

# WESTERNONE EQUITY

WESTERNONE EQUITY INCOME FUND

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## MANAGEMENT'S DISCUSSION AND ANALYSIS

*November 12, 2008*

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WESTERNONE EQUITY INCOME FUND

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## MANAGEMENT'S DISCUSSION AND ANALYSIS

November 12, 2008

*The following management's discussion and analysis ("MD&A") should be read in conjunction with the unaudited interim consolidated financial statements and accompanying notes ("Interim Financial Statements") of WesternOne Equity Income Fund and its subsidiaries (collectively known as the "Fund" below, unless the context otherwise requires) for the three and nine months ended September 30, 2008. Results have been prepared in accordance with Canadian generally accepted accounting principles ("GAAP") and reported in Canadian dollars unless otherwise indicated. The fiscal year-end of the Fund is December 31.*

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

### FORWARD-LOOKING INFORMATION

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

Forward-looking information reflects current expectations of management regarding future events and operating performance as of the date of this MD&A. Such information involves significant risks and uncertainties, should not be read as guarantees of future performance or results, and will not necessarily be accurate indications of whether or not such results will be achieved. A number of factors could cause actual results to differ materially from the results discussed in the forward-looking information, including, but not limited to, the following factors: financial health of the Fund's subsidiaries and their related cash flows, competitive and economic environment, seasonality and fluctuations in results, expansion, interest rates,

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foreign exchange, cash distributions are not guaranteed and will fluctuate with the performance of subsidiaries, nature of Units, and federal income tax changes with respect to Canadian income tax treatment of income trusts, as discussed 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, a strong economy in British Columbia, stable interest rates and continued strength in the equipment rental and equipment sales industry 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.

## **OVERVIEW OF THE FUND**

The Fund is based in Vancouver, British Columbia, and has been established to seek opportunities to acquire predominantly equipment and infrastructure related businesses located primarily in the Western Canadian provinces of British Columbia, Alberta and Saskatchewan, in order to generate stable and growing distributions to its unitholders as well as to achieve overall capital appreciation.

The Fund is an unincorporated, open-ended, limited purpose trust created on June 14, 2006 and governed by its declaration of trust and the laws of British Columbia. The Fund is authorized to issue an unlimited number of units and special voting units. Each holder of a unit participates pro rata in any distribution of the Fund.

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

The Fund holds a 100% indirect interest in WEQ Production Equipment LP (“PE”), a limited partnership established under the laws of Manitoba on June 15, 2006. The Fund commenced operations on August 15, 2006, when PE acquired the assets of PER (the “Closing”). PE specializes in renting, selling and servicing quality high reach and material handling equipment and providing logistical support to its customers, located primarily in the lower mainland of British Columbia.

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

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

The Fund holds a controlling indirect interest in WEQ Deerfoot Rentals LP (“Deerfoot”), a limited partnership established under the laws of Manitoba on January 25, 2008. The Fund’s operations within Deerfoot commenced on February 15, 2008, when Deerfoot acquired the assets and the business of Deerfoot Equipment Rental Inc. (“Deerfoot Inc.”). Deerfoot operates under the franchise of Volvo Rents, a worldwide system of franchised construction equipment rental business, and is a major provider of rented heaters, generators, and compact construction equipment to homebuilders and commercial builders in Calgary, Alberta.

The Fund holds a 100% indirect interest in WEQ Heat & Propane LP (“H&P”), a limited partnership established under the laws of Manitoba on August 26, 2008. The Fund’s operations within H&P commenced on October 1, 2008, when H&P acquired the assets and the business of SureFire Propane Ltd. (“SureFire Ltd.”) and Davis Heater Service Ltd. (“Davis Ltd.”), an equipment rental, construction heat and propane distribution business with locations in Edmonton and Calgary, Alberta. Together, SureFire and Davis is a market leader in the Northern Alberta equipment rental, construction heat and propane distribution industry for over 30 years.

To ensure operational efficiency within the businesses acquired, specifically, PE, OCR, C&N, Deerfoot, and H&P (collectively known as “Business LPs” below), the Fund structures its platform businesses based on market and geographic boundaries. Currently, our businesses consist of two geographic platforms within the equipment rental, sales and service industry – one based in British Columbia and one in Alberta:

*British Columbia Platform:* The businesses within this platform are:

- WEQ Production Equipment LP;
- WEQ Old Country Rentals LP; and
- WEQ C&N Rentals LP.

The businesses within the British Columbia Platform began operating under a unified brand name, WesternOne Rentals and Sales, on July 3, 2008.

*Alberta Platform:* The businesses within this platform are:

- WEQ Deerfoot Rentals LP; and
- WEQ Heat & Propane LP.

In addition to the original location in south Calgary, Alberta, Deerfoot officially opened a second location in Lethbridge, Alberta on June 6, 2008.

The Fund units (“Units”) and the senior secured convertible debentures – Series A (“Series A Debentures”) trade on the Toronto Stock Exchange under the respective symbols WEQ.UN and WEQ.DB.

## **RECENT EVENTS**

On September 2, 2008, the Fund renewed its credit facility agreement with a Canadian chartered bank (the “Bank”). The renewed credit facility agreement provides the following credit facilities, in addition to the existing facilities summarized in Note 7 of the Fund’s unaudited interim consolidated financial statements for the three months ended March 31, 2008:

- Increase of an existing demand non-revolving loan by \$21.5 million, to \$35.0 million to assist in financing future acquisitions; and
- Increase of an existing demand revolving loan by \$3.0 million, to \$9.0 million, to assist in future capital expenditures.

As mentioned above, on October 1, 2008, the Fund, through one of its indirect subsidiaries, announced that it had completed the purchase of the assets and business of SureFire Propane Ltd. and Davis Heater Service Ltd., an equipment rental, construction heat and propane distribution business with locations in Edmonton and Calgary, Alberta. The purchase price was \$24.4 million and was financed through the credit facilities mentioned above. Through the acquisition of a market leader in the Northern Alberta equipment rental, construction heat and propane distribution industry for over 30 years, the Fund will increase its presence in Alberta’s robust construction and infrastructure markets and further geographically and seasonally diversify the Fund’s revenue streams.

## **BASIS OF MANAGEMENT’S DISCUSSION AND ANALYSIS**

The Fund’s results of operations reflect the Fund’s operations for the three and nine months ended September 30, 2008. Compared to the three and nine months ended September 30, 2007 in which the Fund’s business comprised PE and OCR (acquired June 1, 2007), for the three and nine months ended September 30, 2008 the Fund has incorporated the full three and nine months of operations of OCR, and added the businesses of C&N and Deerfoot since the acquisition on January 1, 2008 and February 15, 2008 respectively. Therefore, in order to enhance the usefulness of this MD&A, specifically, for discussions of operating results for the three and nine months ended September 30, 2008 under “Operating Results” below, certain unaudited financial and operating results of the Fund for the three and nine months ended September 30, 2008 are compared to the unaudited results of the Fund for the three and nine months ended September 30, 2007, combined with the unaudited results of OCR Ltd., C&N Ltd., and Deerfoot Inc. for the three and nine months ended September 30, 2007. Such information is provided for reference purposes only and is not intended to represent a comprehensive comparison of the consolidated financial results.

