
<b>Finance cost/(income)</b>	(519,309)	743,257	(918,403)	-	(1,437,712)	743,257
<b>Deferred income tax expense/ (recoveries)</b>	55,909	(361,456)	99,826	-	155,735	(361,456)
<b>Earnings before distributions, finance costs, taxes, depreciation, amortization, write down of assets, foreign exchanges gains/(losses), business acquisition costs and unit based compensation expense</b>	3,338,390	2,408,045	3,394,757	-	6,733,147	2,408,045
<b>Purchase of property and equipment (net of business acquisitions)</b>	4,463,857	2,769,186	1,912,511	-	6,376,368	2,769,186
<b>Total identifiable assets<sup>(1)</sup></b>	86,807,807	91,468,151	128,537,211	-	215,345,018	91,468,151

<sup>(1)</sup>Balances for 2010 are as of December 31, 2010.

# WesternOne Equity Income Fund

## Notes to the Condensed Interim Consolidated Financial Statements

September 30, 2011

(Unaudited)

For the nine-month period ended September 30	WesternOne Rentals & Sales		Britco		Consolidated	
	2011	2010	2011	2010	2011	2010
<b>Total segment revenue</b>	43,557,811	35,425,172	29,707,491	-	<b>73,265,302</b>	<b>35,425,172</b>
<b>Revenue with other segment (eliminated in consolidation)</b>	13,100	-	1,422	-	<b>14,522</b>	<b>-</b>
<b>Depreciation &amp; amortization of:</b>						
<b>Property and equipment</b>	7,331,349	6,211,977	485,798	-	<b>7,817,147</b>	<b>6,211,977</b>
<b>Intangible and other assets</b>	2,985,663	3,096,565	582,539	-	<b>3,568,202</b>	<b>3,096,565</b>
<b>Finance cost</b>	7,030,725	3,072,357	4,784,382	-	<b>11,815,107</b>	<b>3,072,357</b>
<b>Income tax recoveries</b>	825,519	1,310,294	102,380	-	<b>927,899</b>	<b>1,310,294</b>
<b>Earnings before distributions, finance costs, taxes, depreciation, amortization, write down of assets, foreign exchanges gains/(losses), business acquisition costs and unit based compensation expense</b>	12,226,043	8,623,136	4,575,768	-	<b>16,801,811</b>	<b>8,623,136</b>
<b>Purchase of property and equipment (net of business acquisitions)</b>	11,321,360	5,024,231	2,281,365	-	<b>13,602,725</b>	<b>5,024,231</b>
<b>Total identifiable assets<sup>(1)</sup></b>	86,807,807	91,468,151	128,537,211	-	<b>215,345,018</b>	<b>91,468,151</b>

<sup>(1)</sup>Balances for 2010 are as of December 31, 2010.

### 17. RELATED PARTIES

#### (a) Purchase of equipment

The Fund purchased equipment from a company in which a board member of the Fund has a controlling interest, for \$137,413 (2010 - \$89,698) and \$293,558 (2010 - \$344,315) during the three and nine month period ended September 30, 2011. These transactions arose during the normal course of business and were 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. The Fund paid \$212,880 (2010 - \$202,483) and \$632,030 (2010 - \$606,469) in such rent during the three and nine month period ended September 30, 2011 and a rental deposit of \$36,858 (2010 - \$36,858) for such premises at September 30, 2011. The rent between the parties is at fair market value.

# WesternOne Equity Income Fund

## Notes to the Condensed Interim Consolidated Financial Statements

September 30, 2011

(Unaudited)

---

(c) Key Management Personal Compensation

The following table summarizes the compensation of the Fund's key management:

	Nine-month period ended September 30, 2011	Nine-month period ended September 30, 2010
Short term employee benefits	\$ 562,706	\$ 276,363
Post employment benefits	-	-
Other long term benefits	-	-
Termination benefits	-	-
Share based payments	\$ 185,052	\$ 3,401

### 18. SUBSEQUENT EVENTS

- a) From October 1, 2011 to November 10, 2011, 37,541 Units were issued as a result of the conversion of \$192,000 principal amount of 2010 Debentures, thereby reducing the balance of 2010 Debentures and increasing the balance of Units.

# WesternOne Equity Income Fund

## Notes to the Condensed Interim Consolidated Financial Statements

September 30, 2011

(Unaudited)

---

### 19. TRANSITION TO IFRS

The Fund adopted IFRS in accordance with IFRS 1, "First-time Adoption of International Financial Reporting Standards". The first date at which IFRS was applied was January 1, 2010 ("Transition Date"). In accordance with IFRS, the Fund has:

- provided comparative financial information;
- applied the same accounting policies throughout all periods presented;
- retrospectively applied all effective IFRS standards as of January 1, 2010, as required; and
- applied certain optional exemptions and certain mandatory exceptions as applicable for first time IFRS adopters.

