



---

MANAGEMENT'S DISCUSSION AND ANALYSIS

*November 10, 2011*

---



## MANAGEMENT'S DISCUSSION AND ANALYSIS

### November 10, 2011

*The following management's discussion and analysis ("MD&A") should be read in conjunction with the interim consolidated financial statements and accompanying notes ("Financial Statements") of WesternOne Equity Income Fund and its direct and indirect subsidiaries (collectively known as the "Fund" below, unless the context otherwise requires) for the three and nine months ended September 30, 2011. Results have been prepared in accordance with International Financial Reporting Standards ("IFRS") and reported in Canadian dollars unless otherwise indicated. As a result of the adoption of IFRS, the financial results reported in this MD&A under IFRS may not be directly comparable to those figures contained within historical financial statements or MD&A of the Fund that were previously prepared in accordance with the Canadian Generally Accepted Accounting Principles ("Canadian GAAP") before the adoption of IFRS.*

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

### FORWARD-LOOKING INFORMATION

Certain statements in this MD&A may constitute 'forward-looking' information within the meaning of applicable securities laws that involve known and unknown risks, uncertainties and other factors that may cause actual results, performance or achievements or industry results, to be materially different from any future results, performance or achievements or industry results expressed or implied by such forward-looking information. Forward-looking information is identified by the use of terms and phrases such as "anticipate", "believe", "could", "estimate", "expect", "intend", "may", "plan", "predict", "project", "will", "would", and similar terms and phrases, including references to assumptions. Such information includes, without limitation, statements with respect to strategies, expectations, planned operations or future actions. Forward-looking information contained in this MD&A is based on certain key expectations and assumptions made by the Fund, including, without limitation, the intention of the Fund to continue to make monthly cash distributions, the outlook of the Fund's business and the North American economic and geopolitical conditions, the competitive environment in which the Fund and its business units operate, the performance characteristics of the Fund's assets, the supply and demand for the Fund's products and services and the related impact on the pricing of such products and services, the Fund's ability to fund debt maturities and to meet current and future obligations, collectability of net receivables and the Fund's ability to maintain payments to suppliers under current terms, the impact of the federal income tax changes on the Fund, critical accounting estimates, management's assessment of future plans and operations, management's ability to integrate newly acquired businesses and expand product offering and

customer base, procedures and internal controls over financial reporting, expectation of completion of evaluating DC&P and ICFR of Britco and discussion of the Fund's adoption of IFRS.

Forward-looking information reflects current expectations of management regarding future events and operating performance as of the date of this MD&A. Such information involves significant risks and uncertainties, should not be read as guarantees of future performance or results, and will not necessarily be accurate indications of whether or not such results will be achieved. A number of factors could cause actual results to differ materially from the results discussed in the forward-looking information, including, without limitation: current economic conditions, industry conditions and cyclicalities, failure to access financing, credit facilities risk, financial health of the Fund's limited partnerships and cash flows, failure to realize anticipated benefits of acquisitions, unexpected costs or liabilities related to acquisitions, integration of acquired businesses, reliance on key personnel, competition for acquisition targets, interest rate fluctuations, regulatory risk, sensitivity to general economic conditions and levels of economic activity, financing constraints, supply disruptions, adverse weather condition, seasonality and fluctuations in results, growth initiatives, focus on western Canada, competition, pricing and availability of raw materials, potential products liability and warranty expense, potential adverse effects of government regulation, discontinuation of tax incentives, labour shortages, employee relations, expansion, impact on demand due to interest rate changes, foreign exchange, resale of rental equipment, equipment availability, environmental regulation and health and safety matters, import product restrictions and foreign trade risks, insurance coverage, dependence on existing sites, harmonized sales tax, dependence on information systems and technology, dependence upon WesternOne Equity LP to fund cash distributions, cash distributions are not guaranteed and will fluctuate with business performance, distributions are discretionary, nature of the Units, leverage and restrictive covenants, limitations on future growth and cash flow, limited liability, unpredictability and volatility of Unit prices, attributes of securities distributed on redemption of Units of termination of the Fund, prior ranking indebtedness, conversion following certain transactions, dilution, investment eligibility, income tax matters, restrictions on the ownership of Units by non-residents of Canada, indemnities under acquisition agreements, Unitholders are not afforded certain statutory right and prevailing yields on similar securities. A description of these factors can be found under "Risks and Uncertainties" below.

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

## **OVERVIEW OF THE FUND**

The Fund is based in Vancouver, British Columbia ("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 is an unincorporated, open-ended, limited purpose trust created on June 14, 2006 and governed by its declaration of trust and the laws of BC.

The Fund has assets of approximately \$215 million and employs more than 550 employees across BC and Alberta, Canada, and in Texas, USA (for details see "Recent Events"). 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 acquired Britco Structures LLP and Britco Leasing Ltd. (collectively, “Britco”) on June 1, 2011. Britco is a leading manufacturer of commercial modular buildings in Canada, and has one of the largest lease fleets of temporary offices, construction site trailers and storage containers in Western Canada. 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.

The Units and the Fund’s unsecured convertible subordinated debentures (“2010 Debentures”) and extendable convertible unsecured subordinated debentures (“2011 Debentures”) (collectively, the “Debentures”) trade on the Toronto Stock Exchange (the “Exchange”) under the respective symbols WEQ.UN, WEQ.DB.B, WEQ.DB.C.

## **RECENT EVENTS**

On September 15, 2011, the Fund signed an agreement to form a modular manufacturing business in Texas, USA. The new company is called Britco Structures USA LLC (“BUSA”). Britco, through its indirect US subsidiaries, owns 44.55% of BUSA along with two other minority investors. The Fund consolidates BUSA and reflects interest of non-controlling parties in its financial statements.

Through capital contributions by its shareholders, BUSA has purchased a 133,000 sq ft manufacturing facility approximately one hour south of Dallas in the City of Waco. This addition to Britco’s production platform will compliment its Canadian manufacturing facilities in Agassiz and Penticton, BC. BUSA will design and manufacture office complexes and workforce accommodations required to support the energy, shale oil and gas, and construction infrastructure sectors in the mid-west and southern United States.

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 Debentures and increasing the balance of Units.

## **ADOPTION OF INTERNATIONAL FINANCIAL REPORTING STANDARDS**

In February 2008, the Canadian Accounting Standards Board confirmed that publicly accountable enterprises were required to adopt IFRS in place of Canadian GAAP for interim and annual reporting purposes for fiscal years beginning on or after January 1, 2011 (the “Transition Date”).

### ***Significant IFRS accounting changes and elections***

As a result of the adoption of IFRS, the Fund has the following key changes and elections to its financial statements:

#### **1. Units and Exchangeable Units**

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 Fund's Units met the definition of equity instruments under IAS 32, "Financial Instruments: Presentation" 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.

## 2. Exchangeable Units

The Fund's Exchangeable Units (as defined in "Fund Units and Principle Unitholders") were classified as equity under previous Canadian GAAP. Under IAS 32, since the Units are redeemable according to the Fund's declaration of trust, the Exchangeable Units are required to be classified as liabilities and are recorded at fair value through profit or loss based on the trading price of the Units at the Exchange under IAS 39, "Financial Instruments: Recognition and Measurement".