## **SUMMARY FINANCIAL REVIEW**

The Fund continued to report positive growth in sales, gross profit and EBITDA for the three and nine months ended September 30, 2008, compared to the same periods last year. The growth was attributable to: 1) the acquisition of the assets of C&N and Deerfoot in first quarter of 2008; and 2) organic growth within the Fund’s operations.

## Summary Financial Review

(\$000's, except unit amounts)	Three months ended September 30		Nine months ended September 30		Increase/(Decrease) Three months ended September 30		Increase/(Decrease) Nine months ended September 30	
	2007	2008	2007	2008	\$	%	\$	%
Revenue	\$ 6,650	\$ 8,813	\$ 16,444	\$ 24,132	\$ 2,163	32.5%	\$ 7,688	46.7%
Cost of sales	(1,832)	(2,537)	(5,278)	(6,990)	705	38.5%	1,712	32.4%
Gross profit	4,818	6,276	11,166	17,142	1,458	30.3%	5,976	53.5%
<i>Gross margin</i>	72.4%	71.2%	67.9%	71.0%		-1.2%		3.1%
Operating Expenses <sup>(1)</sup>	(2,029)	(3,418)	(5,424)	(9,600)	1,389	68.5%	4,176	77.0%
EBITDA <sup>(2)</sup>	2,789	2,858	5,742	7,542	69	2.5%	1,800	31.4%
Interest Expense <sup>(3)</sup>	(294)	(518)	(935)	(1,359)	224	76.3%	424	45.4%
Amortization, accretion and others	(851)	(1,498)	(2,219)	(3,695)	647	76.0%	1,476	66.5%
Income before future income taxes	1,644	842	2,588	2,488	(802)	-48.8%	(100)	-3.9%
Future income tax expense	-	(219)	-	(470)	(219)	0.0%	(470)	0.0%
Net income	\$ 1,644	\$ 623	\$ 2,588	\$ 2,018	\$ (1,021)	-62.1%	\$ (570)	-22.0%
Maintenance capex <sup>(2)</sup>	\$ 12	\$ 190	\$ 73	\$ 265	\$ 178	1438.7%	\$ 192	264.4%
Basic weighted avg earnings per Unit	\$ 0.14	\$ 0.05	\$ 0.30	\$ 0.17				
Diluted weighted avg earnings per Unit	0.14	0.05	0.29	0.17				
Distributable cash generated <sup>(2)</sup>	\$ 2,328	\$ 2,126	\$ 4,856	\$ 5,979				
Distributable cash per Unit <sup>(4)</sup>	0.2115	0.1784	0.5551	0.5039				
Distributions declared	1,762	1,790	3,735	5,342				
Distributions declared per Unit	0.1500	0.1500	0.4166	0.4500				
Coverage ratio	1.32	1.19	1.30	1.12				
Payout percentage	75.7%	84.2%	76.9%	89.3%				

## Notes:

- (1) Excludes items relating to interest, amortization, accretion, loss on financial derivatives relating to the recording of the fair market value of the fixed interest rate swap, foreign exchange gains/losses, and write-down of fleet assets.
- (2) See definition of EBITDA, Distributable cash and Maintenance capex under "Non-GAAP Measures".
- (3) Net of interest income.
- (4) Calculated based on weighted average number of Units.

More detailed discussions of the financial results for the three and nine months ended September 30, 2008 are provided under "Operating Results" below.

The Fund's revenue increased by 32.5%, or \$2.16 million for the three months ended September 30, 2008. For the nine months ended September 30, 2008 the Fund's revenue increased by 46.7%, or \$7.69 million. The addition of C&N and Deerfoot contributed \$2.10 million for the three months ended September 30, 2008 and \$6.51 million for the nine months ended September 30, 2008. Together PE and OCR contributed revenue of \$6.70 million for the three months ended September 30, 2008, compared to \$6.60 million for the same period last year. Specifically, PE and OCR's revenue from rental and service operation achieved an organic growth of 9.6%, from \$5.01 million to \$5.49 million due to strong activities in the construction and vessel maintenance sectors in the summer months this year. PE and OCR's revenue from equipment sales declined from \$1.60 million to \$1.20 million, primarily due to higher comparative sales volume in 2007 as we renewed PE's rental fleet. For the nine months ended September 30, 2008 PE and OCR's total revenue was \$17.54 million, compared to \$16.33 million last year, in which OCR commenced its operations on June 1, 2007.

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Gross profit increased by 30.3%, or \$1.46 million for the three months ended September 30, 2008. For the nine months ended September 30, 2008 the Fund's gross profit increased by 53.5%, or \$5.98 million. C&N and Deerfoot contributed a total of \$1.37 million and \$4.21 million for the three and nine months ended September 30, 2008, respectively. Together PE and OCR contributed \$4.89 million for the three months ended September 30, 2008, compared to \$4.74 million for the same period last year. Gross profit from PER and OCR's rental and service operation achieved an organic growth of 5.0%, from \$4.47 million to \$4.69 million. PE and OCR's gross profit from equipment sales declined from \$0.27 million to \$0.19 million, again due to an unusually high volume of sales in 2007 due to fleet renewal. For the nine months ended September 30, 2008 PE and OCR's gross profit was \$12.84 million, compared to \$11.05 million last year, in which OCR commenced its operation on June 1, 2007.

Gross margin declined from 72.4% to 71.2% for the three months ended September 30, 2008. The lower margin is attributable to a higher proportion of re-rental revenue, as strong construction and filming activities in the summer months resulted in high rental demands for certain equipment on our fleet. As such we were required to re-rent equipment from other local rental companies and earn a lower margin in order to fulfill our customers' demands. For the nine months ended September 30, 2008 gross margin was 71.0%, compared to 67.9% for the same period last year. The higher year-to-date margin is due to the Fund's lower equipment sales volume (18.2% of total revenue this year, compared to 29.0% last year), which typically earns a lower gross margin than the rental and service revenue.

EBITDA was \$2.86 million for the three months ended September 30, 2008 and \$7.54 million for the nine months ended September 30, 2008. C&N and Deerfoot contributed a total of \$0.32 million and \$1.58 million for the three and nine months ended September 30, 2008, respectively. PER contributed \$2.30 million and \$5.23 million for the three and nine months ended September 30, 2008, respectively. OCR contributed \$0.45 million and \$1.44 million for the three and nine months ended September 30, 2008, respectively. EBITDA was offset by corporate overhead of \$0.21 million and \$0.71 million for the three and nine months ended September 30, 2008, respectively.

Basic and diluted income per Unit for the three months ended September 30, 2008 was \$0.05/Unit on a weighted average basis, and \$0.17/Unit for the nine months ended September 30, 2008.

The Fund generated distributable cash of \$2.13 million (\$0.1784 per Unit) for the three months ended September 30, 2008 and \$5.98 million (\$0.5039 per Unit) for the nine months ended September 30, 2008. Total distributions declared were \$1.79 million (\$0.1500 per Unit) and \$5.34 million (\$0.4500 per Unit) in the respective periods. The distributions represent a payout percentage of 84.2% (equivalent to a coverage ratio of 1.19x) for the three months ended September 30, 2008 and 89.3% (coverage ratio of 1.12x) for the nine months ended September 30, 2008.