The Fund's interim consolidated financial statements were previously prepared in accordance with Canadian GAAP.

Set forth below are the IFRS 1 applicable exemptions and exceptions applied in the conversion from Canadian GAAP to IFRS.

(a) IFRS exemption options

Business Combinations - IFRS 1 provides the option to apply IFRS 3, retrospectively or prospectively from the Transition Date. The retrospective basis would require restatement of all business combinations that occurred prior to the Transition Date. The Fund elected not to retrospectively apply IFRS 3 to business combinations that occurred prior to its Transition Date and such business combinations have not been restated. Any goodwill arising on such business combinations before the Transition Date has not been adjusted from the carrying value previously determined under Canadian GAAP as a result of applying these exemptions.

(b) IFRS mandatory exceptions

Estimates - Hindsight is not used to create or revise estimates. The estimates previously made by the Fund under Canadian GAAP were not revised for application of IFRS except where necessary to reflect any difference in accounting policies.

# WesternOne Equity Income Fund

## Notes to the Condensed Interim Consolidated Financial Statements

September 30, 2011

(Unaudited)

### (c) Reconciliation of Canadian GAAP to IFRS

The following is a reconciliation of the Fund's financial position reported in accordance with Canadian GAAP to IFRS:

	Note	Previous Canadian GAAP	Effect of transition to IFRS	IFRS
<b>September 30, 2010</b>				
<b>ASSETS</b>				
CURRENT ASSETS				
Cash & cash equivalents		9,017,616		9,017,616
Accounts receivable		5,811,000		5,811,000
Inventories		1,960,230		1,960,230
Deposits & prepaid expenses		683,616		683,616
		17,472,462		17,472,462
PROPERTY & EQUIPMENT	I	35,371,873	(250,000)	35,121,873
INTANGIBLE ASSETS	I	23,119,244	250,000	23,369,244
GOODWILL	II	9,923,709	(430,978)	9,492,731
DEFERRED INCOME TAX ASSETS	II, IV	7,128,324	737,544	7,865,868
<b>TOTAL ASSETS</b>		<b>93,015,612</b>		<b>93,322,178</b>
<b>LIABILITIES AND UNITHOLDERS' DEFICIENCY</b>				
CURRENT LIABILITIES				
Operating loans		1,167,047		1,167,047
Accounts payable and accrued liabilities		5,434,492		5,434,492
Distributions payable		694,452		694,452
Current portion of Units	V	-	600,000	600,000
Capital and acquisition loans		30,526,711		30,526,711
Other liabilities		253,652		253,652
		38,076,354		38,676,354
FINANCE LEASE OBLIGATION		368,296		368,296
TERM MORTGAGE		310,202		310,202
FINANCIAL DERIVATIVES		135,580		135,580
SERIES A DEBENTURES	IV	9,009,151	579,688	9,588,839
2010 DEBENTURES	IV	23,597,149	4,069,091	27,666,240
EXCHANGEABLE UNITS	V	-	461,250	461,250
FUND UNITS	V	-	45,491,616	45,491,616
UNIT BASED COMPENSATION	III	-	132,760	132,760
		71,496,732		122,831,137
UNITS	V	42,180,015	(42,180,015)	-
RETAINED DEFICIT	II-V	(24,454,441)	(5,054,518)	(29,508,959)
CONTRIBUTED SURPLUS	III	136,020	(136,020)	-
EQUITY COMPONENT OF CONVERTIBLE DEBENTURES	IV	3,657,286	(3,657,286)	-
		21,518,880		(29,508,959)
<b>TOTAL LIABILITIES &amp; UNITHOLDERS' DEFICIENCY</b>		<b>93,015,612</b>		<b>93,322,178</b>

# WesternOne Equity Income Fund

## Notes to the Condensed Interim Consolidated Financial Statements

September 30, 2011

(Unaudited)

The following is a reconciliation of the Fund's comprehensive income reported in accordance with Canadian GAAP to IFRS:

Note	Canadian GAAP	Effect of transition to IFRS	IFRS	Canadian GAAP	Effect of transition to IFRS	IFRS	
	Three-month period ended September 30, 2010			Nine-month period ended September 30, 2010			
REVENUE							
Equipment rental	6,383,356		6,383,356	17,290,801		17,290,801	
Equipment sales	1,446,988		1,446,988	3,871,491		3,871,491	
Parts, fuel, service and others	3,389,675		3,389,675	14,262,880		14,262,880	
	11,220,019		11,220,019	35,425,172		35,425,172	
COST OF SALES							
Cost of equipment rentals, excluding depreciation	3,796,152		3,796,152	10,323,729		10,323,729	
Depreciation of rental equipment	1,989,743		1,989,743	5,645,336		5,645,336	
Equipment sold	1,345,723		1,345,723	3,534,839		3,534,839	
Parts, fuel, service and others	1,202,191		1,202,191	5,976,572		5,976,572	
	8,333,809		8,333,809	25,480,476		25,480,476	
GROSS PROFIT	2,886,210		2,886,210	9,944,696		9,944,696	
OPERATING EXPENSES							
General and administration	III	3,728,130	(46,116)	3,682,014	10,617,054	(23,075)	10,593,979
Business acquisitions	II	-	-	-	-	430,978	430,978
		3,728,130		3,682,014	10,617,054		11,024,957
RESULTS FROM OPERATING ACTIVITIES		(841,920)		(795,804)	(672,358)		(1,080,261)
Finance costs	IV, V	1,404,088	(660,831)	743,257	3,715,285	1,090,232	4,805,517
Franchise termination fee		815,976		815,976	815,976		815,976
Impairment of intangible asset		909,725		909,725	909,725		909,725
Distributions to Unitholders	V	-	2,102,103	2,102,103	-	6,296,706	6,296,706
LOSS BEFORE INCOME TAX		(3,971,709)		(5,366,865)	(6,113,344)		(13,908,185)
DEFERRED INCOME TAX RECOVERY	II, IV	(361,456)		(361,456)	(795,421)	(514,873)	(1,310,294)
TOTAL COMPREHENSIVE LOSS		(3,610,253)		(5,005,409)	(5,317,923)		(12,597,891)

The IFRS adjustments made to the comparative interim consolidated statement of comprehensive loss for the nine months ended September 30, 2010 have been made to the interim consolidated statement of cash flows as at the same date. There were no other significant IFRS transition differences noted.

### (d) Explanation note of transition to IFRS

#### *Software*

- I. Software was classified as property and equipment in the previous Canadian GAAP financial statements.

Starting from January 1, 2010 the Fund is required to classify software as intangible assets in accordance with IAS 38.

#### *Business combinations*

- II. Acquisition-related costs incurred by the Fund were included as part of goodwill under previous Canadian GAAP.

Starting from January 1, 2010 the Fund is required to expense acquisition related costs in accordance with IFRS 3. This also led to an increase in the temporary difference between the accounting basis and tax basis of the intangible assets (including goodwill) compared to Canadian GAAP.

# WesternOne Equity Income Fund

## Notes to the Condensed Interim Consolidated Financial Statements

September 30, 2011

(Unaudited)

---

### *Unit based compensation*

- III. The Fund granted options to acquire Units for its directors, trustees and other employees. These options vest evenly over five years. Under previous Canadian GAAP, these options were accounted for as equity settled options and the Fund had expensed the fair value of these options with an equal amount every year over the respective vesting periods. Under IFRS 2, "Share-Based Payment", these options are cash settled options and the Fund is required to account for each tranche of the options with graded vesting as a separate option grant and recognize the related expense and liabilities accordingly.

### *Financial instruments*

- IV. Under previous Canadian GAAP, the Series A Debentures and the 2010 Debentures (collectively, the "Debentures") were bifurcated between the equity and liability components using the residual method and the related transaction costs were deferred and amortized through the life of the Debentures. Under IAS 39, "Financial Instruments: Recognition and Measurement", the Fund elected to record its Debentures at their fair values based on the trading price at the Exchange. Furthermore, since the Units were classified as liabilities under IAS 39, no bifurcation between the equity and the liability components of the debenture was required. Also under IAS 39, the related transactions costs for issuing the Debentures were expensed when incurred. This led to an increase in the temporary difference between the accounting basis and tax basis of the deferred transaction costs compared to Canadian GAAP.

### *Financial instrument classification and presentation*

- V. The Fund's Units and Exchangeable Units were classified as equity under previous Canadian GAAP. Under IAS 32, since the Units are redeemable and the Fund has a contractual obligation to distribute the Fund's income according to the Fund's declaration of trust, the Units and Exchangeable Units are required to be classified as liabilities and the Units that are redeemable within 12 months from the date of the statement of financial position are required to be classified as current liabilities.

### *Fund Units*

The related issuance costs of the Units have been amortized fully using the effective interest rate method in accordance with IAS 39 as the Fund's Units are carried at amortized cost. Distributions declared are recorded as part of the Fund's comprehensive income in accordance with IAS 32.

### *Exchangeable Units*

The Exchangeable Units are carried at fair value through profit or loss with changes in their fair value being recorded as part of the Fund's comprehensive income.