## 3. Convertible Debentures

Under previous Canadian GAAP, 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, the Fund elected to record its Debentures at their fair value 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 Debentures was required. Also under IAS 39, the related transaction 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 cost compared to Canadian GAAP.

## 4. Business combination

Acquisition-related costs incurred by the Fund were included as part of goodwill under previous Canadian GAAP. Starting from the Transition Date, the Fund is required to expense acquisition related costs in accordance with IFRS 3, "Business Combinations". 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. 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.

## 5. Unit based compensation

The Fund has granted options to acquire Units for its directors, Trustees and certain employees. These options vest evenly over five years. Under previous Canadian GAAP, these options were accounted for as equity settled awards and the Fund expensed the grant date 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 awards and the Fund is required to re-measure the fair value of the outstanding options at the end of each reporting period, account for each tranche of the options with graded vesting as a separate option grant and recognize the related expense and liability accordingly.

## 6. Expense classification

Under previous Canadian GAAP, depreciation of rental fleet, freight, service, sales and interest

expenses were classified as operating expenses. According to IAS 1, “Presentation of Financial Statements”, the Fund is required to include depreciation of rental fleet, freight, service and sales expenses as part of cost of sales and interest expense in finance costs.

The follow table summarizes the reclassification between cost of sales and operating expenses for the three months ended September 30, 2011 as a result of the adoption of IFRS:

	Canadian GAAP	Reclassification Adjustments	IFRS
<b>REVENUE</b>			
Modular building and equipment rentals	9,121,196		9,121,196
Modular building and equipment sales	21,779,123		21,779,123
Parts, fuel, service and others	4,386,417		4,386,417
<b>COST OF SALES</b>			
Cost of modular building and equipment rentals, excluding depreciation	-	4,848,151	4,848,151
Depreciation of rental fleet	-	2,535,068	2,535,068
Cost of modular building and equipment sold	15,522,968		15,522,968
Parts, fuel, service and others	2,033,973	(369,548)	1,664,425
<b>OPERATING EXPENSES</b>			
General and administration	6,524,505	1,774,121	8,298,626
Freight	1,477,209	(1,477,209)	-
Service	1,784,024	(1,784,024)	-
Sales	1,217,369	(1,217,369)	-
Amortization and Depreciation	4,309,189	(4,309,189)	-

Readers are advised that the Fund’s transition to reporting its financial results in accordance with IFRS from Canadian GAAP has had no impact, nor is it expected to have any future impact, on the operations of the Fund’s business, the amount of cash that is available to distribute to Unitholders or the contractual obligations between the Fund and any third parties.

For the purposes of management discussion of operating results below, the operating results of the Fund’s previous quarters have been reclassified based on the methods summarized above for consistency.

## **SUMMARY FINANCIAL REVIEW**

The Fund recorded significant year-over-year increases in its operating results for the three months ended September 30, 2011. Revenue, gross profit and EBITDA (for definition see “Non-IFRS Measures” below) grew by 214.5%, 271.3% and 179.6 %, respectively, compared to the third quarter in 2010. The increase was attributable to i) organic growth from the Fund’s existing businesses; and ii) acquisition of Britco. The Fund recorded organic increases of 12.9% and 10.7% in revenue and EBITDA, respectively, due to continued growth in the Alberta and BC construction sectors, which gave rise to higher fleet utilization and equipment rental rates. The increase in revenue and earnings was also due to the Britco acquisition. Incremental contributions from Britco generated \$22.6 million of revenue and \$4.1 million of EBITDA for the three months ended September 30, 2011.

Payout percentage was 70.8% for the third quarter, compared to 209.3% for the same period a year ago. Payout percentage for the nine months ended September 30, 2011 was 67.0%, a significant improvement from 129.7% for the same period a year ago.

## Summary Financial Overview

(\$000's, except per Unit amounts and percentages)	Three months ended		Nine months ended	
	September 30		September 30	
	2011	2010	2011	2010
<b>Revenue</b>	<b>\$ 35,287</b>	<b>\$ 11,220</b>	<b>\$ 73,265</b>	<b>\$ 35,425</b>
Cost of modular building and equipment rentals, excluding depreciation	(4,848)	(3,796)	(13,683)	(10,324)
Cost of modular building and equipment sold	(15,523)	(1,346)	(22,320)	(3,535)
Parts, fuel, service and others	(1,664)	(1,202)	(7,210)	(5,977)
Interest income	(56)	-	(56)	-
Operating expenses <sup>(1)</sup>	(6,569)	(2,468)	(13,300)	(6,966)
Non-controlling interest	106	-	106	-
<b>EBITDA <sup>(2)</sup></b>	<b>6,733</b>	<b>2,408</b>	<b>16,802</b>	<b>8,623</b>
Finance income/(costs) <sup>(3)</sup>	1,402	(743)	(16,700)	(4,805)
Depreciation and amortization	(4,309)	(3,231)	(11,385)	(9,309)
Unit based compensation	(37)	-	(719)	-
Business acquisition costs <sup>(4)</sup>	(13)	-	(966)	(431)
Distribution declared	-	(2,102)	(4,550)	(6,297)
Franchise termination fee <sup>(5)</sup>	-	(816)	-	(816)
Impairment of intangible assets <sup>(5)</sup>	-	(910)	-	(910)
Others	137	28	218	37
Income/(loss) before deferred income taxes	3,913	(5,366)	(17,300)	(13,908)
Deferred income tax recoveries/(expense)	(156)	361	928	1,310
<b>Net income/(loss)</b>	<b>\$ 3,757</b>	<b>\$ (5,005)</b>	<b>\$ (16,372)</b>	<b>\$ (12,598)</b>
Basic and diluted weighted avg income/(loss) per Unit	\$ 0.22	\$ (0.36)	\$ (1.05)	\$ (0.90)
Diluted weighted avg income/(loss) per Unit	0.20	(0.36)	(1.05)	(0.90)
Total assets <sup>(6)</sup>	\$ 215,345	\$ 91,468	\$ 215,345	\$ 91,468
Total long-term liabilities <sup>(6)</sup>	114,235	74,946	114,235	74,946
Maintenance capital expenditure <sup>(2)</sup>	309	251	756	762
Distributable cash generated <sup>(2)</sup>	\$ 3,621	\$ 1,004	\$ 10,614	\$ 4,853
Distributable cash per Unit <sup>(7)</sup>	0.2138	0.0717	0.6786	0.3469
Distributions declared	2,563	2,102	7,113	6,297
Distributions declared per Unit	0.1500	0.1500	0.4500	0.4500
<b>Payout percentage <sup>(8)</sup></b>	<b>70.8%</b>	<b>209.3%</b>	<b>67.0%</b>	<b>129.7%</b>

### Notes:

- (1) Includes general and administration expenses and excludes amortization of intangible and operating assets, unit based compensation expense and foreign exchange gain/loss.
- (2) See definition of EBITDA, distributable cash and maintenance capital expenditures under "Non-IFRS Measures".
- (3) Includes interest expense, amortization of finance-related transaction costs, debenture issuance cost, changes in fair value of Debentures and Exchangeable Units and gains/losses on financial derivatives.
- (4) Relates to costs associated with the acquisition of Britco for the three and nine months ended September 30, 2011 and the acquisition of Onsite for the three and nine months ended September 30, 2010.
- (5) Related to the termination of the Volvo Rents franchise effective October 1, 2010 and the write-off of the associated intangible assets. The one-time, non-recurring cost relating to the franchise termination was excluded from EBITDA.
- (6) For 2010 the amounts represent balances as at December 31, 2010.
- (7) Calculated based on basic weighted average number of Units.
- (8) Amounts calculated using distributable cash and distributions declared for the related period, not on per Unit amounts. Calculated as distribution declared divided by distributable cash generated.