## **FUTURE INCOME TAXES**

On October 31, 2006, the Minister of Finance announced proposed changes to the income tax treatment of "flow-through entities", including income trusts. On June 22, 2007 the Government of Canada enacted new legislation imposing a tax on distributions paid by publicly traded income trusts in Canada, commencing in 2011. Unitholders will be treated as if they have received an eligible dividend from a Canadian public corporation equal to the taxable portion of their distributions and will be taxed accordingly.

Prior to June 22, 2007, the Fund estimated the future income tax on certain temporary differences between amounts recorded on its balance sheet for book and tax purposes at nil tax rate. Under the newly enacted legislation, the tax rate on the post-2010 reversal of these temporary differences is estimated to be 29.5% for 2011 and 28.5% thereafter. Temporary differences reversing prior to December 31, 2010 will still give rise to nil future income taxes. Based on its assets and liabilities as at September 30, 2008, the Fund has estimated the amount of its temporary differences which were previously not subject to tax and the period in which these differences will reverse.

As a result of this new legislation, Canadian accounting guidance required that the Fund record a future tax asset and a corresponding non-cash recovery to net income of \$1.45 million in the fiscal year 2007. This future income tax treatment is based on the assumption that the Fund will be a taxable entity in 2011. Adjustments to this future income tax asset will be required based on changes in the differences between the tax basis and financial statement basis of the Fund's assets and liabilities. Accordingly, the Fund recorded an adjustment representing a non-cash, future income tax charge of \$0.22 million during the three months ended September 30, 2008, and \$0.47 million during the nine months ended September 30, 2008.

Since this tax will not take effect until 2011, any changes to the tax legislation or to the legal structure of the Fund prior to that time could have a material effect on the level of the future income taxes recorded by the Fund.

## **OPERATING RESULTS**

To enhance the comparability with the current period's financial results under this section, the Fund's unaudited financial results for the three and nine months ended September 30, 2007 have been combined with the unaudited financial results for OCR Ltd., C&N Ltd., and Deerfoot Inc. prior to the Fund's acquisition of the companies' assets. The unaudited information is for information purposes only and should not be relied upon under any circumstances.

### ***Revenue***

Total revenue from rentals and services were \$7.16 million and \$19.60 million for the three and nine months ended September 30, 2008, which increased by 10.4% (\$0.68 million) and 7.1% (\$1.30 million) respectively, from the same periods in 2007. Total revenue from equipment sales were \$1.63 million and \$4.40 million for the three and nine months ended September 30, 2008, which decreased by 18.0% (\$0.36 million) and 33.6% (\$2.22 million), largely due to PER's fleet renewal program in 2007 which resulted in an unusual level of equipment sales. Revenues are comprised of the following:

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	
	2007 <sup>(1)</sup>	2008	2007 <sup>(1)</sup>	2008	\$	%	\$	%
Equipment Rentals	\$ 5,334	\$ 5,866	\$ 14,420	\$ 15,461	\$ 532	10.0%	\$ 1,041	7.2%
Logistical Support	475	493	1,268	1,311	18	3.9%	43	3.3%
Parts and Services	674	796	2,607	2,823	122	18.0%	216	8.3%
<b>Total Rental and Service Revenue</b>	<b>\$ 6,483</b>	<b>\$ 7,155</b>	<b>\$ 18,295</b>	<b>\$ 19,595</b>	<b>\$ 672</b>	<b>10.4%</b>	<b>\$ 1,300</b>	<b>7.1%</b>
Equipment Sales	1,985	1,627	6,625	4,402	(358)	-18.0%	(2,223)	-33.6%
Others	80	31	161	135	(49)	-60.8%	(26)	-16.0%
<b>Total Revenues</b>	<b>\$ 8,548</b>	<b>\$ 8,813</b>	<b>\$ 25,081</b>	<b>\$ 24,132</b>	<b>\$ 265</b>	<b>3.1%</b>	<b>\$ (949)</b>	<b>-3.8%</b>

<sup>(1)</sup> Combined totals of the Fund's unaudited financial results for three and nine months ended September 30, 2007, plus unaudited financial results of OCR Ltd., C&N Ltd. and Deerfoot Inc. for the three and nine months ended September 30, 2007.

Revenue from equipment rentals of \$15.46 million for the nine months ended September 30, 2008 increased by 7.2 %, or \$1.04 million, compared to \$14.42 million a year ago. This increase is a result of the continued growth of the Fund's customer base and equipment rental fleet, fuelled by the continuing strength in the construction, vessel maintenance and general rental sectors. Major infrastructure projects in the Greater Vancouver Regional District (GVRD), such as the Vancouver Trade and Convention Centre, Canada Line rapid transit system, Golden Ears bridge, Olympic Athletes' Village, along with various other commercial and multi-family residential projects, are underway and continue to fuel the demand for our equipment. Continued from the first two quarters of 2008 the vessel maintenance sector on Vancouver Island remained strong in the third quarter. Despite the softening residential market in Calgary, the Fund's equipment rentals revenue in that region experienced a 7.9% increase as we increased our focus on gaining market share in the commercial and infrastructure sectors, as well as the official launch of our Lethbridge operation in southern Alberta in June, 2008.

For the three months ended September 30, 2008, equipment rental revenue of \$5.87 million increased by 10.0%, or \$0.54 million, compared to \$5.33 million. In addition to the traditional ramp-up of construction activities in the summer months, the growth was also attributable to accelerated construction schedules caused by delays due to poor weather in the second quarter. A higher level of filming productions in the GVRD area, which in turn generated higher demands for equipment, also contributed to the growth.

To accommodate short-term market fluctuations when demand for its rental equipment exceeds supply, the Fund chooses to rent equipment on a limited basis from local competitors. Generally, the Fund will recognize a 10% - 15% gross profit on these re-rentals but, more importantly, maintains the revenue and the relationship with the customer. Re-rentals are standard practice within the equipment rental industry, and are a useful method for management to evaluate where future investment dollars should be targeted. For the three and nine months ended September 30, 2008, re-rental revenue was \$0.52 million and \$1.04 million, respectively, compared to \$0.21 million and \$0.57 million in the respective periods last year. The increase is primarily due to the high construction and filming activity levels as discussed in the preceding paragraph, which resulted in high demands for certain equipment on our rental fleet. As such we were required to re-rent equipment from other local rental companies and earn a lower margin in order to fulfill our customers' demands.

Revenue from logistical support of \$1.31 million for the nine months ended September 30, 2008 increased

by 3.3%, or \$0.04 million, compared to \$1.27 million a year ago. For the three months ended September 30, 2008 logistical support revenue of \$0.49 million increased by 3.9%, or \$0.02 million, from \$0.47 million a year ago. The increase was due to the growth in the shipyard-related rental businesses, which gave rise to increased deliveries of equipment on Vancouver Island.

Revenue from parts and services of \$2.82 million for the nine months ended September 30, 2008 increased by 8.3%, or \$0.21 million, compared to \$2.61 million a year ago. The increase in the cumulative number of units sold to its customers by the Fund has generated a loyal customer base for the parts and service activities of the business, as customers return to have their equipment serviced by the dealer. Management believes that this increase is a result of the continued demand for high-quality services within the high reach, material handling and general equipment and tools industry.