More detailed discussions of the financial results for the three and nine months ended September 30, 2011 are provided under "Operating Results" below.

The Fund's revenue increased by 214.5%, or \$24.1 million, for the three months ended September 30, 2011 and 106.8%, or \$37.8 million, for the nine months ended September 30, 2011 compared to the same periods a year ago. The increase was driven by the organic growth from WRS due to: (i) continued

growth in the Alberta and BC construction sectors, which led to solid demand for rental equipment and increases in fleet utilization and rental rates. The Fund expanded its rental fleet in response to the growing demand, thereby increasing its revenue base. The revenue growth was also due to the acquisition of Britco. Britco contributed incremental revenue of \$29.7 million since the acquisition on June 1, 2011.

Gross profit increased by 271.3%, or \$7.8 million, for the three months ended September 30, 2011 and 132.3%, or \$13.2 million for the nine months ended September 30, 2011 compared to the same periods a year ago. Britco contributed \$6.7 million of incremental gross profit for the quarter. Gross profit increased organically by 40.4% and 44.0% for the three and nine months ended September 30, 2011 respectively, compared to the same periods a year ago.

Gross margin was 30.4% and 31.5% for the three and nine months ended September 30, 2011 and improved from 25.7% and 28.1% for the same periods a year ago due to (i) increase in equipment rental rates; and (ii) higher margin contributed by Britco's modular space leasing business.

Finance income for the three months and finance costs for the nine months ended September 30, 2011 were \$1.5 million and \$16.7 million, respectively, compared to finance costs of \$0.7 million and \$4.8 million for the same periods a year ago. The finance income for the three months ended September 30, 2011 included the quarterly revaluation of the Fund's Debentures under IFRS. The higher finance costs for the nine months ended September 30, 2011 compared to the same period a year ago were mainly due to (i) the expensing of debenture issuance costs of \$4.9 million in connection with the public offering of the 2011 Debentures in June 2011, as required under IFRS instead of defer and amortize under the previous Canadian GAAP; and (ii) incremental interest expense associated with the 2011 Debentures and new funding from the senior credit facility in relation to the acquisition of Britco.

Depreciation and amortization expense was \$4.3 million (12.2% of total revenue) and \$11.4 million (15.5% of total revenue) for the three and nine months ended September 30, 2011, respectively, compared to \$3.2 million (28.8% of total revenue) and \$9.3 million (26.3% of total revenue) for the same periods a year ago. The increases were due to incremental fleet expenditures and capital assets acquired from Britco.

EBITDA was \$6.7 million (19.1% of total revenue) and \$16.8 million (22.9% of total revenue) for the three and nine months ended September 30, 2011, respectively, compared to \$2.4 million (21.5% of total revenue) and \$8.6 million (24.3% of total revenue) for the same periods a year ago. The lower EBITDA margins in the current year were due to lower margins from Britco's manufacturing business.

Net income was \$3.8 million (\$0.22 per Unit) for the three months ended September 30, 2011 compared to a net loss of \$5.0 million (\$0.36 per Unit) for the same period a year ago. The change was primarily due to the increased operating earnings and quarterly revaluation of the Fund's Debentures under IFRS. Net loss was \$16.4 million (\$1.05 per Unit) for the nine months ended September 30, 2011 compared to \$12.6 million (\$0.90 per Unit) for the same period a year ago. The higher net loss was mainly due to higher depreciation and amortization expenses which were non-cash in nature, and costs associated with the public offering of the 2011 Debentures. The charges were partially reduced by the higher operating earnings compared to a year ago.

Total assets were \$215.3 million as at September 30, 2011 compared to \$91.5 million as at December 31, 2010. The difference was primarily due to changes in working capital as a result of the normal course of the business, changes in capital assets due to amortization, capital expenditures and business acquisition, and recognition of deferred income tax assets.

Long-term liabilities were \$114.2 million as at September 30, 2011 compared to \$74.9 million as at December 31, 2010. The difference was primarily due to: (i) the issuance of the 2011 Debentures; (ii) reallocation of Fund Units to Unitholders' Equity, pursuant to the Unitholders' approval of certain

amendments to the Fund's declaration of trust at the Fund's annual general meeting on June 6, 2011; and (iii) revaluation of the Debentures based on their respective trading prices as at September 30, 2011, as required under IFRS. As at September 30, 2011, the 2010 and 2011 Debentures had carrying values of \$25.4 million and \$85.4 million, respectively, on the statement of financial position based on their trading prices as at September 30, 2011, while the face value was \$22.88 million and \$86.25 million, respectively.

## **DEFERRED INCOME TAXES**

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

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

Deferred income taxes are recorded on the temporary differences arising between the accounting and tax bases of assets and liabilities on the statement of financial position.

Under the SIFT Tax rules, the tax rate on the post-2010 reversal of temporary differences is estimated by the Fund to be 26.5% for 2011 and 25.0% thereafter. Based on its assets and liabilities as at September 30, 2011, the Fund has estimated the amount of its temporary differences and the period in which these differences will reverse.

As a result of the SIFT Tax rules, Canadian accounting guidance required that the Fund record a cumulative deferred tax asset of \$8.8 million as at September 30, 2011.

## **OPERATING RESULTS**

### ***Basis of discussion and analysis***

The Fund's operating results reflect its operations for the three and nine months ended September 30, 2011. For the purposes of discussing operating results of the Fund under this section, only business units that have operated for more than one calendar year prior to the period ended September 30, 2011 are included for discussion. This allows management to utilize financial information that is consistently maintained by the Fund to conduct year-over-year comparisons. In this case the operating results from WRS, plus overhead and other expenses at the Fund's corporate level are included for discussion. The result of Britco is not included in the discussion under this section.

### ***Revenue***

The following table summarizes the revenues of WRS for the three and nine months ended September 30, 2010 and 2011.

**Summary of Revenues**  
(\$000's)

					Increase/(Decrease)		Increase/(Decrease)	
	Three months ended		Nine months ended		Three months ended		Nine months ended	
	September 30		September 30		September 30		September 30	
	2011	2010	2011	2010	\$	%	\$	%
Equipment rentals	\$ 7,636	\$ 6,383	\$ 23,429	\$ 17,291	\$ 1,253	19.6%	\$ 6,138	35.5%
Equipment sales	1,132	1,447	3,826	3,871	(315)	-21.8%	(45)	-1.2%
Parts, fuel, service and others	3,898	3,390	16,303	14,263	508	15.0%	2,040	14.3%
<b>Total revenues</b>	<b>\$ 12,666</b>	<b>\$ 11,220</b>	<b>\$ 43,558</b>	<b>\$ 35,425</b>	<b>\$ 1,446</b>	<b>12.9%</b>	<b>\$ 8,133</b>	<b>23.0%</b>

Revenue from equipment rentals of \$7.6 million for the three months ended September 30, 2011 increased by 19.6%, or \$1.2 million, compared to \$6.4 million a year ago. For the nine months ended September 30, 2011, revenue from equipment rentals increased by 35.5%, to \$23.4 million from \$17.3 million a year ago. The increase in rental revenue was due to higher rental volume in the Fund's southern Alberta and Lower Mainland operations. The continued growth in the Fund's market share in the commercial construction sector led to higher fleet utilization and higher rental rates in those regions. The Fund also expanded its rental fleet to benefit from the growing market demand.