For the three months ended September 30, 2008, parts and services revenue of \$0.80 million increased by 18.0%, or \$0.12 million, compared to \$0.68 million for the same period last year.

Revenue from equipment sales of \$4.40 million for the nine months ended September 30, 2008 decreased by 33.6%, or \$2.22 million, compared to \$6.62 million a year ago. Equipment sales declined from the unusually high sales level a year ago, when PE sold a significant amount of older equipment to renew its fleet in order to achieve higher operating efficiency. As a result of this initiative the average age of PER's fleet was reduced from six years to five years. Management feels that this initiative forms an important strategy to optimize the residual value of older equipment when sold to the market. Furthermore, the renewal of the fleet enhances the operating efficiency and avoids significant repair and maintenance costs, and machine breakdowns which typically become more prevalent when the machines are six to seven years old.

For the three months ended September 30, 2008, equipment sales revenue of \$1.63 million decreased by 18.0%, or \$0.36 million, compared to \$1.99 million a year ago.

Revenue from other sources amounted to \$0.14 million for the nine months ended September 30, 2008, compared to \$0.16 million for the same period last year. For the three months ended September 30, 2008 the revenue was \$0.03 million, compared to \$0.08 million a year ago. The revenue relates mostly to income generated from short-term investments such as guaranteed investment certificates.

### ***Gross margin and gross profit***

Gross margin was 71.2% and 71.0% for the three and nine months ended September 30, 2008, respectively. This is compared to 70.4% and 66.5% for the same periods last year. The increase is due to lower equipment sales (see revenue discussion above), which typically have a lower margin than equipment rentals and services and hence drive up the gross margin.

Gross profit of \$17.14 million for the nine months ended September 30, 2008 increased by 2.7%, or \$0.46 million, compared to \$16.68 million last year. Gross profit of \$6.28 million for the three months ended September 30, 2008 increased by 4.2%, or \$0.26 million, compared to \$6.02 million last year.

## *Cost of sales*

Cost of sales as a percentage of total revenue was 28.8% and 29.0% for the three and nine months ended September 30, 2008, compared to 29.6% and 33.5% for the same periods last year.

Costs associated with equipment sales were 83.2% of equipment sales revenue for the nine months ended September 30, 2008, which increased slightly from 82.6% last year. For the three months ended September 30, 2008, costs associated with equipment sales were 81.9%, which increased slightly from 81.4% last year. During the course of the year we were able to maintain stable margins for sales of old equipment from the fleet as well as retail merchandises.

Costs associated with commissions were 2.7% of total revenue for the nine months ended September 30, 2008, compared to 2.6% last year. Commissions for sales people are paid based upon equipment sales and rentals revenue. In addition, incentive compensation paid out to the management team of the Business LPs, which is determined using an earnings-based calculation, is also included in commissions.

For the three months ended September 30, 2008, costs associated with commissions were 3.1% of total revenue, which is consistent with 3.0% last year.

Costs associated with re-rentals were 5.5% of total rental revenue for the nine months ended September 30, 2008, compared to 5.0% last year. For the three months ended September 30, 2008, costs associated with re-rentals were 6.8% of total rental revenue, compared to 4.7% last year. Re-rentals are the costs associated with renting equipment from other equipment rental companies in order to fulfill the requirements of the Fund's customers. The higher level of re-rentals was driven by the higher construction and filming activity levels, primarily in the summer months. This resulted in higher demands for certain equipment on our rental fleet. As such we were required to re-rent equipment from other local rental companies in order to fulfill our customers' demands.

Costs associated with other items were 7.6% of total revenue for the nine months ended September 30, 2008, compared to 6.2% last year. Costs under this category relate mostly to purchases of fuel for the rental fleet, and expenditures of parts for the repair and maintenance of the rental equipment and servicing of customers' equipment. The increase is consistent with the current period's higher proportion of equipment rental and services-related revenue, as a percentage of total revenue (81.2%), compared to last year (72.9%).

For the three months ended September 30, 2008, costs associated with other items were 5.9% of total revenue, compared to 4.8% last year. The proportion of equipment rental and services-related revenue, as a percentage of total revenue, was 81.2% compared to 75.8% last year.

## *Operating expenses*

Operating expenses, before interest, amortization, accretion and loss on financial derivatives relating to the recording of the fair market value of the fixed interest rate swap was 39.8% of total revenue, or \$9.60 million for the nine months ended September 30, 2008. This is compared to 33.3% total revenue, or \$8.36 million, a year ago. Included in the current year's operating expenses were non-recurring costs associated with the re-branding strategy in the British Columbia platform, which amounted to \$0.16 million. Netting

out such expenses, operating expenses was 39.1% of total revenue. Compared to last year, the higher percentage is due to increases in general and administrative, freight, sales and service expenses, such as higher fuel costs for internal operations, one-time integration costs, and higher corporate overhead in relation to incremental regulatory compliance costs as the Fund graduated to the TSX from the venture exchange during the year.

For the three months ended September 30, 2008, operating expenses, before interest, amortization, accretion and loss on financial derivatives relating to the recording of the fair market value of the fixed interest rate swap was 39.6% of total revenue, or \$3.49 million. Netting out the non-recurring costs associated with re-branding of \$0.10 million the percentage was 38.5%. This is compared to 32.8% total revenue, or \$2.80 million, a year ago.

### ***EBITDA*** (see “Non-GAAP Measures”)

EBITDA of \$7.54 million for the nine months ended September 30, 2008 decreased by 7.6%, or \$0.62 million, compared to \$8.16 million for the same period last year. Excluding effects from the lower fleet sales at PE and non-recurring costs associated with re-branding, adjusted EBITDA was \$7.46 million, compared to \$7.59 million last year. The 1.8% decline is attributable to higher operating costs relating to fuel, one-time integration costs and higher regulatory compliance costs due to the Fund’s graduation to the TSX from the venture exchange during the year.

EBITDA of \$2.86 million for the three months ended September 30, 2008 decreased by 8.9%, or \$0.28 million, compared to \$3.14 million for the same period last year. Excluding the effect from the lower fleet sales at PE and non-recurring costs associated with re-branding, adjusted EBITDA was \$2.83 million, compared to \$2.94 million last year.

### ***Net income***

Net income of \$2.02 million or 8.4% of total revenue for the nine months ended September 30, 2008 decreased by 48.3%, or \$1.88 million, versus \$3.90 million or 15.6% of total revenue for the same period last year. Net income for the nine months ended September 30, 2008 included a number of non-cash accounting adjustments, including a future income tax charge of \$0.47 million as a result of the tax legislation discussed in “Future Income Taxes” above, as well as a charge of \$0.16 million in association with the recording of the fair market value of the Fund’s fixed interest rate swap arrangement which the Fund entered into in July, 2008 (see “Capital Resources” below). Excluding the effects of these accounting adjustments, the adjusted net income for the nine months ended September 30, 2008 was \$2.65 million or 11.0 % of total revenue, which decreased 32.1% or \$1.25 million, from \$3.90 million for the same period last year.