Revenue from equipment sales of \$1.1 million for the three months ended September 30, 2011 decreased by 21.8%, or \$0.3 million, compared to a year ago. For the nine months ended September 30, 2011, revenue from equipment sales of \$3.8 million was consistent with the same period a year ago. As a result of the solid rental demand and higher rental rates, more equipment was retained to service the rental markets.

Revenue from parts, fuel, service and others of \$3.9 million for the three months ended September 30, 2011 increased by 15.0%, or \$0.5 million, compared to \$3.4 million a year ago. For the nine months ended September 30, 2011, the revenue increased by 14.3%, or \$2.0 million, to \$16.3 million from \$14.3 million a year ago. The increase was primarily due to higher rental volume in the southern Alberta and Lower Mainland regions and increased fuel prices.

***Gross margin and gross profit***

Gross margin was 32.0% and 32.9% for the three and nine months ended September 30, 2011, respectively. This is compared to 25.7% and 28.1% for the same periods a year ago. Gross profit increased by 40.4% for the three months ended September 30, 2011, to \$4.1 million from \$2.9 million a year ago. Gross profit increased by 44.0% for the nine months ended September 30, 2011, to \$14.3 million from \$9.9 million a year ago. The year-over-year improvements in the margins were primarily due to improving rental rates.

***Cost of sales***

Cost of sales as a percentage of total revenue was 68.0% and 67.1% for the three and nine months ended September 30, 2011, respectively, compared to 74.3% and 71.9% for the same periods a year ago.

Costs associated with equipment rentals (including depreciation of rental equipment) were 82.4% and 82.1% of equipment rental revenue for the three and nine months ended September 30, 2011, respectively, compared to 98.2% and 93.8% for the same periods a year ago. The lower percentages compared to the same periods last year were mainly due to higher margins achieved from equipment rentals in the southern Alberta and Lower Mainland construction sectors.

Costs associated with equipment sales were 77.1% and 80.7% of equipment sales revenue for the three and nine months ended September 30, 2011, respectively, compared to 93.0% and 91.3% for the same periods a year ago. While margins of retail equipment and merchandise sales remained relatively

consistent compared to last year, margins from sales of used aerial equipment from the fleet tend to fluctuate from time to time.

Costs associated with parts, fuel, service and others were 37.2% and 42.5% of the related revenue for the three and nine months ended September 30, 2011, respectively, compared to 35.5% and 41.9% for the same periods a year ago. Costs under this category relate mostly to purchases of fuel for fuel distribution sales and expenditures of parts for the servicing of customers' equipment. The higher percentages in the current year were primarily due to rising commodity fuel costs.

### ***Operating expenses***

Operating expenses before business acquisition costs and amortization were 28.8% and 23.3% of total revenue for the three and nine months ended September 30, 2011, respectively, compared to 21.9% and 19.6% for the same periods a year ago. The increase was primarily due to significantly higher Unit-based compensation expenses, which were non-cash in nature and related to the IFRS treatment of Unit options granted to the Fund's directors, Trustees and certain employees. The increase was also due to higher corporate overhead as a result of the Fund's broadened operating platform.

### ***EBITDA***

EBITDA (for definition see "Non-IFRS Measures" below) was \$2.7 million (21.1% of total revenue) and \$11.3 million (26.0% of total revenue) for the three and nine months ended September 30, 2011, respectively, compared to \$2.4 million (21.5% of total revenue) and \$8.6 million (24.3% of total revenue) for the same periods a year ago. Improvements in EBITDA for the periods were primarily due to (i) increased rental volume and rental rates, most notably in the construction sector in southern Alberta and Lower Mainland; and (ii) expansion of rental fleet which broadened the Fund's revenue base.

## SELECTED QUARTERLY FINANCIAL INFORMATION

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

<b>Selected Quarterly Financial Information</b> (\$000's except per Unit amounts and percentages) (unaudited)	Q3 '11	Q2 '11	Q1 '11	Q4 '10	Q3 '10	Q2 '10	Q1 '10	Q4 '09
	IFRS	IFRS	IFRS	IFRS	IFRS	IFRS	IFRS	Canadian GAAP
Revenue	\$ 35,287	\$ 20,528	\$ 17,451	\$ 14,827	\$ 11,220	\$ 11,160	\$ 13,045	\$ 10,333
EBITDA <sup>(1)</sup>	\$ 6,733	\$ 4,304	\$ 5,765	\$ 4,850	\$ 2,408	\$ 2,336	\$ 3,879	\$ 2,668
Net income/(loss)	\$ 3,757	\$ (14,222)	\$ (5,907)	\$ (2,469)	\$ (5,005)	\$ (3,271)	\$ (4,322)	\$ 973
Income/(Loss) per Unit								
Basic	0.22	(0.91)	(0.41)	(0.18)	(0.36)	(0.23)	(0.31)	0.07
Diluted	0.20	(0.91)	(0.41)	(0.18)	(0.36)	(0.23)	(0.31)	0.07
Distributable cash generated <sup>(1)</sup>	\$ 3,621	\$ 2,481	\$ 4,512	\$ 3,593	\$ 1,004	\$ 811	\$ 3,038	\$ 1,893
Distributable cash per Unit <sup>(2)</sup>	0.2138	0.1596	0.3071	0.2564	0.0717	0.0579	0.2175	0.1356
Distribution declared	\$ 2,563	\$ 2,355	\$ 2,195	\$ 2,102	\$ 2,102	\$ 2,099	\$ 2,096	\$ 2,095
Distribution per Unit	0.1500	0.1500	0.1500	0.1500	0.1500	0.1500	0.1500	0.1500
Payout percentage <sup>(3)</sup>	70.8%	94.9%	48.7%	58.5%	209.3%	259.0%	69.0%	110.6%

### Notes:

(1) See definition of EBITDA and distributable cash under "Non-IFRS Measures" below.

(2) Calculated based on basic weighted average number of Units.

(3) Amounts calculated using distributable cash and distributions declared for the related period, not on per Unit amounts. Calculated as distribution declared divided by distributable cash generated.

### Seasonality

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

#### 1. WRS

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.

#### 2. Britco

Britco's modular building manufacturing business typically 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.

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.

In addition to the seasonal nature of the Fund's business (mostly the equipment rentals, sales and service segment), the quarterly changes above are also due to organic growth in the business and timing of acquisition of assets.

## CASH FLOW AND LIQUIDITY

The following table provides an overview of the Fund's cash flows from operating, investing and financing activities for the three and nine months ended September 30, 2011:

Summary of cash flows (\$000's) (unaudited)	Three months ended		Nine months ended	
	September 30		September 30	
	2011	2010	2011	2010
Net change of cash related to:				
Operations				
Cash generated from operating earnings	\$ 6,473	\$ 2,308	\$ 16,257	\$ 8,425
Changes from non-cash working capital	6,561	765	10,874	2,843
Investing	(5,015)	(2,773)	(111,409)	(18,058)
Financing	(2,637)	28	102,203	13,738
Net change in cash during the period	\$ 5,382	\$ 328	\$ 17,925	\$ 6,948

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

A single Canadian chartered bank (the "Bank") has provided a \$5.75 million operating loan on an interest-only basis, that is payable upon demand, on which the Fund's businesses had drawn \$3.2 million as at September 30, 2011.