For the three months ended September 30, 2008, net income of \$0.62 million or 7.1% of total revenue decreased by 63.8%, or \$1.10 million, compared to \$1.72 million or 20.1% of total revenue last year. Excluding the impact from future income taxes and charges relating to the mark-to-market of fixed interest swap of \$0.38 million, adjusted net income was \$1.00 million.

The decline is largely due to the lower fleet equipment sales at PE, higher fuel costs, non-recurring costs

associated with rebranding, one-time integration costs, and different corporate structure of the businesses before and after the Fund's acquisition and its subsequent IPO, which gave rise to different non-cash related amortization policies.

## SELECTED QUARTERLY FINANCIAL INFORMATION

in \$000's except per Unit amounts	Q3 '08	Q2 '08	Q1 '08	Q4 '07	Q3 '07	Q2 '07	Q1 '07	Q4 '06
Revenue	\$ 8,813	\$ 7,952	\$ 7,367	\$ 6,089	\$ 6,650	\$ 6,046	\$ 3,748	\$ 4,300
Cost of Sales	(2,537)	(2,258)	(2,195)	(1,387)	(1,832)	(2,450)	(996)	(1,243)
Gross income	6,276	5,694	5,172	4,702	4,818	3,596	2,752	3,057
<i>Gross margin</i>	71.2%	71.6%	70.2%	77.2%	72.4%	59.5%	73.4%	71.1%
Operating expenses	(3,418)	(3,359)	(2,823)	(2,336)	(2,029)	(1,671)	(1,724)	(1,330)
EBITDA <sup>(1)</sup>	\$ 2,858	\$ 2,335	\$ 2,349	\$ 2,366	\$ 2,789	\$ 1,925	\$ 1,028	\$ 1,727
Net Income	\$ 623	\$ 655	\$ 740	\$ 2,734	\$ 1,644	\$ 844	\$ 100	\$ 807
Distributable cash generated <sup>(1)</sup>	\$ 2,126	\$ 1,873	\$ 1,980	\$ 2,084	\$ 2,328	\$ 1,629	\$ 899	\$ 1,374
Distributable cash per Unit <sup>(2)</sup>	0.1784	0.1589	0.1677	0.1774	0.2115	0.2034	0.1402	0.2143
Distribution declared	\$ 1,790	\$ 1,781	\$ 1,771	\$ 1,762	\$ 1,762	\$ 1,164	\$ 809	\$ 913
Distribution per Unit	0.1500	0.1500	0.1500	0.1500	0.1500	0.1400	0.1266	0.1424
Coverage ratio <sup>(3)</sup>	1.19	1.05	1.12	1.18	1.32	1.40	1.11	1.50
Payout percentage <sup>(3)</sup>	84.2%	95.1%	89.5%	84.5%	75.7%	71.4%	90.1%	66.5%

### Notes:

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

### Seasonality

Typical seasonality of the Fund's business impacts its operating results as follows: The Fund's business activity levels in the British Columbia Platform, which consists of PE, OCR and C&N (see "Overview of the Fund" above), is generally lower from January through March as winter weather hampers construction activities. The low activity levels are addressed by the Fund's acquisition of the assets of Deerfoot Inc. on February 15, 2008, and SureFire Ltd. and Davis Ltd. on October 1, 2008. Construction heater rentals during the winter months in the Alberta Platform compensate for the slow winter business cycle in BC. 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 due to robust equipment rental and sales in summer and fall. From August through November the demand for rental equipment continues to be strong as construction companies strive to meet construction targets prior the start of the holiday season in December. The construction heater rentals business in Alberta starts in November and continues through to spring time of the following year.

In addition to the seasonal nature of the Fund's business, the quarterly changes above are also due to (i)

the Fund's organic growth through expanding its customer base; and (ii) the acquisition of the assets of OCR Ltd. on June 1, 2007 (Q2 '07), and C&N Ltd. and Deerfoot Inc. on January 2, 2008 and February 15, 2008 respectively (Q1 '08).

## 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, 2008.

Summary of cash flows (\$000's)	Three months ended		Nine months ended	
	September 30		September 30	
	2007	2008	2007	2008
Net change of cash related to:				
Operations	\$ 2,480	\$ 2,126	\$ 4,346	\$ 9,317
Investing	4,142	(2,518)	(14,145)	(20,728)
Financing	(1,827)	1,611	14,598	9,668
Net change in cash during the period	\$ 4,795	\$ 1,219	\$ 4,799	\$ (1,743)

As mentioned above, the revenue and operating results of the predecessor businesses of the Fund have historically displayed seasonal variations throughout the 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 that the Fund relies on its operating loans for working capital financing at certain times of the year.

The Bank has provided a \$4.75 million operating loan on an interest only basis, that is payable upon demand, on which various operating entities of the Fund had drawn \$2.68 million as at September 30, 2008.

During the three months ended September 30, 2008 the Fund's operating activities generated cash of \$2.13 million, with \$2.24 million of cash generated from operating earnings, partially offset by \$0.11 million relating to negative changes from non-cash working capital which represented a normal course of fluctuation in the Fund's businesses.

Significant components of the change in non-cash working capital included the following:

- Accounts receivable increased by \$1.26 million, primarily relating to quarter-end rental billings;
- Inventory decreased by \$0.35 million due to strong merchandise sales in summer;
- Deposits and prepaid expenses increased by \$0.21 million due to renewal of fleet insurance; and
- Accounts payable increased by \$1.01 million, relating to quarter-end vendor billings and accruals.

During the three months ended September 30, 2008 the Fund invested \$2.52 million. The Fund purchased rental equipment and other operating assets of \$2.10 million (net of proceeds from sale of fleet equipment of \$0.52 million). The Fund also purchased a private and independent equipment rentals company located

in Vancouver, BC, for \$0.41 million, inclusive of closing costs.

During the three months ended September 30, 2008, the Fund obtained \$3.13 million from its credit facilities for equipment financing and operations, \$0.28 million from issuance of Units and Series A Debentures through exercise of agents options. A total of \$1.79 million was distributed to Unitholders.

## **CAPITAL RESOURCES**

In addition to the \$4.75 million interest-only demand operating loan described in the “Cash Flow and Liquidity” section 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, 2008, a total of \$46.62 million of capital and acquisition loans were approved and available to the Fund, of which \$17.07 million were outstanding.

On July 2, 2008, an indirect subsidiary of the Fund entered into an interest rate swap with the Bank. Under the terms of the swap, the variable-rate acquisition loan, which had an outstanding balance of \$9,027,843 as at September 30, 2008 and of \$9,312,000 at the commencement of the swap, was converted to a fixed rate of 5.78% for a period of three years. The Fund has not applied hedge accounting to this swap, and as a result recorded a financial derivative liability of \$159,706. The Fund will mark the value of this derivative to market every quarter, and any resulting gains/losses will be recorded in the statement of income and comprehensive income.

## **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, and future cash requirements. In order to ensure the Fund’s continued financial strength, and providing a reasonable return to its unitholders, the Fund has considered it financially prudent not to distribute 100% of Distributable Cash in order to address the seasonality nature of the business and unforeseen events, should they occur. The Fund’s policy is to make stable monthly distributions to unitholders.