Working capital management continues to be an important element of cash generation for the Fund. As at September 30, 2011, management expects that net receivables are collectible and that payments to suppliers will also continue under current terms.

The Fund had a working capital deficiency of \$35.1 million as at September 30, 2011. The Fund's working capital includes items expected for normal operations, such as cash and cash equivalents, accounts receivable, inventories, prepaid expenses, deposits, operating loans, accounts payable and accrued liabilities, distributions payable, unearned revenue, the current portion of finance lease obligations, term mortgage payable and loan from non-controlling investors. As at September 30, 2011, the working capital deficiency included \$61.7 million of capital and acquisition loans. As at September 30, 2011, the outstanding capital and acquisition loans were advanced from the Bank with maturity dates ranging from February 2013 to August 2016. Since the capital and acquisition loans could be repayable

on demand before their maturity dates, they were classified as current liabilities in the financial statements of the Fund. As at September 30, 2011, the Fund had made all monthly payments related to the capital and acquisition loans according to the payment schedule of the Bank and the Fund was in compliance with its covenants. The Fund had total cash and cash equivalents of \$21.9 million as at September 30, 2011. For the trailing 12 months ended September 30, 2011, the Fund generated \$24.4 million of cash from operating activities. The Fund does not anticipate any problems in meeting future obligations as they become due given the level of funds from its operations, its ability to generate cash flow from its ongoing business operations and its ability to raise capital through public offerings.

During the three months ended September 30, 2011, the Fund generated cash of \$13.0 million from operating activities, of which \$6.6 million related to changes from non-cash working capital which represented a normal course of fluctuation in the Fund's businesses.

During the three months ended September 30, 2011, the Fund purchased rental equipment and other operating assets for \$6.4 million and received proceeds of \$1.4 million from sales of fleet equipment. The Fund also drew \$2.3 million (net of scheduled repayments) from its senior capital and acquisition facilities to fund the fleet equipment expenditures. The Fund distributed \$2.5 million to the Unitholders and paid \$3.2 million of interest for the outstanding senior debt and Debentures. The Fund paid \$0.3 million to redeem the remaining unconverted balance of Series A debentures on July 29, 2011.

### ***Liquidity Risks***

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

The Fund manages its liquidity risk through cash and debt management. As at September 30, 2011, the Fund had available unused approved credit facilities (operating, capital and acquisition loans combined) of \$3.7 million. The Fund also had accounts receivable of \$20.2 million and cash and cash equivalents totaling \$21.9 million. Management expects to discharge the Fund's liabilities by means of cash flow generated from operations, existing cash reserves and refinancing of debt instruments.

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.

### **CAPITAL RESOURCES**

In addition to the \$5.75 million interest-only demand operating loan described in "Cash Flow and Liquidity" above, the Bank has made capital and acquisition loans available to the Fund to finance its capital expenditures and future acquisitions. As at September 30, 2011, \$62.8 million of capital and acquisition loans were approved by the Bank and \$61.7 million were outstanding.

The Fund's credit facilities have covenants specifying a minimum current ratio of 1.25 to 1.0, a maximum funded debt to earnings (as defined in the credit facilities agreement) ratio of 3.0 to 1.0, a minimum debt service coverage ratio of 1.25 to 1.0, and a restriction on increases in distributions to Unitholders and future acquisitions without the prior written consent of the Bank. For purposes of calculating the current ratio as at September 30, 2011, 25% of the capital and acquisition loans due within one year were

included in current liabilities. As at September 30, 2011, the Fund was in compliance with all bank covenants.

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

## DISTRIBUTABLE CASH AND DISTRIBUTIONS

The Fund reviews its historic and expected results on a regular basis. This review includes consideration of economic conditions, including seasonality, the competitive environment, future cash requirements and projected accretion from newly acquired businesses. It is the Fund's normal policy not to distribute 100% of distributable cash (for definition see "Non-IFRS Measures" below) on a calendar year basis in order to address the seasonality nature of the business and unforeseen events, should they occur. With respect to the Fund's ongoing strategy of monthly distributions, management and the board of Trustees consider the current and projected business activity level of the Fund's operations. While it is the Fund's policy to make stable monthly distributions to Unitholders, unforeseen events may occur and cause the board of Trustees to decide to reduce or suspend monthly distributions temporarily or permanently.

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

<b>Distribution history (per Unit)</b>	<b>2006</b>	<b>2007</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>	<b>2011</b>
January		\$ 0.0408	\$ 0.0500	\$ 0.0500	\$ 0.0500	\$ 0.0500
February		0.0408	0.0500	0.0500	0.0500	0.0500
March		0.0450	0.0500	0.0500	0.0500	0.0500
April		0.0450	0.0500	0.0500	0.0500	0.0500
May		0.0450	0.0500	0.0500	0.0500	0.0500
June		0.0500	0.0500	0.0500	0.0500	0.0500
July		0.0500	0.0500	0.0500	0.0500	0.0500
August	\$ 0.0224 <sup>(1)</sup>	0.0500	0.0500	0.0500	0.0500	0.0500
September	0.0408	0.0500	0.0500	0.0500	0.0500	0.0500
October	0.0408	0.0500	0.0500	0.0500	0.0500	0.0500 <sup>(2)</sup>
November	0.0408	0.0500	0.0500	0.0500	0.0500	
December	0.0608	0.0500	0.0500	0.0500	0.0500	
<b>Total</b>	<b>\$ 0.2056</b>	<b>\$ 0.5666</b>	<b>\$ 0.6000</b>	<b>\$ 0.6000</b>	<b>\$ 0.6000</b>	<b>\$ 0.5000</b>

Notes:

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

(2) Declared on October 20, 2011.

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

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

The following table reconciles cash flow from operating activities to distributable cash for the three and nine months ended September 30, 2011:

<b>Reconciliation of cash flow from operating activities to distributable cash</b> (\$000's, except for per Unit amounts and percentages)	Three months ended September 30	Nine months ended September 30
Cash flow from operating activities	\$ 13,034	\$ 27,131
Changes in non-cash working capital balances	(6,561)	(10,874)
	6,473	16,257
Gain on sale of assets	500	963
Maintenance capital expenditure <sup>(1)</sup>	(309)	(756)
Non-controlling interest	106	106
Interest paid	(3,149)	(5,956)
Distributable cash generated <sup>(1)</sup>	<u>\$ 3,621</u>	<u>\$ 10,614</u>
Distributions declared	\$ 2,563	\$ 7,113
Distributable cash generated per Unit	\$ 0.2138	\$ 0.6786
Distributions declared per Unit	0.1500	0.4500
Payout percentage <sup>(2)</sup>	70.8%	67.0%
Net income/(loss)	\$ 3,757	\$ (16,372)
Deficit of net loss below distributions declared	<u>\$ 1,194</u>	<u>\$ (23,485)</u>

Notes:

(1) See definition of “maintenance capital expenditures” and “distributable cash” under “Non-IFRS Measures” below.