Distribution history	Distributions per Unit	
August, 2006 <sup>(1)</sup>	\$	0.0224
September, 2006		0.0408
October, 2006		0.0408
November, 2006		0.0408
December, 2006		0.0608
<b>Total for the 130-day period ended December 31, 2006</b>	<b>\$</b>	<b>0.2056</b>
January, 2007	\$	0.0408
February, 2007		0.0408
March, 2007		0.0450
April, 2007		0.0450
May, 2007		0.0450
June, 2007		0.0500
July, 2007		0.0500
August, 2007		0.0500
September, 2007		0.0500
October, 2007		0.0500
November, 2007		0.0500
December, 2007		0.0500
<b>Total for the twelve months ended December 31, 2007</b>	<b>\$</b>	<b>0.5666</b>
January, 2008	\$	0.0500
February, 2008		0.0500
March, 2008		0.0500
April, 2008		0.0500
May, 2008		0.0500
June, 2008		0.0500
July, 2008		0.0500
August, 2008		0.0500
September, 2008		0.0500
<b>Total for the nine months ended September 30, 2008</b>	<b>\$</b>	<b>0.4500</b>

Note:

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

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. Unitholders who are non-residents of Canada will be subject to withholding taxes payable on any distributions by the Fund.

## ***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, 2008.

Reconciliation of cash flow from operating activities to distributable cash (\$000's, except for Unit amounts)	Three months ended September 30	Nine months ended September 30
Cash flow from operating activities	\$ 2,126	\$ 9,317
Changes in non-cash working capital balances	112	(3,279)
	<u>2,238</u>	<u>6,038</u>
Gain on sale of assets	78	206
Maintenance capital expenditure <sup>(1)</sup>	(190)	(265)
Distributable cash generated	<u>\$ 2,126</u>	<u>\$ 5,979</u>
Distributions declared	\$ 1,790	\$ 5,342
Distributable cash generated per Unit	\$ 0.1784	\$ 0.5039
Distributions declared per Unit	0.1500	0.4500
Payout ratio <sup>(2)</sup>	1.19x	1.12x
Payout percentage <sup>(2)</sup>	84.2%	89.3%

Notes:

- (1) See definition of "Maintenance capital expenditures" under "Non-GAAP Measures".
- (2) Amounts calculated using distributable cash and distributions declared for the related period, not on per Unit amounts.

## **NON-GAAP MEASURES**

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

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

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

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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 "Reconciliation of Cash Provided by Operating Activities to Distributable Cash".

"Maintenance capital expenditures" is not a recognized measure under GAAP. Maintenance capital expenditures include those required to upgrade existing property and equipment. Maintenance capital expenditures for the Fund are calculated as the capital cost at the time of acquisition less the net book value at time of sale for rental equipment, plus the cost of replacements to operating assets.

## OFF-BALANCE SHEET FINANCING

The Fund has no off-balance sheet arrangements.

## CONTRACTUAL OBLIGATIONS

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

Loans payable (\$000's)	Oct 1 to December 31, 2008	2009	2010	2011	2012	2013
Loans Payable	\$ 567	\$ 2,395	\$ 2,533	\$ 4,593	\$ 2,135	\$ 5,008

The Fund has the following rental, equipment financing and operating lease commitments:

Contractual obligations (\$000's)	Oct 1 to December 31, 2008	2009	2010	2011	2012	2013 and after
Rental commitments	\$ 165	\$ 662	\$ 657	\$ 630	\$ 504	\$ 4,006
Equipment financing commitments	25	92	68	28	-	-
Operating leases	147	572	477	286	164	96
	\$ 337	\$ 1,326	\$ 1,202	\$ 944	\$ 668	\$ 4,102

## LONG TERM INCENTIVE PLAN

Key employees of the Fund will be 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 result in the Fund exceeding its cash available for distribution targets. Pursuant to the LTIP, the Fund will set 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. The Fund or a third-party trustee will purchase Units in the market with this pool of funds and will hold the Units until such time as ownership vests to each participant. LTIP participants will be 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 Compensation Committee will have 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. In fiscal 2008, the LTIP will provide 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 percentage amount of that excess which forms the LTIP incentive pool will be determined as follows:

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

For the nine months ended September 30, 2008, the compensation committee of the Fund has not approved any payments under the LTIP for the 2008 fiscal year to date for senior management of the Fund.

## **WESTERNONE EQUITY 2006 INCENTIVE UNIT OPTION PLAN**

At Closing, the Fund reserved an aggregate of 463,000 Units for issuance under the WesternOne Equity 2006 Incentive Unit Option Plan (the “WesternOne Equity Option Plan”). Under the WesternOne Equity Option Plan, options to purchase the Fund’s Units may be granted to the Trustees and to the directors, officers and employees of, and service providers to, the Partnership or its affiliates. The purpose of the WesternOne Equity 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 July 9, 2008, the Fund granted options to senior executives, directors, trustees and certain employees to purchase, in aggregate, up to 463,000 Units. Each option provides the holder with the right for up to ten years to purchase one Unit at an exercise price of \$4.90. Vesting occurs equally over the next five years.

As at September 30, 2008, the Fund did not issue any Units relating to the WesternOne Equity Option Plan.

## **TRANSACTIONS WITH RELATED PARTIES**

The Fund purchased equipment from a company in which a board member has a controlling interest, for

\$24,771 and \$288,300 during the three and nine months ended September 30, 2008 respectively. These transactions arose during the normal course of business and have been recorded at fair market value.

The Fund currently rents premises in Calgary, Alberta in which an employee of the fund holds a non-controlling interest. To date, the Fund has paid \$18,229 (entirely in the third quarter of 2008) to the company. The exchange between the parties is at fair market value.

## FUND UNITS AND PRINCIPAL UNITHOLDERS

As at September 30, 2008, 11,806,061 Units were issued and outstanding, each of which entitles the holder to one vote at Unitholder meetings. In addition, 125,000 exchangeable units (“Exchangeable LP Units”) were issued by a subsidiary indirectly controlled by the Fund on February 15, 2008. The Exchangeable LP Units have no voting rights but have economic rights equivalent to the Fund’s Units, and are exchangeable to the Units on a one-for-one basis. To the knowledge of the Fund, no person beneficially owns, directly or indirectly, or exercises control or direction over, Units carrying more than 10% of the voting rights attached to all the issued and outstanding Units, other than:

Name	Class and Number of Securities	Percentage of Units Outstanding
Darren T. Latoski <sup>(1)</sup>	1,270,493 Units	10.76%

Note:

(1) Of the 1,244,293 Units, 1,230,100 Units are owned by Darren Financial Group Inc. which is controlled by Mr. Latoski. The remaining 40,393 Units are owned by Mr. Latoski personally.

## CRITICAL ACCOUNTING ESTIMATES

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the Financial Statements and the reported amounts of revenue and expenses during the reporting period. Areas requiring significant management estimates include the valuation, impairment and useful life of intangible assets and property and equipment, and future income taxes. These estimates are reviewed periodically (at least annually), and, as adjustments become necessary, they are reported in earnings in the period in which they become known. The Fund’s significant accounting policies are described in Note 3 of the Fund’s consolidated financial statements for the year ended December 31, 2007, as well as “New Accounting Standards Adopted” below. Management believes that the following items represent the Fund’s most critical accounting estimates.