(2) Amounts calculated using distributable cash and distributions declared for the related period, not on per Unit amounts. Calculated as distribution declared divided by distributable cash generated.

## NON-IFRS MEASURES

References in this MD&A to “EBITDA” are to earnings before interest, income taxes, depreciation, amortization, gain/loss on financial derivatives relating to changes in the fair market value of the fixed interest rate swap, business acquisition costs, Debenture issuance costs, gain/loss on Debentures relating to changes in their fair market values, gain/loss on Unit issuances relating to conversion of Debentures, gain/loss on Exchangeable Units relating to changes in their fair values, unit based compensation, distribution to unitholders, foreign exchange gains/losses, write-down of fleet assets, intangible assets and goodwill, and non-recurring items. EBITDA is a measure used by many investors to compare issuers on the basis of ability to generate cash flow from operations. EBITDA is not an earnings measure recognized by IFRS, does not have standardized meanings prescribed by IFRS and is therefore unlikely to be comparable to similar measures presented by other issuers. The Fund’s management believes that EBITDA is an important supplemental measure in evaluating the Fund’s performance and in determining whether to invest in Units.

Readers of this information are cautioned that EBITDA should not be construed as an alternative to net income or loss determined in accordance with IFRS as indicators of the Fund’s performance or to cash flows from operating, investing and financing activities as measures of the Fund’s liquidity and cash flows. The Fund’s method of calculating EBITDA may differ from the methods used by other issuers and, accordingly, the Fund’s EBITDA may not be comparable to similar measures presented by other issuers.

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

return on their investment in Units. See “Distributable Cash and Distributions - Reconciliation of cash provided by operating activities to distributable cash”.

“Maintenance capital expenditures” is not a recognized measure under IFRS and does not have a standardized meaning prescribed by IFRS. The Fund considers maintenance capital expenditures as expenditures that are required to maintain the service capacity of the Fund’s rentable equipment and modular building fleet (defined as equipment that has generated rental revenue equal to or exceeding 10% of the original acquisition cost of such equipment in the immediately preceding 12 months) and operating assets which include vehicles, trailers, furniture and fixtures, computer equipment and software and leasehold improvements. The maintenance capital expenditures for the Fund are calculated as the difference between the original acquisition cost and the related net book value upon the disposition of such equipment, plus the cost of replacement of operating assets.

## OFF-BALANCE SHEET FINANCING

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

## CONTRACTUAL OBLIGATIONS

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

<b>Loans payable (\$000's)</b> (unaudited)	Oct 1 to Dec 31 2011	2012	2013	2014	2015	Thereafter
Loans Payable	\$ 2,566	\$ 10,510	\$ 16,832	\$ 9,239	\$ 7,639	\$ 15,146

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

<b>Contractual obligations</b>	2011	2012	2013	2014	2015	Thereafter
Rental commitments	\$ 1,209	\$ 4,788	\$ 4,339	\$ 3,849	\$ 3,554	\$ 3,973
Term mortgage	10	303	-	-	-	-
Finance leases	87	334	356	281	105	34
Operating leases	116	330	187	89	33	11
	\$ 1,422	\$ 5,755	\$ 4,882	\$ 4,219	\$ 3,692	\$ 4,018

## LONG TERM INCENTIVE PLAN

Trustees, directors, officers and key employees of the Fund and its direct and indirect subsidiaries are eligible to participate in the Fund’s long term incentive plan (the “LTIP”). The purpose of the LTIP is to provide eligible participants with compensation opportunities that will enhance the Fund’s ability to attract, retain and motivate key personnel and reward key employees for significant performance that results in the Fund exceeding its cash available for distribution targets. Pursuant to the LTIP, the Fund sets aside a pool of funds based upon the amount, if any, by which the cash available for distribution per Unit (as measured on a fully diluted basis) exceeds certain defined threshold amounts. A third-party trustee will purchase Units in the market with this pool of funds and hold the Units until such time as ownership vests to each participant. LTIP participants are entitled to receive distributions on all Units held for their account prior to the applicable vesting date. Unvested Units held by the third-party trustee

for an LTIP participant will be forfeited if the participant resigns or is terminated for cause prior to the applicable vesting date, and those Units will be sold and the proceeds returned to the Fund.

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

The compensation committee from time to time may adjust the threshold amounts. In fiscal 2011, the LTIP provided for awards that may be earned based on the amount by which cash available for distribution per Unit (as measured on a fully diluted basis), exceeds a base distribution threshold of \$0.65 per Unit per annum (the "threshold"). The percentage amount of that excess which forms the LTIP incentive pool is determined as follows:

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

As at September 30, 2011, the Fund's compensation committee did not approve any payments under the LTIP for the 2011 fiscal year.

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

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

On May 10, 2011, the Fund's board of trustees granted options to certain employees to purchase, in aggregate, 300,000 Units. Each option provides the holder with the right for up to ten years to purchase one Unit at an exercise of \$5.89. Vesting of the options occurs equally over the next five years.

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.

As at the date of this MD&A, 33,000 options had been exercised and 9,000 options had been forfeited and cancelled due to the departure of an employee.

## **TRANSACTIONS WITH RELATED PARTIES**

The Fund purchased equipment from 0798319 BC Ltd., a company in which a board member of the Fund has a controlling interest, for \$0.1 million (2010 - \$0.1 million) and \$0.3 million (2010 - \$0.3 million) during the three and nine months ended September 30, 2011. These transactions arose during the normal course of business and have been recorded at fair market value.

The Fund currently rents premises in various locations from companies in which an officer and certain general managers of Business LPs hold interests. Specifically, the Fund rents premises in its operating locations in Comox (BC), Calgary (Alberta) and Edmonton (Alberta) from Mahatta Holdings Ltd., Eastlake Properties Inc. and MYR Developments Ltd., respectively. The Fund paid \$0.2 million (2010 -

\$0.2 million) and \$0.6 million (2010 - \$0.6 million) aggregately in rent to such companies and maintained a rental deposit of \$36,858 (2010 - \$36,858) for such premises during the three and nine months ended September 30, 2011. The rent between the parties is at fair market value. The terms of the leases range from renewal on a monthly basis (with a termination notice of three months given either by the tenant or landlord) to August 31, 2023.

## **FUND UNITS AND PRINCIPAL UNITHOLDERS**

As at the date of this MD&A, 17,090,786 Units are issued and outstanding, each of which entitles the holder to one vote at Unitholder meetings. Furthermore, 22,685 2010 Debentures and 86,250 2011 Debentures are issued and outstanding with an outstanding face value of \$22.69 million and \$86.25 million respectively. Upon conversion of 2010 Debentures and 2011 Debentures, an additional 4,320,959 and 11,500,000 Units, respectively, would be issuable. In addition, 125,000 exchangeable units (“Exchangeable Units”) were issued by a subsidiary indirectly controlled by the Fund on February 15, 2008. The Exchangeable Units have no voting rights but have economic rights equivalent to the Fund’s Units, and are exchangeable to the Units on a one-for-one basis. To the knowledge of the Fund, no person beneficially owns, directly or indirectly, or exercises control or direction over, Units carrying more than 10% of the voting rights attached to all of the issued and outstanding Units.

## **FINANCIAL INSTRUMENTS AND RISK MANAGEMENT**

As at September 30, 2011, the Fund’s financial assets and liabilities consisted primarily of cash and cash equivalents, accounts receivable, operating loans, accounts payable and accrued liabilities, distribution payable, term mortgage, capital and acquisition loans, financial derivatives not designated in an effective hedging relationship, 2010 Debentures, 2011 Debentures, loan from non-controlling interest and Exchangeable Units. These financial instruments arose from the Fund’s normal course of business, with respect to the financing of its day-to-day operations, capital expenditures and acquisitions.

The carrying values of the financial instruments, except for the capital and acquisition loans, mortgage payable, loan from non-controlling interest, 2010 Debentures, 2011 Debentures and Exchangeable Units, were considered to approximate their fair values due to their short term nature. The carrying values of the capital and acquisition loans and loan from non-controlling interest approximated their fair values as the related interest rates of the loans were at market as at September 30, 2011. The Fund has considered credit risk in making this determination and concluded no material adjustments would be required. The fair values of the mortgage payable was based on discounted future cash flows using discount rates that reflected prevailing market conditions for instruments having similar terms and conditions. The fair values of 2010 Debentures and 2011 Debentures were determined based on their closing prices at the Exchange as at September 30, 2011. The fair value of Exchangeable Units was determined based on the closing price of the Units at the Exchange as at September 30, 2011.

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

### ***Credit risk***

Credit risk is the risk of financial loss to the Fund if a customer or counterparty to a financial instrument fails to meet its contractual obligation. The maximum exposure to credit risk is the full carrying value of the financial instrument. The Fund is exposed to credit risk with respect to its accounts receivable, particularly from customers in the construction and resource industries in BC and Alberta due to its

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 had also reviewed the payment history and average collection cycle of these accounts and made provisions where necessary. In general, the Fund mitigates its credit risk by following a program of credit evaluations of customers and limits the amount of credit extended when deemed necessary. The Fund maintains provisions for potential credit losses. As at September 30, 2011, the Fund had provisions for potential uncollectible accounts receivable of \$0.6 million and the related bad debt expense was classified as an operating expense in the Fund's statement of comprehensive income.

### ***Interest rate risk***

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Fund's term mortgage, finance leases and Debentures all bear fixed interest rates, and hence are not exposed to any interest rate risk. The Fund's credit facilities bear interest at variable rates. In this case the Fund is managing its interest rate risk through entering into an interest rate swap agreement with the Bank for a portion of the outstanding senior credit facilities. The Fund does not hold or use any derivative instruments for trading or speculative purposes. Interest expense is classified as part of finance costs in the Fund's statement of comprehensive income.

### ***Foreign exchange risk***

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

The Fund's cash flow exposure to foreign exchange risks mainly relates to purchases of rental equipment and replacement parts from suppliers in the United States. For the three months ended September 30, 2011, the Fund recorded foreign exchange gains of \$0.1 million. Foreign exchange gains or losses are classified as part of operating expenses in the Fund's statement of comprehensive income.

As at September 30, 2011, the Fund's consolidated statement of financial position included \$1.4 million of accounts payable (2010 - \$0.1 million), \$0.3 million of operating line (2010 - \$nil) and \$3.0 million of cash (2010 - \$0.1 million) which were U.S. currency denominated and were subject to foreign exchange risks.

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

## **CRITICAL ACCOUNTING ESTIMATES**

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

understanding the judgments that are involved in preparing the Financial Statements and the uncertainties that could affect the Fund's results of operations, financial condition and cash flows.

### ***Provision of inventory obsolescence***

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

### ***Provision for doubtful accounts***

The Fund is exposed to credit risks with respect to its accounts receivable, particularly from customers in the construction and resource industries in BC and Alberta due to its concentration of business in those sectors. In general, the Fund mitigates the risk by following a program of credit evaluations of customers and limits the amount of credit extended when deemed necessary. The Fund maintains provisions for potential credit losses, and any such losses to date have been within management's expectations. Assumptions underlying management's evaluation of provision for doubtful accounts include stability of the business environment that customers operate in and financial health of customers. The provision for doubtful accounts at September 30, 2011 did not reflect any significant increase in expected losses compared to prior years. However, depending on the future economic environment, there is a risk that the Fund could experience a greater number of defaults which would result in an increased charge to net income.

### ***Impairment of assets***

Management reviews the Fund's non-financial assets, inventories and deferred tax assets at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. Management also reviews goodwill, and intangible assets that have indefinite useful lives or that are not yet available for use for impairment at least annually or whenever events or changes in circumstances indicate possibility of impairment.

Impairment is recognized if the recoverable amount determined as the higher of the estimated fair value less cost to sell or the discounted future cash-flows generated from use and eventual disposal from an asset or cash generating unit ("CGU") is less than their carrying value. Impairment losses are recognized in profit or loss. Impairment losses recognized in respect of a CGU are allocated first to reduce the carrying value of goodwill allocated to the CGU and any excess is allocated to the carrying amount of the other assets in the CGU on a pro rata basis.

Assumptions underlying management's evaluation of asset impairments include estimates of future operations of, and related cash flow generated from, the assets or CGUs, marketplace data, and future costs of capital. Depending on the future economic environment, there is a risk that the Fund could have an increase in impairments which would result in an increased charge to net income.

### ***Accrual of unbilled revenue***

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

### ***Accrual of uncompleted project revenue and related costs***

The Fund accounts for its modular manufacturing revenue using percentage-of-completion method of accounting. Revenue and related cost of sales are recognized based on costs incurred to date over the total estimated costs to complete the design, manufacture, transportation and installation of such products.

### ***Deferred income taxes***

As a result of the SIFT tax, starting from January 1, 2011, the Fund is subject to income taxes at a rate approximately equal to the rate applicable to income earned by a Canadian public corporation, and is prevented from deducting trust distributions when calculating taxable income.

Deferred income tax assets and liabilities are determined based on the temporary differences between the tax basis of the Fund's assets and liabilities and the amounts reported in the financial statements, to the extent that such temporary differences are expected to reverse on or after January 1, 2011. Deferred tax assets or liabilities are calculated using the tax rates for the periods in which the differences are expected to be settled. Deferred tax assets are recognized to the extent that they are considered more likely than not to be realized. Assumptions underlying the composition of deferred income tax assets include estimates of future results of operations, the timing of reversal of temporary differences, as well as the tax rates and laws in each province at the time of the expected reversal. The composition of deferred income tax assets is reasonably likely to change from period to period due to the uncertainties surrounding these assumptions.

## **RISKS AND UNCERTAINTIES**

In addition to the risks and uncertainties discussed in the Fund's public documents, including but not limited to Annual Information Form dated March 31, 2011, the Fund believes that the following items represent significant areas for consideration:

### ***Current economic conditions***

Global financial markets have been subject to significant volatility due to the recent downgrade of the US debt rating and European sovereign debt issues. Changes in interest rates, consumer and business confidence, corporate profits, credit conditions, foreign exchange, commodity prices may influence the Fund's customers' operating and capital spending. This may have a material adverse effect on the Fund's business, financial condition, results of operations and cash flows.

### ***Industry conditions and cyclical***

The modular building industry historically has been cyclical and is influenced by many of the same national and regional economic factors which affect business generally. Such factors include consumer confidence, inflation, interest rates, regional population and employment trends, availability and cost of alternative accommodation and general economic conditions. There can be no assurance that the modular building market will not experience future declines or that such declines will not have a material adverse effect on the Fund's business, financial condition, results of operations and cash flows.