### *Inventory valuation*

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

Parts inventories are valued at the lower of cost and net realizable value, with cost generally being determined on a “first-in, first-out” basis. Parts inventory write-downs are included in service expense.

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## ***Property and equipment***

Property and equipment is recorded at cost. The Fund amortizes its property and equipment over their estimated useful lives on a straight-line basis, except for building which is amortized on a declining balance basis, and land which is not amortized:

Rental fleet*	10 years
Tractors and trailers	7 years
Building	4% annually
Furniture, fixtures and equipment	5 years
Computer equipment and software	5 years
Leasehold improvements	lesser of 5 years or the initial term of the lease
Land	Nil

*\*net of 25% salvage value.*

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

If such assets are considered impaired, the impairment to be recognized is measured as the amount by which the carrying amount of the assets exceed their estimated fair value. Any impairment is included in income for the period.

## ***Intangible assets***

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

Customer relationships	10 years
Non-competition agreements	3 to 5 years
Franchise agreements	12 years
Brand name	Nil
Supplier agreements	Nil

If such assets are considered impaired, the impairment to be recognized is measured as the amount by which the carrying amount of the assets exceed their estimated fair value. Any impairment is included in income for the period in which the impairment is recognized.

## ***Revenue recognition***

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

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

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

***Unit based compensation***

Unit based compensation in association with the WesternOne Equity Option Plan is determined based on the estimated fair value of the options on the date they are granted. The fair value of the options granted is estimated using the Black-Scholes option pricing model. Factors used in this model include expected volatility, expected distributions and risk free interest rates. Unit based compensation is expensed over the vesting period of the options.

***Financial Instruments***

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

The following is a summary of the accounting model the Fund has elected to apply to each of its significant categories of financial instruments outstanding as of September 30, 2008:

Cash .....	Held-for-trading
Short term investments .....	Held-for-trading
Financial Derivatives.....	Held-for-trading
Accounts receivable .....	Loans and receivables
Operating loan .....	Other liabilities
Accounts payable and accrued liabilities .....	Other liabilities
Distributions payable .....	Other liabilities
Capital and Acquisition loans .....	Other liabilities
Series A debentures .....	Other liabilities

**NEW ACCOUNTING STANDARDS ADOPTED**

Effective January 1, 2008, the Fund adopted the Canadian Institute of Chartered Accountants’ new Handbook Sections; 1535 “Capital Disclosures”, 3031, “Inventories” 3862 “Financial Instruments – Disclosures” and 3863 “Financial Instruments – Presentation”. Handbook sections 3862 and 3863 replace section 3861 “Financial Instruments – Disclosure and Presentation”. These recommendations have been incorporated into the Fund’s Interim Financial Statements.

a) *Section 1535 – Capital Disclosures*

This section establishes standards for disclosing information about an entity's capital and how it is managed. Under this standard the Fund is required to disclose information that enables users of the financial statements to evaluate the Fund's objectives, policies and processes for managing capital.

b) *Section 3031 - Inventories*

This section requires inventory to be measured at the lower of cost and net realizable value. This standard provides additional guidance on the types of costs that can be capitalized and requires the reversal and disclosure of previous inventory write-downs if economic circumstances have changed to support higher inventory values. The adoption of this standard did not have any impact on the Fund's interim consolidated financial statements.

c) *Section 3862 – Financial Instruments – Disclosures*

This Section requires entities to provide disclosure of quantitative and qualitative information in their financial statements that enable users to evaluate (a) the significance of financial instruments for the entity's financial position and performance; and (b) the nature and extent of risks arising from financial instruments to which the entity is exposed during the period and at the balance sheet date, and management's objectives, policies and procedures for managing such risks.

d) *Section 3863 – Financial Instruments – Presentation*

This Section establishes standards for presentation of financial instruments and non-financial derivatives. The adoption of this standard did not have any impact on the Fund's interim consolidated financial statements.

e) *Future accounting changes*

In February 2008, the CICA issued Handbook Section 3064, "Goodwill and intangible assets," which replaces the existing standards. This revised standard establishes guidance for the recognition, measurement and disclosure of goodwill and intangible assets, including internally generated intangible assets. This standard is effective for the Fund's financial year commencing January 1, 2009. The Fund is currently evaluating the impact of adopting this standard on its consolidated financial statements.

## **RISKS AND UNCERTAINTIES**

In addition to the risks and uncertainties disclosed in the Fund's Prospectus dated July 31, 2006, the Fund believes that the following items represent significant areas for consideration.

### ***Financial health of the Fund's subsidiaries and their related cash flows***

The Fund is entirely dependent on the operations and assets of its subsidiaries through its indirect ownership interests. The Fund's ability to make regular distributions to unitholders is dependent on the cash flow generated by these subsidiaries. This is affected by the profitability, fluctuations in working capital, margin sustainability and capital expenditures of the underlying businesses. Although the subsidiaries are intended to distribute their cash available for distribution, there can be no assurance regarding the amounts of income to be generated by the subsidiaries and amounts paid to the Fund. The failure of any subsidiary to make its anticipated distributions could adversely impact the Fund's financial condition and cash flows and therefore distributions to unitholders.

### ***Competitive and economic environment***

Currently, the Fund's indirect operating subsidiaries are engaged in the equipment rentals, sales and servicing industries in British Columbia and Alberta, which are highly fragmented and highly competitive. In addition to competing with smaller competitors, the Fund competes with larger companies with operations across Canada, the United States and overseas. These companies may have greater financial resources than the Fund, more advantageous manufacturer affiliations, and may rent and sell many of the same products as the Fund.

From time to time, the Fund or its competitors may attempt to compete aggressively by lowering prices. To the extent that the Fund lowers prices in an attempt to increase or retain market share, operating margins may be adversely impacted. In some cases, the Fund may not be able to match larger competitors' price reductions because of their greater financial resources. If the Fund does not match competitors' price reductions, it may lose market share, resulting in decreased revenue and cash flow.

The Fund seeks to mitigate these risks by maintaining a strong network of advisors, an active board, and retaining experienced and dedicated management.

### ***Seasonality and fluctuations in results***

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

### ***Expansion***

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

### ***Interest rates***

The Fund's credit facilities bear interest at variable rates. The Fund is currently using a combination of fixed interest rate swaps and short-term instrument in the form of a banker's acceptance to reduce exposure to interest rate risk on a portion of its loans.

### ***Foreign exchange***

Foreign exchange risk is primarily limited to currency fluctuations between the Canadian and U.S. dollar. The majority of the equipment purchased by the Fund is denominated in U.S. dollars. Furthermore, a portion of PE's business relates to equipment rental in the film industry in B.C. and is sensitive to the U.S. dollar currency fluctuations. The Fund does not use derivative instruments to reduce these risks.

### ***Cash distributions are not guaranteed and will fluctuate with the performance of subsidiaries***

Although the Fund intends to distribute the interest and distributions received by the Fund on the Units and notes of the Trust, less expenses and amounts, if any, paid by the Fund in connection with the redemption of Units, there can be no assurance regarding the amounts of income to be generated by the Business LPs and paid indirectly to the Fund. The actual amount distributed in respect of the Units will depend upon numerous factors associated with the Business LPs, including their profitability, fluctuations in working capital, sustainability of margins, interest expenses and their requirements for repayment of indebtedness and incurrence of capital expenditures.