### ***Focus on western Canada***

Britco currently sells its products primarily in western Canada. While Britco believes that this region historically has been strong for the modular building industry, demographic factors and economic conditions affecting this region may adversely affect the Fund's financial condition, results of operations and cash flows.

### ***Competition***

The modular building industry is highly competitive, and the barriers to entry are lower than for industries requiring large capital investments or substantial technological expertise. Competition at the manufacturing level exists in terms of price, product quality and features. Some of Britco's competitors have substantially greater financial, manufacturing, distribution and marketing resources.

### ***Pricing and availability of raw materials***

The future results of operations of Britco could be affected by the pricing and availability of raw materials. Although Britco attempts to increase the sales prices of its modular buildings in response to higher materials costs, such increases lag somewhat behind the escalation of materials costs. Four of the most important raw materials used in the Britco's operations, lumber, steel, gypsum wallboard and insulation, have experienced price fluctuations in recent periods. Although Britco has not experienced any shortage of such building materials to date, there can be no assurance that sufficient supplies of lumber, steel, gypsum wallboard and insulation, as well as other raw materials, will continue to be available on terms Britco regards as satisfactory.

### ***Potential products liability and warranty expense***

Although Britco has never been subject to significant products liability claims, it may be exposed to the risk of loss as a result of defects in its products or components of its products. Britco maintains a general liability insurance policy, but there can be no assurance that such insurance will be sufficient to cover potential claims or that the present level of coverage will be available in the future at reasonable cost. A partially insured or a completely uninsured successful claim against Britco could have a material adverse effect on the Fund's financial condition, results of operations and cash flows.

Britco provides buyers of its modular buildings with one or two year limited warranties. There can be no assurance that future warranty expenses will not have a material adverse effect on the Fund's financial condition, results of operations and cash flows.

### ***Potential adverse effects of government regulation***

Britco's operations are subject to a variety of federal, provincial, local and other laws and regulations. Changes in, or a failure by it to comply with, such laws and regulations could have a material adverse effect on the Fund's financial condition, results of operations and cash flows.

### ***Credit facility risk***

The Fund is required to comply with covenants under its credit facilities. In the event that the Fund does not comply with covenants under the credit facilities, the Fund's access to capital could be restricted or repayment could be required. The Fund routinely reviews the covenants based on actual and forecast results and has the ability to make changes to its operation plans and/or distribution policy to comply with covenants under the credit facilities.

For other risks and uncertainties associated with the Fund, refer to the Fund's Annual Information Form dated March 31, 2011.

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

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

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

An evaluation of the design of the Fund's DC&P was conducted, as at September 30, 2011, by management under the supervision of the CEO and the CFO. Based on this evaluation, the CEO and the CFO have concluded that, as at September 30, 2011, except for the design of DC&P related to Britco as described below, the Fund's DC&P are designed to provide reasonable assurance that information required to be disclosed by the Fund in reports filed or submitted under securities legislation is recorded, processed, summarized and reported within the time periods specified therein.

Management, under the supervision of the CEO and the CFO, has evaluated the design of the Fund's ICFR using the framework and criteria established in Internal Control – Integrated Framework, issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO"). Based on this evaluation, management has concluded that as at September 30, 2011, except for the design of ICFR related to Britco as described in the paragraph below, the Fund's ICFR was designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS.

As at the date of this MD&A, management has not completed the evaluation of the design of DC&P and ICFR related to Britco, of which the assets and business were acquired by the Fund on June 1, 2011. The following table summarizes the financial information of Britco for the three months ended September 30, 2011:

Summary Financial Information (\$'000s) (unaudited)	Three months ended September 30
Revenue	\$ 22,620
Income before discontinued operations and extraordinary items	3,383
Net income	3,383
Current assets	27,416
Non-current assets	87,964
Current liabilities <sup>(1)</sup>	12,116
Non-current liabilities	919

Note:

Excludes inter-company balance of \$0.4 million due to other subsidiaries of the Fund.

Management anticipates that the evaluation of the design of DC&P and ICFR for Britco to be complete prior to May 31, 2012.

Except for the description of the acquisition of Britco above, there has been no change in the Fund's DC&P and ICFR that occurred during the third quarter of fiscal 2011 that has materially affected, or is reasonably likely to materially affect, the Fund's DC&P and ICFR.

## **OUTLOOK**

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

The Fund achieves growth through organic growth and disciplined acquisitions. The Fund benefits from the growing economic activities in the construction & infrastructure and resource sectors in western Canada. The WesternOne Rentals & Sales division ("WRS") records year-over-year organic growth due to a steady flow of commercial, residential and infrastructure projects, in turn a result of a resurgence of oil and gas and other resource projects. Higher levels of post-recession construction is driving demand for equipment rentals and services, leading to a gradual growth in rental rates. WRS has also had strong growth from a robust film production and shipyard industry. The awarding of an \$8 billion shipbuilding contract to the west coast shipbuilding sector recently announced by the federal government will provide a steady flow of work for WRS's shipyard customers, resulting in long-term sustainable growth in that region.

The Britco division benefits from the growing demand for modular workforce accommodations in the resource sector, as evidenced by the signing of a \$45 million contract in August 2011 to supply and install a workforce housing complex in northern Alberta. Despite the recent volatility in the global financial markets, activities relating to the mid- to long-term resource exploration and production remain unabated. According to CERI<sup>1</sup>, total investments of \$1,150 billion in the Alberta oil sands are projected for the next 10 years, with related employment in Canada increasing from 390,000 to 800,000. 90% of these jobs will be in Alberta. Oil sands royalties to Alberta will increase from \$3.56 billion in 2010 to \$26 billion in 2020. Over the next 10 years this massive investment and increase in workers will drive demand for workforce housing for in-situ and mining oil sands projects.

Management expects Britco to be well positioned to serve this increasing demand for modular workforce housing. Production capacity at its existing plants will be increased by adding labour workforce and streamlining production flow. Management is also actively seeking capacity expansion through acquisition. Britco's investment in Britco Structures USA LLC will provide access to the workforce housing and modular rental market supporting the energy, shale oil and gas, and construction infrastructure sectors in the mid-west and southern US.

In the face of the recent volatility in the financial markets due to the European sovereign debt issues, management will continue to assess the Fund's operating performance and its business environment, and execute appropriate strategies in relation to capital expenditures, sales and marketing and operational review to ensure financial stability in its business units.

## **ADDITIONAL INFORMATION**

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

---

<sup>1</sup> Canadian Energy Research Institute, "A decade of staged oilsands growth", CERI Study Nol 125, August 2011

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

Carlos Yam, Chief Financial Officer  
WesternOne Equity Income Fund  
Suite 910, 925 West Georgia Street  
Vancouver, BC V6C 3L2  
Phone: (604) 678-4042  
E-mail: [cyam@weq.ca](mailto:cyam@weq.ca)

**INVESTOR RELATIONS**

***For investor relations information, please contact:***

Andrew Greig, Manager of Investor Relations  
WesternOne Equity Income Fund  
Suite 910, 925 West Georgia Street  
Vancouver, BC V6C 3L2  
Phone: (604) 678-4042  
E-mail: [agreig@weq.ca](mailto:agreig@weq.ca)

**TRADING SYMBOLS**

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