The market value of the Units may deteriorate significantly if the Fund is unable to continue to distribute cash to unitholders at current distribution levels.

### ***Nature of Units***

The Units share certain attributes common to both equity securities and debt instruments. The Units do not represent a direct investment in the businesses of the Business LPs and should not be viewed by investors as direct securities of the Business LPs. The Units represent a fractional interest in the Fund. Unitholders do not have the statutory rights normally associated with ownership of shares of a corporation including, for example, the right to bring oppression or derivative actions. The price per Unit is a function of anticipated distributable income, interest rates and other factors.

The Fund's primary assets are its 100% interest in the notes and units of WesternOne Equity Operating Trust (the "Trust"). The Trust, in turn, is a limited partner in WesternOne Equity LP (the "LP"). The LP is a limited partner, directly or indirectly, of the Business LPs. This structure was established to facilitate the growth and acquisition objectives of the Fund. The price per Unit is, in part, a function of anticipated distributable income, distributions, as well as the consolidated indebtedness, net of cash and cash equivalents of the Fund including the net indebtedness of the Business LPs. The price per Unit may also be a function of interest rates or expected returns available, or perceived to be available, on alternative investments.

## ***Federal income tax changes***

On October 31, 2006 the Minister of Finance (Canada) announced proposed changes to the taxation of certain publicly-traded trusts and partnerships and their unitholders. These changes (the "SIFT Rules"), were enacted and became law on June 22, 2007. The SIFT Rules apply, in the case of trusts, to a trust that is resident in Canada for purposes of the Tax Act, and the units of which are listed on a stock exchange or other public market (a specified investment flow-through trust, or "SIFT trust"). In the case of a SIFT trust the units of which were already publicly traded on October 31, 2006, which includes the Fund, the SIFT Rules generally will not take effect until January 1, 2011, provided the trust does not exceed "normal growth" before then. On December 15, 2006 the Minister of Finance issued guidelines with respect to what would be considered "normal growth" for this purpose, which guidelines were effectively incorporated by reference into the Tax Act when the SIFT Rules were enacted.

Under the SIFT Rules, commencing January 1, 2011, the Fund will become subject to tax on its income and taxable capital gains from dispositions, that is paid or payable to Unitholders, at a rate equal to the then prevailing corporate income tax rate (currently set at 29.5% for 2011 and 28.5% thereafter). Distributions of such income to Unitholders would be treated as dividends paid by a taxable Canadian corporation. This will result in the Fund's income being subject to the tax, and distributions of such income by the Fund to its Unitholders being treated as dividends paid by a taxable Canadian corporation. Returns of capital by the Fund to its Unitholders would not be affected by the SIFT Rules and would continue to be taxed in the same manner as done currently.

It is not expected that the Fund will become subject to the SIFT Rules until 2011. However, when the SIFT Rules commence to apply to the Fund, such rules are expected to result in adverse tax consequences to the Fund and Unitholders and may impact cash distributions from the Fund. Furthermore, the SIFT Rules may reduce the value of the Units, which would be expected to increase the cost to the Fund of raising capital in the public capital markets.

As noted above, the Fund could become subject to the SIFT Rules before 2011 if it experiences growth, other than "normal growth", before that time. Under the "normal growth" guidelines, the Fund will be considered to have experienced only "normal growth" if its issuances of new equity (which for this purpose includes trust units and debt that is convertible into trust units, but does not include non-convertible debt) do not exceed, for each of the intervening periods set forth below, a safe harbour measured by reference to the Fund's market capitalization as of the end of trading on October 31, 2006 (measured solely by the value of the Fund's issued and outstanding publicly-traded Trust units as of that date). The Trust's market capitalization as of October 31, 2006 was \$22.44 million. The intervening periods and their respective safe harbour amounts are as follows:

<b>Time Period</b>	<b>Safe Harbour Amount</b>
November 1, 2006 to December 31, 2007	Greater of \$50 million or 40% of October 31, 2006 Market Capitalization
January 1, 2008 to December 31, 2008	Greater of \$50 million or 20% of October 31, 2006 Market Capitalization
January 1, 2009 to December 31, 2009	Greater of \$50 million or 20% of October 31, 2006 Market Capitalization
January 1, 2010 to December 31, 2010	Greater of \$50 million or 20% of October 31, 2006 Market Capitalization

The “normal growth” guidelines provide that these annual safe harbour amounts are cumulative, and that replacing debt that was outstanding as of October 31, 2006 with new equity, whether through a debenture conversion or otherwise, will not be considered growth for these purposes.

The effect of the legislation could have an adverse effect on the Fund, its ability to pay distributions and the market value of its Units.

## **DISCLOSURE CONTROLS AND PROCEDURES**

Disclosure controls and procedures are designed to provide reasonable assurance that all relevant information is gathered and reported to senior management, including the Chief Executive Officer and Chief Financial Officer, on a timely basis so that appropriate decisions can be made regarding public disclosure.

## **INTERNAL CONTROL OVER FINANCIAL REPORTING**

No changes were made in the Fund’s internal control over financial reporting during the three and nine months ended September 30, 2008, that have materially affected, or are reasonably likely to affect materially, the Fund’s internal control over financial reporting.

## **OUTLOOK**

The information contained in this section is forward-looking information. Please see “Forward-looking Information” for a discussion of the risks and uncertainties in connection with forward-looking information.

The Fund intends to continue to grow its cash flow through sustained growth in operating results. The Fund intends to leverage the scalability of its existing infrastructure to continue to improve the utilization of its equipment fleet thereby generating increased cash flow with minimal incremental investment.

Following the acquisitions of the assets of C&N Ltd. and Deerfoot Inc. in the first quarter of this year, the Fund has integrated C&N and Deerfoot under a common management, focus and growth strategy. Further, the Fund structures its platform businesses based on geographic boundaries, and aligns the Business LPs under regional leadership.

With the recent acquisition of SureFire Ltd. and Davis Ltd., the Fund is strategically positioned to increase its presence in Alberta’s robust construction and infrastructure markets and further geographically and seasonally diversify its revenue streams. The acquisition also adds a new and complementary platform in the business of propane distribution, which, through integration with the Fund’s existing businesses, will yield increased economies of scale and buying power potential for the overall business, enabling us to secure and add additional products and services in the future.

The fund is also actively reviewing the cost structure of each platform business with an objective to streamline business processes. Management is carefully assessing staff resources, parts and inventory procurement, logistics management and other major operational areas to 1) eliminate one-time added costs

incurred for integration purposes; and 2) optimize operational efficiency, which is an important step to address unforeseeable events in the current economic environment.

The Fund intends to seek new acquisitions in expanding product and service offerings to increase its market share both within and outside the current British Columbia and Alberta Platforms.

The Fund continues to seek to acquire additional businesses in the equipment and infrastructure sectors that will supplement existing or anticipated operations or which have complementary product and service offerings as part of a disciplined accretive acquisition program.

## **ADDITIONAL INFORMATION**

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

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

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## **INVESTOR RELATIONS**

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## **TRADING SYMBOLS**

TSX Exchange: WEQ.UN and WEQ.DB